

# **The commons as development strategy for the transition countries: the cases of North Korea**

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## **1. Introduction**

□ The modern history of Korean Peninsula can be called as the suffering history resulted from the commons, especially land. The land monopoly that persists across the times and places has also played an important role in the division of the North Korea and South Korea (1948).

- The internal reason for losing sovereignty to the Japanese empire was not only the corruption and incompetence of Chosun Dynasty, but also the deprivation of the peasant through the monopoly of land by the privileged class in the late of Chosun Dynasty. All comes down to ‘privilege’ issue (Yoon Sang Kim, 2018).

- Japanese empire succeeded in entering the Korean Peninsula on the grounds of the Donghak Peasant Revolution (1894), and was able to force the Chosun Dynasty merged into Japanese empire (1910), and then institutionalized a capitalistic landlord-peasant system around the country (1918). Since then,

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the new land monopoly issue has been the main cause of conflict in the Korean Peninsula before and after the Liberation from Japanese empire (1945).

□ After the Liberation, North Korea implemented land reforms in a similar manner and procedures to China.

- In March 5, 1946, the People's Committee of the People's Republic of Korea (PCPRK) promulgated the "Land Regulation Act" and immediately carried out land reform. In March 8, 1946, the PCPRK promulgated the Bylaws on Land Reform Act. Land reform was completed in 20 days through confiscation and free distribution (Kim Sang Yong, 2006).

- Since 1946, the government confiscated and distributed privately owned agricultural land over a certain size (5 ha). The first process of land reform in the North Korea did not completely deny private agricultural land ownership, whereas the urban land was owned by the nation from the start point.

- The Agricultural Collectivization Project, which started in 1954, was completed in 1958, and the private agricultural land ownership was completely exterminated in North Korea. After that, the socialist land ownership system, where agricultural land was owned by agricultural collectives and urban land by the nation, was established until now on.

□ The legal justification of Land Reform had been proceeded far after the close of Land Reform. The Chosun Labor Party of North Korea enacted the Land law in 1963, and it was ratified by the revise of Constitution in 1972.

- North Korea revised its Land law to define land as a noble trophy of revolution in 1977 (Article 1). According to the Land law, all lands are owned by the nation and the agricultural collectives (Article 9, Clause 1), and the sale of land ownership is firmly prohibited (Article 9, Clause 2).

- This revised Land law showed that the land became the socialistic commons owned by the nation and agricultural collectives, in the background of socialism paradigm.

□ From 50s to the early 90s, land was used for the socialistic development in the support of central planning paradigm. But both the two historical events, the collapse of former Soviet Union (1989) and the death of Il Sung Kim (1992), caused "a march of hardship" until the early 2000s. During this period, a lot of people had died from severe famine, thus people started to strive for by themselves using unlawful market mechanism.

- The Jeong Il Kim government (1992-2011) and Jeong Un Kim government (2011-), hereditary

successors of IL Sung Kim, started to make a different approach for the economic development strategy including land use system.

- The commons, or land, faced a different development strategy, somewhat could be found in transition countries such as China and Vietnam, due to the economic disaster.

- The purpose of this paper is to examine the changes of development strategy through the analysis of the different approach of the commons, especially land. For this, this paper will figure out the theoretical basics of the new development strategy through commons, and then evaluate the new development strategy based on it, finally make a prospect about the change direction.

## **2. Theoretical basics**

### **1) Recovery of commons is the basis for a new economic community**

- Establishing the Concept of Commons

- Commons refers to natural resources in which ownership belongs not to any individual but to the entire community, and every member enjoys the right to use. Land is the most representative example.

- Currently, various similar concepts such as 'shared resources', 'common resources', 'shared materials', 'joint materials', 'public goods', 'open materials', 'free materials' coexist in the Korean language related to Commons. However, the concept of the terminology is not clearly established academically (Choi Hyun & Dai Xing sheng, 2015: 178-184).

- Eleanor Ostrom has basically used the concept of Commons as a common 'natural' resource or asset belonging to the local community. However, if we look at the constitutional principle of the urban rural economic community today, it is possible to extend the concept to a city government or a country beyond a village. Its objects include 'artificial' things as well as 'natural.' Artificial commons also covers both physical and non-physical.

- Therefore, it is necessary to reinterpret the concept of traditional commons in a modern way. The concept of 'modern commons' is crucial in reinterpreting the working principles of the economic community. This is very important in finding a development strategy for the transition of the economic system of North Korea, where land is owned by the state and cooperative farms.

- Main issues around Commons: Land Rent

- The main issue around the concept of Commons is whether the land already privatized to individuals and private businesses can be included in the category of commons.

- Even though the privatized land is not commons, the nature has provided it in the form of fertility and location. In addition, the land value increases due to the efforts of the whole society such as population increase, infrastructure installation and urbanization. Such increased land value should not be owned by individuals (George, 1997).

- Land Rent based on a logic that all members of society should enjoy it together, is the core of commons. In this respect, land rent can be classified as a new type of 'social good'. The concept of 'social goods' is that the value is socially created and consequently, it should be socially controlled or attributed.

- Money is another type of social good. The reason why money strongly implies the nature of 'artificial' commons is that firstly, the currency is made and circulated to the market by the government, and secondly, the money is constantly exchanged through various transactions. Third, the credit, which is the basis of money, has social characteristics. Fourth, the land value, which is a social value, is capitalized and creates credit money through real estate mortgage based on its price. Fifth, other economic rents acquired from commons is also monetized. Sixth, the vast government budget, which is in the form of money, is clearly one of commons.

- In summary, once we include money that reproduces social values in the form of artificial commons, it provides a clearer picture of the mechanism of privatization of commons that appears throughout the economy. In the capitalist market economy based on private ownership, "natural resources" such as land, natural resources, water, and wind, which have value in use at the lowest level of the economy, are privatized and commercialized, resulting in exchange value. The upper echelon of the economy structurally dominates this exchange value through the monetary system (Cho, et al., 2012).

#### □ Objectives and results of privatization of commons by capital

- The reason why capital privatizes commons is as follows. First, it forms the basis of commercialization of exclusive ownership through privatization. Second, it is to maximize the profit through merchandising. This is the core of rent seeking (Harvey, 2014: 106; Stiglitz, 2013: 130).

