North Korea remains an unreformed and closed state as Kim Jong-un maintains a despotic regime that resists economic reform. The government has experimented with a few market reforms but mainly administers a system of centralized planning and state control of the economy. The impoverished population is heavily dependent on food rations and government housing subsidies.

North Korea may be attempting modest economic opening by encouraging limited foreign direct investment, but the dominant influence of the military establishment makes any meaningful near-term change unlikely. Normal foreign trade is minimal, with China and South Korea being the country’s most important trading partners. No courts are independent of political interference.

**BACKGROUND:** In May 2016, North Korea convened the first Korea Workers’ Party Congress in 36 years and only the seventh in North Korean history, generating speculation about possible sweeping policy changes, but the congress merely affirmed North Korea’s dogged pursuit of nuclear weapons and continuance of socialist policies. Kim Jong-un has warned that opening the country would expose it to the contagion of foreign influences. In 2016, North Korea conducted more nuclear and long-range missile tests in defiance of U.N. resolutions, earning widespread condemnation. The regime continues to threaten nuclear attacks on the United States and its allies and is augmenting its nuclear and missile-delivery capabilities.
Almost all property belongs to the state. Government control extends even to chattel property (domestically produced goods and all imports and exports). A functioning, modern, and independent judiciary does not exist. Bribery is pervasive, and corruption is endemic at every level of the state and economy. The ruling Workers’ Party, the Korean People’s Army, and members of the cabinet run companies that compete to earn foreign exchange.

The state continues to regulate the economy heavily through central planning and control. Entrepreneurial activity remains virtually impossible. As the main source of employment, the state determines wages. Factory managers have had limited autonomy to offer incentives to workers. North Korea receives extensive food and energy subsidies from China. Its monetary regime is completely controlled, leading to a total distortion of prices.

No effective tax system is in place. The government commands almost every part of the economy. The government sets production levels for most products, and state-owned industries account for nearly all GDP. The state directs all significant economic activity. Disproportionately high military spending further drains scarce resources. Despite an attempted state crackdown, black markets have grown.

Trade and investment flows are impeded by the North Korean government and by actions that have resulted in multilateral economic sanctions. There is virtually no functioning financial sector. Access to financing is very limited and constrained by the repressive economic system. The government provides most funding for industries and takes a percentage from enterprises.