

THE COLOR OF CASH: RECOGNIZING CHANGE IN NORTH KOREA VIA THE CIRCULATION OF MONEY

Recently, North Korea has stepped up its issuance of 100 won bills. And since November 2005, 100 won coins also have been issued. This development is gaining significant attention since 200 won bills were already newly issued in May 2005. So in addition to the 200 won bills, 100 won bills and coins are in circulation.

In fact, there are several denominations in circulation: 50 jun, 1 won, 5 won, 10 won, 50 won, 100 won, 200 won, 500 won, 1000 won, and 5000 won. The superfluous issuance of 100 won bills and coins suggests that the rate at which money is changing hands has increased, in particular of the 100-won denomination. It also suggests that the number of North Koreans using money for transactions has increased.

This increase can, in part, be attributed to the national policies initiated with the July 2002 reform measures. The appearance of earned income resulted in businesses spreading currency indicators and greater cash flow.

It is speculated that the initial issuance of higher-value bills -- like 5000 won -- was to enable cash transactions between businesses. The distribution system run by non-money transactions is shifting toward a "cash transaction" centered system. Furthermore, the adoption of a raw materials market, such as the socialist commodity exchange market, is expanding the scope of goods and circulation of cash.

In the past, North Korean state enterprises secured capital for production and management by receiving state-issued “checks,” allocated according to state plans. The checks were regarded as non-money. However, after the reform, it is now possible to see cash in circulation.

Society’s recognition of the greater use for “cash” may also signal the direction toward which the North Korean economy is changing. This recognition is also evident in the education sector. At the Department of Economics at Kim Il Sung University -- regarded as the DPRK’s number one institution for training North Korean specialists in economics -- has revised most of its lecture materials on finance to emphasize the circulation of cash instead of non-cash tender.

Furthermore, due to measures such as price actualization and reduction of social welfare benefits, the number and scope of North Koreans using money has also expanded, as money is now used in almost every exchange.

Based on classical socialist design, North Korea attempted to construct a “moneyless“ socialist economy. Accordingly, the regime established a money circulation planning system and restricted the use of cash solely for the buying of consumer goods and services. For industrial units like factories, it expanded circulation of non-money called “*heng-pyo*.” This policy was to limit the amount of cash being used by the general populace and, on the whole, reduce the amount of money in circulation. With this, the Central Bank, the only financial institution in the country, managed the circulation of money with its planning and capital supply systems.

However, with the production of goods in the official sectors grinding to a near halt back in the early 1990s, cash began to be used more frequently for

exchanges taking place in the non-official sectors like the farmers' markets. In effect, the state's top-down suppression of the use of money failed to eliminate the use altogether, and money-for-goods transactions experienced a revival due to the (unauthorized) activities of the people.

As product distribution expanded from consumption goods to production goods, the North Korean regime could not help but encourage the "cash" system. Under these circumstances, the issuance of higher denominations and superfluous issuance of bills and coins took place.

Overall, it would appear as though the regime is taking steps to diverge from its ideology-based system to contend with the changing reality.

* The idea of earned income refers to the pure profits earned by the company after sales costs, excluding labor costs, are deducted from aggregate sales earnings.