- Polanyi asserted that "it will result in the collapse of society" if the society keeps on allowing the fantasy that the commons, such as land and money, are products that will bring infinite success (Harvey, 2014: 103). Stiglitz also saw that rent seeking, financialization and deregulation distort the economy and lead to the waste of resources, and end up making the economy fragile (2014: 206). Stiglitz even

claimed that it will bring about a crisis to democracy.

- Therefore, it is very important to decide how to recover the commons in Republic of Korea where the land is privatized. It is also very important for North Korea, where the state owns natural resources and land, to lay the foundations for sustainable and healthy economic development by making good use of the current situation.
- In terms of land, Public Land Leasing System (PLLS) is the alternative economic policy for the transition countries, such as China and North Korea. In the PLLS, people and companies who want to use land efficiently, can get the land use right for a long period of time, and pay corresponsive land use fee.

## **2) Henry George's "Progress and Poverty" (1789) advocates the recovery of the commons**

- The basic principles of the Public Land Leasing System proposed by Henry George

To break down poverty and ensure that wages are at the level that justice requires, that is, all of what a worker has earned, the private ownership of the land should be changed to co-ownership. No other method will only aid in the cause of evil, and there is no hope in any other way. (Henry George, 1997: 313-314)

- Five key principles of PPLS proposed by Henry George in "Progress and Poverty"
  - ① The right to use the land is transferred to the best offer through an auction
  - ② "Annual" confiscation of land rent
  - ③ Use of land rent for whole society
  - ④ Guarantee of land use right
  - ⑤ Protection on the upgrades caused by labor and capital input
- In addition to Henry George, economic feasibility of the PLLS was discussed by Léon Walras (1880), Richard J. Arnott and Joseph E. Stiglitz (1979), Masahisa Fujita (1989) and Chung Un Chan (2009).
- Henry George's theory affected the Ebenezer Howard, urban planner, in Garden City Movement

- Howard actually built two garden cities: Letchworth and Welwyn. This is the beginning of today's Community Land Trust movement.

- The Garden City Movement influenced not only the Western capitalist states but also the socialist states like Russia, China and North Korea. However, it has its limitation of excluding private allocations of land use right.

### 3) Applying Commons Theory to North Korea

#### □ James Edward Meade's Theory of 'Free Socialism'

- Winner of the Nobel Prize for economics in 1977 and a successor of John Stewart Mill.

- For the economic development of the socialist state, it is necessary to increase the overall efficiency of the economy by reducing the government's excessive dependence on tax revenue and government bonds by acquiring revenues from the market operation of the common assets (James Meade: 1949; Chui Zi Yuan, 2014: 151-152 Cited).

- In a nutshell, the state should secure adequate state-owned assets and build a system that automatically increases the wealth of the state as the wealth in the private sector increases. Here, the state property to which Meade mainly paid attention is 'land.'

- When leasing state-owned land to the private sector with low tax burden on the private sector, the private market-based market economy system will work, and at the same time, the government will be able to secure land use fees. And as the economy grows, land revenues will increase. This is the core principle of the PPLS.

- Chinese scholar Chui Zi Yuan, who reviewed Meade's liberal socialism, found that Hong Kong and Chongqing models have a similar structure in that they reduced the tax burden by receiving land use fees in the process of private economic development (Chui: 2014: 152 -155).

- Meade's theory has a great significance in that it suggests a direction on which the transition of North Korean economic system should be heading in the future.

#### □ The land principle proposed by Yoon Sang Kim based on the basic principles of the PPLS

- Kim Yoon Sang derives the "land principle" based on Henry George's theory and "equality liberty axiom" that "all human beings enjoy equal liberty" ("Georgism", 2009).

First Principle, everyone has equal rights to land.

Second Principle, if there is a social necessity, the private sector can be granted priority to the land through social consensus.

Third Principle, in order to grant private priority to land, the following conditions must be met:

- ① Condition of Equalization of Acquisition Opportunity: The equal opportunity of acquiring the private right of the land should be guaranteed equally to all residents.
- ② Condition of special profit return: If the private priority over the land, that is, the right to exclude others, obtain special profit (rent) compared to other members, the special profit should be returned to the community.
- ③ Conditions of social constraint: Private priorities for land should be exercised in accordance with the agreed purpose since it is a right recognized by social consensus.

□ Kim Yoon Sang classified the land ownership system according to how the three rights of the ownership regulated by the civil law (namely, the right to use, the right to benefit, and the right to dispose) to be attributed to the private.

- The private land ownership system is a system in which the right to use, the right to benefit, and the right to dispose all belong to private entities. It is close to Republic of Korea's capitalist land ownership system.

- The rent tax system is proposed as an alternative solution to solve the problem of unearned income from land, which is the key issue of private land ownership. The essence of this system is at taking the rent in a tax form without touching the land ownership. The rent tax system is in the same context as Lee Jae Myung's "Landholding Tax and Basic Income System" (Henry George Forum, 2018)

- The land-sharing system allows only the state or the public to have all three rights. It is similar to North Korea's state-owned nationalism.

- The PLLS is a system in which land use rights are leased to individuals for a certain period of time in order to combine the land-sharing system and the market economy system.

<Table 1> Types of Land Ownership System

Rights of ownership	Private Land Ownership	Rent Tax System	land-sharing system	public land lease
Right to use	Private	Private	Private	Public
Right to dispose	Private	Private	Public	Public

Right to benefit	Private	Public	Public	Public
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Source: Yoon Sang Kim. 2009. "Georgism". Kyungpook National University Press, p. 38 <Table 2.1>

- PLLS is the most desirable land system for a country transitioning from the socialist economy.
  - It should be noted that it is preferable to use the annual subscription system, rather than a Chinese subscription system that receives land rent in a lump-sum manner.
  - By reforming land with this principle, even socialist countries can achieve economic development.
  
- North Korea also applies similar principles for its SEZs and EDAs. In the future, it will be necessary for North Korea to extend this principle to individuals and companies in urban and rural areas beyond economic zones and development areas.

