

North Korea's Economic Strategy Shift amid the Polycrisis: Performance and Outlook



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Since 2018, North Korea has faced an unprecedented triple isolation. The international community's severe sanctions, diplomatic deadlock following the collapse of the 2019 Hanoi summit, and border closures coupled with the COVID-19 pandemic from early 2020 have simultaneously pressured the North Korean economy. This polycrisis sharply contracted North Korea's external trade, cut off foreign currency income sources, and dealt serious shocks to the internal economy through material shortages and supply chain disruptions.

In response to this polycrisis, North Korea began shifting its economic policy direction around 2020, exploring new domestic and external strategies. The domestic economic strategy exhibits a dual character, maintaining traditional heavy industry prioritization while pursuing balanced development. While concentrating state capacity on key industries such as metallurgy and chemicals, the regime sought to reduce regional disparities through the "20×10 Regional Development Policy," which expanded local industrial factories and living infrastructure. North Korea also strengthened state control over commerce and distribution through

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comprehensive market control, reinforcement of state commercial networks, prohibition of private foreign currency use, and exchange rate controls, pursuing restoration of socialist distribution order.

Meanwhile, external economic strategy also showed a major shift, abandoning the U.S. negotiation line after the collapse of denuclearization talks and pivoting toward cooperation with China and Russia. After proclaiming a “frontal breakthrough” under the self-reliance banner at the 8th Party Congress in 2021, the regime modified its external cooperation axis from China-centered to parallel cooperation with both China and Russia as relations with Russia rapidly advanced following the Ukraine war from 2022.

How can we assess the performance of North Korea's new economic policies in response to the polycrisis? Examining North Korea's economic performance focusing on the situation since 2023 reveals the following. First, in external sectors, North Korea-China trade gradually normalized after 2023, recovering to approximately \$2.3 billion in 2024.

While North Korea-Russia trade volume surged, it remained marginal at only 2-3% of North Korea-China trade. However, the two countries showed strengthening cooperation by signing a Comprehensive Strategic Partnership Treaty in 2024 and continuing discussions on practical military, economic, and technological cooperation. According to our research, North Korea secured at least \$1 billion in foreign currency through North Korea-Russia military cooperation since 2023, representing substantial fiscal revenue equivalent to approximately 3% of North Korea's 2024 nominal GNI.

The domestic economy showed significant growth with the Bank of Korea estimating North Korea's economic growth rate at 3.1% in 2023 and 3.7% in 2024, escaping the large-scale negative growth of the COVID period. This was led by mining, heavy chemical industries within manufacturing, and construction, indicating that key industries emphasized by North Korea and construction projects pursued nationwide achieved considerable success in production sectors.

For light industry, satellite nighttime luminosity analysis confirmed approximately 24% increase in luminosity in regions benefiting from the 20×10 policy, particularly showing certain levels of resource input and economic activity in 20×10 policy target areas. However, according to North Korean sources, many local factories face difficulties in normal operation due to energy and raw material shortages and lack of skilled personnel. Additionally, as existing light industry enterprises were relatively marginalized, North Korean light industry production is estimated to have contracted by -0.7% in 2024. Beyond light industry, agriculture and services directly

linked to people's livelihoods recorded negative growth or only low growth, suggesting possible divergence between economic indicators and actual living conditions.

Indeed, the consumption sector shows even more complex patterns. State-led commerce and distribution policies are accompanied by serious side effects alongside partial achievements. Rice prices soared to a maximum of 30,000 won per kg in 2025 after the introduction of grain sales centers, causing extreme market disruption for this essential commodity. For other general consumer goods, despite consumer goods imports nearly recovering to pre-COVID levels, consumer goods distribution margins increased in 2024-2025, suggesting inadequate commodity supply to the market by suppliers and high price negotiating power of suppliers. Additionally, the General Market activity index based on satellite data also declined in 2024-2025, suggesting either market contraction or possible transition from general markets to state commercial networks according to state policy.

However, it is necessary to emphasize that the above economic performance was largely influenced by environmental factors rather than being purely the result of economic policies. Since 2022, as the global economy transitioned to post-COVID conditions, and especially with the outbreak of the Russia-Ukraine war, North Korea faced an unexpected turning point. As North Korea-Russia relations rapidly restored, military and economic cooperation expanded, loopholes in UN sanctions against North Korea widened, and illegal unconventional foreign currency earning means such as cryptocurrency hacking contributed to state finances. These factors, along with North Korea's economic policies, played a crucial role in helping the North Korean economy avoid the worst downturn and transition to a growth phase. Conversely, this means that if such environmental conditions disappear, North Korea's economic performance may shrink or policy side effects may become more prominent.

Currently, North Korea's economic policies are creating certain achievements in the short term amid favorable external environment, but are unlikely to lead to a sustainable growth path in the medium to long term due to structural constraints. North Korea-Russia cooperation heavily depends on the exogenous special situation of the Ukraine war, and the scale and nature of cooperation are likely to be rapidly adjusted upon war termination or changes in the international environment. Moreover, rather than secured foreign currency and resources spreading to productivity enhancement or people's livelihood sectors, they are being concentrated in military sectors and construction and core industries. In contrast, strong centralized control over commerce and distribution sectors is damaging market-based adjustment mechanisms, eroding the income base of residents, and weakening the overall economy's resilience and shock absorption capacity.

Under these conditions, the 9th Party Congress scheduled for 2026 is more likely to be an occasion for institutionally reaffirming current policy path dependency rather than a turning point in North Korean economic policy. At the 9th Party Congress, North Korea is expected to extend and develop the current economic policy framework centered on “comprehensive development of socialism” and strengthening centralized economic management domestically, while externally demanding more active diplomatic space securing and strategic benefit creation based on recognition of a multipolar system.

While this policy combination may yield certain achievements in the short term, in the medium to long term, accumulating fiscal burdens and pressure on people's livelihoods are likely to make realistic compromises with the private sector inevitable once again. However, such forms are likely to be limited to sector-specific and region-specific tacit approval or informal adjustments rather than broad market permissions as in the past. Ultimately, performance under current economic policies is structurally vulnerable, and its limitations are likely to be exposed relatively quickly depending on changes in the external environment. **KIEP**