### **3. The commons as development strategy in North Korea**

#### **1) In the 1980s, changes in the land system to attract foreign capital**

##### **(1) Changes in general land system**

- The Chosun Labor Party also began trying for reform and opening up like the Chinese.
  - The first attempt was made in 1984 to establish an 'equity investment law' to attract foreign investment.
  - In 1992, the Foreign Investment Act was enacted and promulgated, and in Article 15, the right to use land was recognized for foreign invested companies and individual investors.
  - The most important change in the land sector reform was the enactment of the Land Leasing Act in 1993 (revised in 1999) and the recognition of land use rights.
    - Ownership of land belongs to the State or a cooperative group, but it guarantees the right of foreign companies to use the land with long term contract. It is called "lease" but actually "land use right" registration.
    - Companies and individuals from foreign countries investing in North Korea and local institutions, enterprises and organizations of North Korea seeking to invest in joint cooperations and joint ventures, are allowed to set land use rights (Articles 2 and 5 of the Land Leasing Act).
    - The land use right can be set up for up to 50 years by lease agreement with land management agency.

- Since the revision of the Constitution in 1992, the Constitution was amended in 1998 to establish a constitutional basis for the creation of a "special economic zone" like the Chinese special economic zone.
- The core of the reform and opening policy of North Korea is attracting foreign capital to overcoming the immediate economic difficulties rather than reforming the economic system that China has pursued.
- Meanwhile, ‘7. 1 Economic Management Improvement Measures’ and ‘Land Use Payment Regulations’ on July 31 of the same year were promulgated, and the farmers began to pay a portion of their agricultural products as rent. Reforms has started in the non-SEZ regions as well.

## **(2) Changes and characteristics of land system in Special Economic Zone(SEZ)**

- North Korean SEZ can be classified into four periods(Lee Jong-gyu, 2015: 38-50).
  - The First Period (1991-2000): The period when China and Japan were main partners of foreign trade for North Korea. During the time, the SEZ was first established on the Rajin-Sonbong area.
  - The second period (2001-2008): the abduction issue (2002) and the Bongsoo incident (2003) caused the disruption to the trade with Japan, and the special economic policies targeting China and Republic of Korea were attempted. As a result, three special zones such as Sinuiju Special Administrative Region, Kumgangsan Tourism District and Kaesong Industrial Zone were newly promoted. More aggressive policies were introduced in conjunction with 7·1 Economic Management Improvement Measures in 2002. However, the three special economic zones are currently suspended.
  - The third period (2009-2012) : In this period, the international sanctions were strengthened due to the nuclear test, and the dependence on the trade with China was increased due to Republic of Korea's 5·24 measures. However, only the Rajin-Sonbong economic and trade zones were developing relatively stable, and Hwangpyeong/Wuhwa economy zone was not progressing.
  - Fourth period (since 2013): Kim Jong Eun, who has taken the new regime, is pushing for special economic zone policy and region-oriented economic development zone policy in earnest.
- Basic principles and methods of land use
  - Basically, the land system of the special economic zone in North Korea is a system that separates the land use right while maintaining the state's ownership. This is similar to the previous model in

China's Shenzhen which includes 'land transfer fee'(including land development) + land use fee. Acquisition of land use rights for 50 years and payment of land use fee every year.

- Generally, consultation methods are applied to land use right contracts. It has the institutional framework of regulations to protect the rights of land users and to allow mortgage lending on the land use right, and to allow applying bidding and auction methods in the case of the Rajin-Sonbong Free Trade Zone.

- Although the Land Leasing Act stipulates that the land use right can be set up even if it is not a special zone, 'land use right registraion' has not yet been allowed nationwide, but is allowed only in special zones and newly established EDA. It is not far from the initial stage of the reform and opening up of China. The establishment of land use right in the special zone is mainly targeted at foreign invested companies and foreign individual investors, but the institutions, enterprises and organizations of the North investing in joint cooperations and joint ventures can also set land use rights.

- 'Land law' or 'Land lease law' does not yet clearly define land use rights as a kind of rights. However, there is a tendency in North Korea to recognize the land use right as a right, expressing it as "physical property right related to the use of national property".

□ Not only are the laws for establishing land use rights different, but also the ground rules for disposing land use rights and buildings are different.

- The general law on the disposition of land use rights such as the establishment of land use rights for transfer, lease, and mortgage is Land Leasing Act.

- However, the basic laws for establishing land use rights in Sinuiju Special Administrative Region, Gaeseong Industrial District and Kumgangsan Tourist Area are 'Sinuiju Special Administrative Region Basic Law', 'Kaesong Industrial District Law' and 'Kumgangsan Tourist District Law' respectively. However, for the Rason economic and trade zone, Land use right is based on 'Land lease Act'.

- Detailed regulations regarding the transfer, lease, and mortgage of land use rights differ as well. Regarding the disposition of land use rights in the Rason economic and trade zone, the "Land Lease Act Enforcement Regulations" (enacted in 1994) is applied, and the "Disposal of Free Economic and Trade Zone Buildings and Mortgage Regulations" (enacted in 1995) are applied for disposal of buildings. Regarding the land use right and disposal of buildings in Kumgangsan tourism district, 'Kumgangsan Tourism District Real Estate Regulations' (enacted in 2004) are applied. With regard to land use rights and disposal of buildings in the Kaesong Industrial Zone, the "Kaesong Industrial Zone Real Estate Regulations" (enacted in 2004) are applied

- The recently enacted 'Chosun Economic Development Act'(Feb. 29, 2013) is basically similar to 'Rason Economic and Trade Zone Act'and'Hwanggumpyong and Wihwado Economic Zone Act.' However, it is not limited to one area. It is a general law governing special economic zones considering other areas to be designated. Chosun Economic Development Act does not apply to the existing special economic zones: Rason, Hwanggumpyong-Wihwado, Kaesung, Wonsan, and Mt. Kumgang (Annex 2). 21 economic development zones in the central and provincial regions are commonly governed under the 'Economic Development Act' (Lee, Jong-gyu, 2015: 54-55).

□ Concepts of 'land rent' and 'land use fee' through the Dictionary of Civil Law

- Land Use Fee: Fee that is paid to the State for the use of land owned by the State' and it is set by the State Pricing Authority (Civil Law Dictionary, page 644).

- Land rent: "The value of renting land. The landowner hands over the land use right to another person for a certain period and conditions and receives the value and the fee for use. Land rent is the sum of land use value and land use fee. In the narrow sense, only land use fee is called land rent."(Civil Law Dictionary, page 645)

- The land use fee shall not be changed for a period of four years after being enacted once, and if the change is made after four years, the variation shall not exceed 20% of the fixed fee.

## **2) Major changes in the real estate system by industry**

### **(1) Primary Industry (Agriculture): Cooperative farm reform measures**

□ Enactment of Farmland Accountability System

○ Significant changes took place in rural land systems as Korea suffered economic difficulties in the early 1990s. <Economic Management Improvement Measures> announced in 2002 was a decisive step.(hereinafter referred to as the '7.1 Measures')

- '7.1 Measures' are intended to promote wide-ranging changes in the economy as a whole, including prices, exchange rates, wages, finance, enterprise management, and markets.

- The key significance of '7.1 measures' in the use of agricultural land is that farmers can use agricultural land while paying farm land use fees. In order to make up for the fiscal deficit, the central government was moving away from the structure that relied on the net income of the state-run

enterprises and wanted to make up for the fiscal deficit through cooperative farms as well as enterprises.

- The reason for its importance is that the North Korean government virtually recognized and accepted the status of the market sector within the regime. However, despite that the North Korean government assessed '7.1 measures' comparable to land reform in the 1940s (the abolition of the land ownership system through free distribution, free distribution), '7.1 measures' was said to be a failure without any significant result.

o 10 years after the failure of 7.1 Measures, <6.28. New Economic Management Improvement Measures> was announced.

- The core of the '6.28 Measures' is that "the state does not set production items or plans separately, but factory enterprises independently produce and determine the price and method of sale of the products themselves".

- For the agricultural sector, 70% of the total yield belonged to the authorities and the remaining 30% to the farmers regardless of the national production plan. In addition, the size of the basic unit of the cooperative farm was reduced from 10~25 people to 4~6 people to distribute land, farm equipment, and fertilizer to smaller units. The measure was to increase production motivation allowing the right to self-disposal on crops produced.

o However, while the 6.28 measures were not being implemented properly and the method of cultivation of the small units did not show any clear results, There is an article that the North Korean government will tacitly accept a "family-based farming system" similar to the contract system(承包制) that China first applied to agriculture when it initiated reforms(2012.9.24).

- It means that the government is not going to question the issue of dividing the land by households. In fact, it will try to tolerate the new system of "family or individual responsibility production and free disposal of surplus product" and move away from the socialist agricultural system.

- In February 2014, the Labor Newspaper in North Korea wrote, "Solving the rural problem is an essential requirement for the socialist revolution" for the 50th anniversary of the announcement of the "Rural Theme" in the first editorial. The article emphasized agricultural reform saying "we should apply Farmland Accountability System properly in accordance with our own situation."

□ Reorganization of cooperative farms in Rajin special zone into groups and relocating them into state owned enterprises

- o According to Article 22 of the Constitution, it is stipulated that social cooperating organizations can own such things as land, agricultural machinery, ships, small and medium-sized factories and enterprises.
- o In addition, Article 23 of the Constitution stipulates that the ownership of cooperative organizations will gradually be converted to the ownership of members in accordance with voluntary intentions of the members of the cooperative organizations.
- o The relocation of Rajin cooperative farms to the state-owned enterprise can be interpreted as such. This enables enterprises to secure stable food supply, and the farmers can receive monthly salaries and thus stabilize their lives. In the long run, it can prevent the complex issues around rural land system seen in China.

**(2) Secondary industry (manufacturing): Reform measures on factories and enterprises in Special Economic Zones and Economic Development Zones**

- Establishment of Economic Development Zone(EDZ) Law
  - o North Korea has enacted Economic Development Law in May 2013 to attract foreign investment.
  - 13 Economic Development Zones were designated in November of that year. Since then, more than 20 Economic Development Zones have been designated and promoted in various regions of the country including Pyongyang. The most recent designation was announced on December 21, 2017, and is located in Gangnam Economic Development Zone located in a part of Goeubli, Gangnam-gun, Pyongyang.
  - o The basic land use pattern in Economic Development Zones is basically similar to that of Special Economic Zones.
  - o The basic strategy of the Economic Development Zone is to promote self-regeneration in local government level. However, the North Korean local government is not responsible for the installation of infrastructure, but rather the foreign investment companies is responsible for it. Therefore, there is a big limit to the economic development zone project.
  - At this point, in line with the formation of a peace regime, the need for Republic of Korea's healthy capital and knowledge to actively participate in North Korea's economic development zone is becoming ever more apparent.
- Corporate Management Responsibility (Independent Taxation System)

- o After the failure of the '7.1 Measures', the North Korean government announced 'Establishing a new economic management system' on June 28, 2012. The main point of '6.28 Measures' is that in addition to reforming farm cooperative discussed above, small and medium-sized factories and enterprises are to adopt independent taxation system and monthly salary system.
  - o The enterprise pays 30% of its output to the state like farms, which is for the use of the means of production leased from the state.
  - o "6.28 Policy", which has gradually expanded the autonomy of economic entities such as enterprises and farms, led to the so-called "5.30 Measures" granting autonomous management rights to all factories, companies, and shops across North Korea.
  - Enterprises are allowed to operate independently in the market, and the North Korean government provides only the minimum amount of funds and materials to enterprises. Enterprises share product sales profits with the government. This economic policy seems to be continuing in North Korea to the present.(Mun Heung An, 2017: 744).
- Permitting local enterprises to enter the Economic Development Zone
  - o Article 20 of the Economic Development Law, "institutions and enterprises of our country can also be approved to develop the Economic Development Zone." Article 26 states that "if institutions, enterprises and organizations should establish development companies with investors from other countries, they can make investment to the land use right according to the prescribed method."
  - o Based on these regulations, most development projects are likely to have a form of establishing and developing joint venture companies between North Korean companies and foreign investors. In this way, the economic development law opens a way for active and leading participation of the North Korean enterprises (Yu Wook, 2013 12).
- Preparation of annual land use fee in Kaesong Industrial Complex,
  - o On April 13, 2004, Korea Land Corporation and Hyundai Asan entered into a land lease agreement with the General Administration of Development Planning of the Special Economic Zones of North Korea, Paying \$16 million for 50 year lease of 3.24km<sup>2</sup>. The price of land use rights was US \$ 1 per square meter.
  - o The land use fee payment will be imposed from 2015, after 10 years of deferred payment. The Kaesong Industrial Complex and the North signed an agreement regarding the land use fee in Kaesong Industrial Complex (December 24, 2014).

<Main contents of agreement (December 24, 2014)>

① Applicable subject

- o The land use fee shall be imposed on the land in which the enterprises are located in the Gaesong Industrial Complex for production and commercial activities. The land use fee shall not be imposed on the developer's land, unused land, and public property land.

② Land use fee rate

- o The land use fee is US \$ 0.64 per square meter(0.64US\$/m<sup>2</sup>).

③ Update cycle

- o The land use fee can be adjusted every four years by agreement between the Management Board and the Governor, and it should not exceed 20% of the previous land use fee.

④ Payment time

- o The land use fee will be charged once a year starting from 2015.
- o As a general rule, the land use fee shall be paid by December 20 of each year. Land use fee in 2015 shall be paid by February 20, 2016.

**(3) Tertiary industry (commerce): Reform measures for urban space use**

□ Legalization of marketplace

- o Surviving through the march of great suffering, the economic activities in North Korea began to form underground marketplaces called Jangmadang. At that time, each local People's Committee or Party Committee virtually acquiesced to this "Jangmadang".
- o Originally, Jangmadang was under the name of farmers' market and received strong control over transaction items, trading locations, and timing of opening.
- o As a result, transactions that took place at a place authorized by the state took place in front of the train station, on the big roadside, near residential areas. In addition, once 10-day event was also changed to a permanent marketplace where the marketplace is held every day (Yang, 2001: 422).
- o However, the '7.1 measures' announced in 2002 made merchants pay a certain amount of money, thus partially accepting Jangmadang formed like bamboo shoots all over North Korea. This fee is also a kind of land use fee.

- Establishment of 'Housing Act' (2009) and collection of use fee
  - In Korea, collection is defined as "a house where people live as one household".
  - The residence is largely divided into an urban residence and a rural residence, depending on the characteristics of the site area.
    - Urban houses are constructed with single, small(2-3), multi-stories(4-5), high-rise (over 6 stories) and high-rise residential buildings(over 18 stories). They includes mainly rooms, kitchens and sanitary room and auxiliary spaces like Entrance, warehouse and porch..
    - Rural houses are constructed as a single village or a separate unit in rural areas. Most of them are single-storey buildings (single household or double households in one building).
    - Citizens who use the residential house must pay a fixed fee for use to the resident management agency in time (Article 42, Paragraph 1 of the Housekeeping Law, Article 56 of the Urban Management Act).
    - It is known that the residence use fee is determined by the national price regulating agency(Article 42 (2)), and the amount is too low to cover the residence repair cost. Mun Hueng An(2012) estimates the fee is about 2-3% of living expenses for a month assuming the average cost of living for ordinary workers to be 5,000 won.
  - Lee Eun Jung(2013), based on the related data, claimed that such fee was already collected for use in the early 1990s.
  
- 'Real Estate Management Act'(2009) and collection of real estate use fee
  - North Korea did not collect fees for real estate such as land and buildings in the sense that all the resources of the state belonged to peopl. However, in order to solve the financial crisis in the 90s economy collapse, it started collecting the real estate use fee from the production unit and the service industry unit such as social cooperating organizations, factories and enterprises using the land and buildings.
  - The institutionalization and collection of real estate fee in earnest started after the Deputy Prime Minister No Doo Chul announced at the Supreme People's Assembly of Democratic People's Republic of Korea that he will conduct a real estate survey in all areas of North Korea in April 11, 2006. (Jang, Chul Ik, 2012: 32-33; Quoted from Lee Eun Jung, 2013: 12).
  - The real estate fee shall be paid to the local financial institution (Article 36 (1) of the Real Estate Management Act). The price of real estate use fee was subject to actual survey on land, buildings,

roads, and forests regardless of ownership. The price standards were set by dividing into the management type land (agricultural land, forest) and construction site for construction of industrial facilities, housing, public facilities, and underground resources.

- o In 2007, at the Supreme People's Assembly of North Korea, it was announced that 15.4% of its annual budget income comes from real estate, which is similar in amount to North Korea's annual defense spending.

#### **(4) Common Points in Reform Measures**

- Summary of reform measures
  - o Primary Industry: In the cooperative farms, farmers paid a certain amount of money and was given a right to dispose of the remaining through Farmland Accountability System.
  - o Secondary industry: Promoting economic development zone was led by local government, where enterprises actively participate and set up land use right
  - o Tertiary Industry: Imposing fees on the real estate users who use urban spaces such as market yards and houses
- Common points
  - o For the exclusive use of real estate like land, people must pay rent in the form of land use fees, real estate use fees, Jalise (rent), and residence fees.
  - o This method can increase the financial income for the local governments by recognizing and protecting property rights of the real estate users and raising their motivation.

#### **4. Real estate market in North Korea**

##### **1) Memories of Rajin land speculation during the Japanese colonial period**

- Rajin is bordering with two neighboring countries and a port connecting between the sea and the continent.
- o The Rajin-Sonbong, where the Rajin-Sonbong Free Trade Zone is located, is a port city on East Sea located in North Hamgyeong. It is adjoining to Hunchun (琿春) on the eastern part of the Yanbian Korean Autonomous Prefecture in Jilin Province and Primorsky Krai of Russia.

- o In 1932, as Japan set up Manchuria, Rajin-Sonbong became a liaison port connecting Japan and Manchuria.
- o Rajin was a small fishing village with only about 100 residents. However, on August 23, 1932, Rajin suddenly became the center of land speculation as it was determined to be the terminus port of the railway line connecting the Jilin and Hoeryong.
- o As soon as Rajin, which competed with Chungjin, was chosen as the final candidate for the port, the land price was increased to one hundred and several thousand times. It embarked "the land war in the Oriental scale beyond Chosun."
- o Land rage of Rajin stopped in three years. Unlike the "expectation" that it would grow into a big city with a population of one million, the population reached 40,000 right before the liberation(Jun Bong Kwan, 2009).

## **(2) Real estate development projects in Pyongyang in the past**

- 1950s: Five-year plan for the Chollima Exercise. Main focus is restoration of Pyongyang City Infrastructure Facility and restoration of Heavy Industry Facilities.
- 1960s: Moran Street, Fenghua Street, Red Street construction. Construction of Residential area around the streets. Construction of subways and trams. Agriculture development in the surrounding.
- 1970s: More than 90% of residential buildings were constructed with prefabrication(100% prefabrication in Sungho Area in Pyongyang). Monument Buildings, Chunrima Street construction. Introduction of middle to high-rise residence. Amusement parks and subways began to open.
- 1980s: Construction of Yeonggwang Street, Changgwang Street, Munsu Street and construction of high rise (20-30 story) residence. Planz for building International City including Ryugyung Hotel, Korea Hotel, Yanggakdo International Hotel. Expansion of Green space and amusement facilities.
- 1990s: The economic crisis started. Reduction of large-scale cultural facilities and monument construction projects. Focus on providing housing projects. 50,000 households in Tongil street and 20,000 households in Gwangbok street project interruption.

## **(3) Kim Jong Eun Era: Future Scientist Street (completion in November 2015), Ryeomyung**

## **Street (completion on April 13, 2017)**

### □ "Ryeomyong" street project overview

- Site area: Approximately 900,000 square meters (about 273,000 pyeong)
- Total construction area: 1,728,000 square meters
- Total budget: about 22.2 billion Won (about US \$ 2.8 million)
- Population: A total of 12,000 residents
- Scale: Construction of 40 public buildings (including 82 story building) with 4804 households, 44 schools, 6 schools, 3 kindergartens, 3 nursing homes, laundry facilities and convenience facilities, including 82 floors. 15 of them are commercial, 7 are the campus building of Kim Il Sung University.
- Remodeling of about 70 apartments including 33 existing apartments and public buildings.
- The number of workers is about 8 million.
- Green city & Energy saving city: Introduction of renewable energy and ecological greening technology to buildings. Promotion of urban greening. Application of rainwater recovery utilization technology.

## **(4) Today's real estate market operating mechanism**

### □ Background

- o Housing demand surged due to the retirement of first generation, demand for home ownership, the relocation of Korean Japanese in the 1980s, and the marriage of post-war baby boomers. Mostly secret deals by the power stratum (Mun Heung An, 2017: 741-742).
- o After the death of Kim Il-sung in 1994, the distribution network collapsed suddenly, and the 'March of Hardship' began. Housing supply is stopped, making it more difficult to get housing allocation. As people started to exchange their allocated housing for dollars to feed themselves, residential housing deals became common.
- o As the 'Jangmadang' formed around the stations for buying and selling goods, it stimulated the demand for the residential area around the stations and the markets. As the urban workers left their home because of a shortage of food, they became the important source of supply for the vacant house(Mun Heung An, 2017: 744-745).
- o According to the 'Housing Policy and Marketization Status of North Korea' announced by the Korea Housing Finance Research Institute, the housing penetration rate in 2017 was around 60%. The

spread of flush toilets was about half of it. Those without a home are either living in their parents' households or renting a room in existing households.

□ Housing transaction method

o Housing transactions are carried out by replacing the user name with the name of the buyer in the "National Housing Use Permit" issued by the People's Committee

In the North, real estate transactions are in gray area neither illegal nor legal, and North Korea has implicitly institutionalized the real estate market (Jeong Eun E) - North Korean defectors surveyed, 66.9% bought their house with money and 14.3% received housing from government (Unification Peace Research Institute, Seoul National University)

o Housing Use Permit does not specify a period of time when the house can be used. Inheritance is also possible.

o In this process, the resident instructors of each region or union enterprise act as a real estate agent, they handle the transfer of the permit name and take the intermediary fee.

o It is illegal, in principle, to transfer the housing license with money, but it is not illegal to change the name of the permit.

□ Evolution of housing market

o With marketplaces, money-lenders emerged, who lend money and receive interests. They have evolved to home sales as their funds grew, and now they are a sort of developers who sell housing after building an apartment.

o There is also an agent called 'Deko'. When they start to build a house, they gather the buyers. When the house is completed, it is said that they promise to transfer housing use permits and collect the money. This housing use permit is repeatedly traded in the market until the completion of the house, and there is a 'premium'. Brokers associate with powerful agencies to build up the real estate market by constructing private houses, building apartments, reconstructions and redevelopment.

o Multiple housings holders began to form. People with money pay 200 to 300 dollars (about 220,000 to 330,000 won) to people who do not have money. Especially, it is known that many Chinese who live in North Korea have many houses. For example, in Huiryeong, North Hamgyong Province, 32 overseas Chinese households own 56 houses as of 2015.

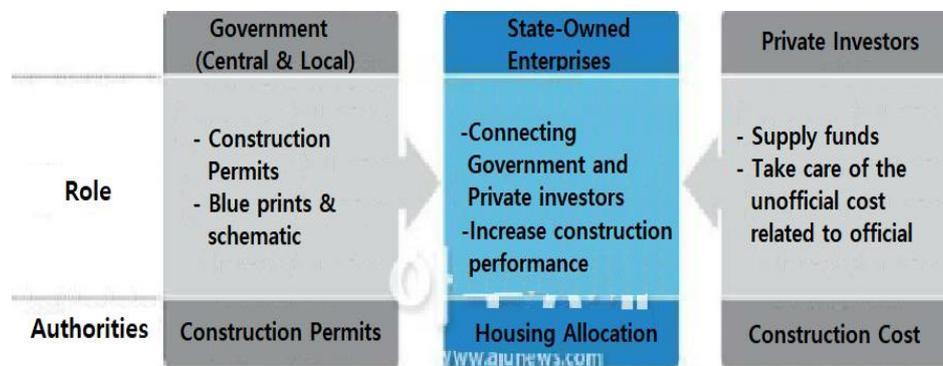
□ Future scientists Street and Ryeomyong Street Projects

- o Construction quantities are allocated to individual construction units, and each unit exports underground resources or develops other projects to secure materials. In addition, it encourages investors to invest in large-scale projects such as the housing construction by guaranteeing the right to "money lenders" (Dong Yong Dong, 2017: 53; Lee, 2016).
  
- Housing price surge
  - Prices are skyrocketing as the real estate market such as Pyongyang, Nampo, Kaesong, Chongjin, Sinuiju. Pyongyang luxury villa is about \$ 8,000 per square meter. Sinuiju also has a sales price of 5,000 yuan(840,000 KRW) per square meter, equivalent to Dandong.
  - Old apartments over 50 years old in Pyongyang are priced at \$ 3,000 to \$ 30,000 and new apartments are traded at least \$ 100,000 (about \$ 100,000 in our money). All transactions in Pyongyang proceed in dollars.
  
- Evolution of real estate development that started from residence expansion and reconstruction (Mun Hueng An, 2017: 745-751)
  - o Expansion/ reconstruction and exchange of residential building
    - Reconstruction and expansion on the state-owned housing complexes are illegal, subject to criminal punishment. However, with the development of the market in the 1990s, expansion of residential building started to appeal to have the sales space(store). These extra expansions are the opportunity to convert a simple residential space into a residential and commercial real estate.
    - Demand for housing facilitates exchanges, and exchange is a legitimate act, unlike trading in housing use rights.
  - o Construction and sale of 'private housing'
    - In the mid-2000s, as the market became active and the supply of building materials became smooth, there was a case where existing houses were torn down and newly constructed. In other words, a person who has accumulated money through the market has a condition to build a house independently.
    - There is also a business person who builds a residence for sale. And there are also executives who form wealth by supporting them and solving administrative procedures.
  - o Construction and sales of apartments by the private sector
    - Typical apartment construction process by the major institutions and enterprises: Authorized authority issues construction permit → Get funding with the permit as collateral search for a private investor

('Don Ju') Brokers are important at this point → Private operators provide all the construction funds and materials & equipment needed. → Private capital receives some apartments in return → ㄴ  
 Sales of apartments in the marketplace for profit

- The reason for this mechanism to work is that apartments built by the institutions and enterprises in cooperation with private operators can be included in the performance as if they are built with the government budget.
- Now the apartments are built and sold out by individual investors: Rent of city construction enterprise permit → Individuals with money and materials gather to plan apartment construction → Requesting cooperation with an enterprise suitable for construction site. Most factories and enterprises accept proposals in the name of enhancing employee housing → Construction and housing sale
- Currently, 80% of newly built apartments are constructed by the private sector, and 1/3 of newly built apartments are estimated to be market transactions.
- The apartment construction and trading market has become an important axis to lead the North Korean economy by linking with national planning, private participants, and material markets.

<Figure 1> Unofficial private-public cooperation structure



- o Reconstruction / redevelopment led by the housing consignment office
- In 2013, Government set up Housing commissioning office, which is in charge of building residential building with people's funds.
- For reconstruction, Housing commissioning office does not need to obtain a land use permit from the land registry bureau once it acquires agreement with the households for demolition.
- The construction contractor will submit the land use agreement agreed with the households before demolition to Housing commissioning office, and a construction permit will be issued once

Housing commissioning office confirms securing of the construction site.

- The construction company must compensate the demolition households that provided the site with a spot or cash. In addition, it guarantees priority to the households of the evacuees who own housing permits.
  
- o Emergence of real estate brokers and housing exchanges
- Emergence of a professional broker who buys old residence on a good site and sells it to real estate developers.
- Article 112 of the Criminal Code of Criminal Code states that "if a large amount of gain is obtained by acting as a broker, it is punished with labor training for one year or less". It is illegal to broker a house.
- Despite the strict legal provisions, the house brokers form housing black market. Brokers are originally low-level housing instructors at the United Enterprises, which collect fees for housing. They take care of transfers of the housing permit for fee.
- In January 2013, the 'Pyongyang City Housing Exchange' was opened to allow the state to publicly charge fees and taxes and to allow individuals to legally build and sell houses. However, it was abolished by Jang Sung-taek's purge in December of the year.

## **6. Conclusions: Evaluation and prospects of the real estate system of North Korea**

### **1) Evaluation**

- Overall, North Korean economy seems to be proceeding in accordance with the Mead theory.
- o North Korea currently establishes special economic zones and economic development zones, and transfers land use rights. In urban and rural areas, the real estate market such as real estate transactions and investment has been formed and developed. The real estate usage fee is imposed through the establishment of the real estate management law.
  
- However, there is a limit at the following points.
- Land use rights are not allowed for individuals and companies in areas other than SEZs and economic development zones.
- As for farmland, farmland cultivation rights of individual household units are not established.

- Unlike the provisions of the Civil Act, home ownership is not legally permitted at present.
- Due to the low rate on the housing use, the development of real estate and the sale of residential buildings are speculative.

## **2) Future prospects**

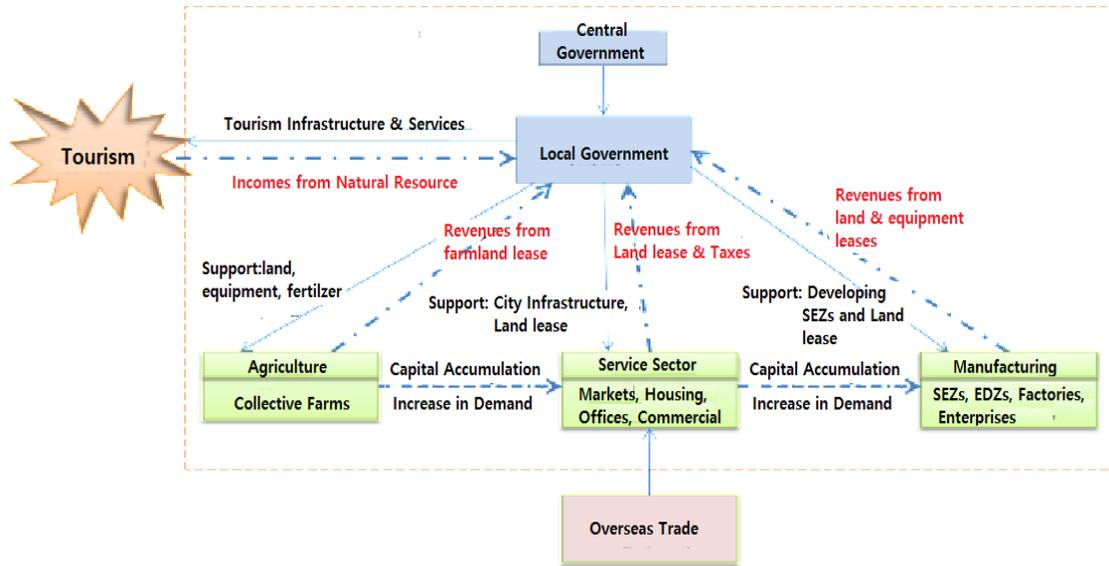
- Universal application of SEZ property rights model
  - On the legal nature of the real estate system and property rights, there exists a big gap between the general laws in North Korea and the legislations related to foreign investment.
  - However, economic awareness among North Korean government agencies, enterprises, organizations and citizens is increasing. Practices in reality are becoming more and more evolving to market system. There is a demand to link these changes in economic consciousness and the environment with the national finances.
  - Therefore, it is expected that the real estate management law related to foreign investment will become a future model of the general law system in North Korea, the scope of the rights to use the real estate is expected to increase gradually (Son Hee Doo, 2013).
  - China has enacted the Land Management Act and the Civil Law in order to recognize the land use right as a beneficial interest and allow the ordinary citizens to have the right to use the land. This is a good model for real estate law in North Korea (Son Hee Doo, 2013: 59.).
  
- Distribution of farmland cultivation rights and nationalization of land ownership
  - China has progressed to the stage of distributing farmland cultivation rights to individual farmers.
  - Even if the North does not go as far as this, it seems to consistently pursue reforms that leave farmland in the family unit and collect a certain amount of production, and then grant the right to dispose of the rest.
  
- Economic growth strategy through tourism development
  - North Korea announced the May 29, 2013 economic development law, and in November of the same year announced the policy of special economic zones and 13 provincial economic development zones. However, the key point of the announcements was the tourism industry.
  - The Special Economic Zone was the Wonsan-Kumgang International Tourism Zone (Special Zone),

announced on June 11, 2014 as the main order of the Standing Committee of the Supreme People's Committee. Two of the 13 economic development zones are tourism development zones, and there are six economic development zones with tourism functions.

- Cho Sang Chan (2015) proposed 'a model of recycling economic development based on tourism industry' which is a strategy to secure sustainable use of land for individuals and corporations by utilizing land use fees for sustainable economic development with eco - tourism as initial boost.
  - The tourism industry is the basis for promoting the development of SEZs and other industries. Once the special tourism zone is established, infrastructure such as roads, railways, and even airway must be maintained. This improved accessibility is the most important consideration in the selection of SEZs.
- According to Article 21 and Article 22 of the "Guiding Principles of Mt. Geumgangsan Tourist Area," the foundation of the Mt. Geumgangsan Tourism Zone, it is stipulated that investment in advanced science and technology departments without pollution, such as software,
- Agreement between Hyundai and Asia-Pacific on January 18, 2003: "We will discuss the issue of selecting sites for the construction of ski areas, light industrial districts and high-tech industries in Tongcheon (Article 6 of the agreement)." In fact, after the establishment of the 'Mt. Geumgang Tourist Area Act', it was agreed to promote land tour through the connection of Donghae railway and roads and the industrial park of Tong Cheon district (Ministry of Justice, May 2005).

<Figure 2>

Diagram of economic development model based on tourism industry on land use fee'



- Possibility of economic growth model using real estate
  - A North Korean researcher, in his paper, insisted that "all economic sector workers should have a good understanding of the real estate problems that are being raised in North Korea in recent times and use the real estate in favor of the economic development of the country" (Jang Kwang Ho, 2008).
  - As it can be seen from the development of Pyongyang streets, real estate development in North Korea has already become an important axis of economic growth. In the future, North Korea will pursue economic growth through development of special economic zones and development zones, redevelopment of old cities, and development of real estate for supply of scarce housing.
  
- In the short term, raising the housing fee to regulate illegal transfer of residence.
  - Fee for the use of a residence is determined by National pricing authority (Article 42 (2)). When the average living cost of ordinary workers is 5,000 won, the monthly rent is 2-3% of living expenses. (Moon Heung An, 2012)
  - There is a possibility of taking measures to raise the fee in the future to regulate irregular housing transfers. (Lee Eun Jung, 2013)
  
- Long-term perspective: Legalization of urban residence's land use rights and building ownership

- Under the influence of Henry George, the urban city plan proposed by Ebenezer Howard(1850-1928) was reborn as a mikrorayon in the 1935 Plan for Reconstruction of Moscow. In addition, the inner city was introduced to China through Russia. In China, it was introduced as a unitary house. In North Korea, it was newly introduced as 'sub-station housing planning' (Qiao Yongxue(乔永学), 2004. Lim Dong Woo, 2011: 76-77).
  - However, Russia, China, and North Korea focused on securing adequate urban size, green space, and close proximity to their inhabitants. Co-ownership and private leasing principles of land included in the rural city are excluded..
  - Currently, the residential house trade in North Korea is illegal under the current law, but it is a natural phenomenon from the market economy principle.
  - The current land lease law also provides that ordinary people and corporations can acquire land use rights in the general area, and it can legitimize land use rights and building ownership rights for residential buildings, just as China has privatized state-owned and enterprise-owned housing.
- Accelerating development of commercial land and business apartments for travelers (KOTRA Report)
    - The real estate industry will develop significantly as the reform and opening of North Korea progresses gradually. Although the real estate industry will not be turned to market-based system in a short period of time, the development of commercial land and apartments for travelers will accelerate.
  - Accreditation of inter-personal housing transactions and enforcement of anti-speculation measures(real estate fee, public rental housing, bills of exchange)
    - If the inter-individual transactions of the housing are approved, the price rise will follow since the housing supply is insufficient. Therefore, the countermeasures such as proper imposition of the housing fee and the supply of public rental housing should follow.
    - As additional anti-speculation measures, the government may exercise repurchase rights on real estate like land.
- In Article 15 of the "Land Leasing Act," it is stipulated that the transfer of land use right (sale, re-lease, gift, inheritance) and mortgage is possible, and At the same time, Article 19 stipulates the preferential purchase right of the leased land (a kind of 'right of repurchase').