World Economy Brief

July 21, 2026 | Vol. 16 No. 19 | ISSN 2233-9140

North Korea's Premature Confidence and Shift in Its Economic Strategy

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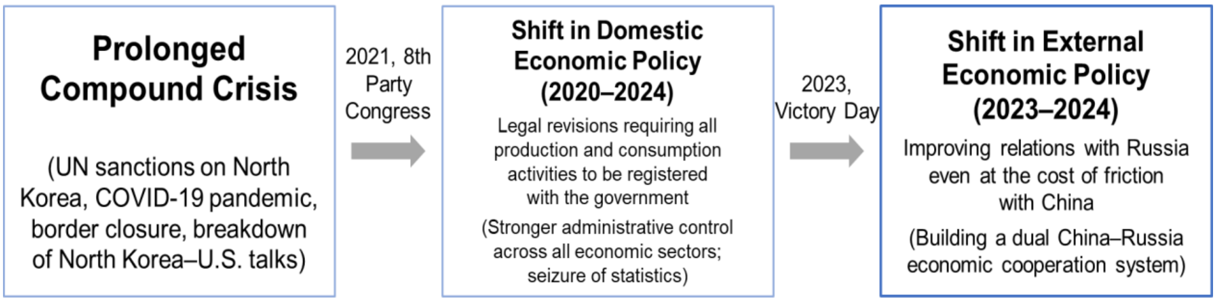
I. Introduction

In 2026, North Korea convened three major political gatherings in quick succession: the Ninth Party Congress in February, the Supreme People's Assembly in March, and the Plenary Meeting of the Party Central Committee in June. The Party Congress finalized a new Five-Year Economic Plan (2026–2030) for the all-round development of socialism and reaffirmed Chairman Kim Jong-un's declared goal of "building a powerful socialist nation by 2035." The Supreme People's Assembly enshrined the "two-state" doctrine in the constitution and formalized a hard-line posture toward South Korea and the outside world, while acknowledging that the state's fiscal capacity remains limited—an admission that reflects the heavy funding demands of the large-scale national projects now under way. At the Plenary Meeting, Pyongyang proclaimed the strengthening of its nuclear force and the exercise of its status as a nuclear-armed state, reaffirmed South Korea as its most hostile adversary, and ordered the completion of the fortification of its southern border. In the economic sphere it emphasized consolidating stability and pursuing gradual, qualitative growth; in the military sphere it announced a shift away from a nuclear-only policy toward the parallel development of nuclear and conventional forces, drawing on lessons from the Russia-Ukraine war and the Iran war.

This series of changes can be summarized in a single word: confidence. Underlying it appears to be a judgment that North Korea's external environment has stabilized and that its economy has begun to recover from the bottom, together with a conviction that its nuclear capability has reached an irreversible level. It is worth examining both the sources of this confidence and its implications for the regime's domestic and external policies.

Figure 1. Changes in North Korea's Domestic and External Economic Strategy



II. The External Roots of Confidence

1. Military Cooperation with Russia

The starting point of North Korea’s confidence can be traced to its military cooperation with Russia. Pyongyang supplied munitions and dispatched troops in support of Russia’s war in Ukraine, and in return concluded a Comprehensive Strategic Partnership Treaty that raises the prospect of Russian intervention on the Korean Peninsula in a contingency. Annual summits between the two leaders have consolidated the relationship. Russia has also played a diplomatic role that effectively neutralizes UN sanctions and treats North Korea’s nuclear possession as a fait accompli. For North Korea, the war has additionally offered an opportunity to experience drone-centered modern warfare and to verify the battlefield performance of its own weapons. On the whole, Pyongyang can be assessed to have secured a stable security foundation.

The effects of this military cooperation are spreading into the civilian economy. Since the fourth quarter of 2025, Russian assistance has begun to reach the civilian sphere, and signs of improving purchasing power among North Korean residents have been observed. The share of consumer goods in imports, typically around 40 percent, rose to 47.2 percent between January and April 2026. Because imports of relatively high-value items such as soybean oil, poultry, processed foods, and tangerines increased, this is interpreted not as a simple expansion of volume but as a change in the level of consumption itself.

North Korea and Russia are working toward completing a road bridge at the mouth of the Tumen River as a symbol of friendship, and Russia is supporting the construction of a hospital in the Wonsan-Kalma district. Although many experts had expected the relationship to cool once the Russia-Ukraine war ended, the two sides are instead seeking to transform their ties into a reconstruction alliance centered on labor cooperation, and into a resource-development partnership built around oil exploration in the East Sea and rare-earth development. In doing so, North Korea and Russia are laying the groundwork for a sustainable military and economic partnership.

Figure 2. Decomposition of North Korea's Imports from China by End-Use

Unit: 10 thousand USD, %

	Average Annual Imports(2018-25)		Imports (Jan.~Apr. 2026)	
	Value (A)	Share of (A)	Value (B)	Share of (B)
Consumption Goods	60,363	39.4	35,303	47.7
Intermediate Goods	91,410	59.6	38,185	51.6
Capital Goods	1,530	1.0	538	0.7
Total	153,303	100.0	74,026	100.0

Source: China Customs

2. A More Favorable Relationship with China

North Korea's relationship with China has also become more favorable to Pyongyang. Until the middle of 2025, Beijing maintained a strategic distance—managing its diplomatic and political ties with Pyongyang stably while professing adherence to UN sanctions. As North Korea-Russia relations rapidly deepened and the possibility of North Korea-U.S. dialogue was floated, however, concern over so-called "China passing" grew within China. The North Korea-China summit of September 2025 marked a turning point, after which Beijing began to actively improve relations with Pyongyang; President Xi Jinping's visit to North Korea in June 2026 can be seen as the peak of this trend.

While China's central government still maintains compliance with UN sanctions as its official position, local governments are observed to interpret the sanctions flexibly and to tacitly permit expanding economic cooperation with North Korea. A notable change is that, since March 2026, tungsten has emerged as North Korea's leading export to China. Tungsten is designated by China as a strategic mineral that only state-owned enterprises are permitted to trade. That China has begun importing it from North Korea despite sufficient domestic production suggests that official economic cooperation between Chinese state enterprises and North Korea may have quietly resumed. Using its strengthened partnership with Russia as leverage, North Korea is securing a more advantageous position in its dealings with China as well.

III. The Domestic Roots of Confidence

Domestic economic conditions are also lending the authorities a measure of confidence. After bottoming out in 2022, the North Korean economy sustained positive growth through 2025, and barring unusual shocks this trend is judged likely to continue in 2026. On the basis of this recovery, the authorities have since 2024 raised enterprise wages twenty- to forty-fold in an effort to gradually lift residents' purchasing power—the first such measure in the twenty years since 2002.

At the same time, state control over the economy as a whole is being tightened. North Korea had traditionally regarded the circulation of goods as a domain that should shrink alongside socialist development, but through the 2021 revision of its Socialist Commercial Law it redefined "goods circulation" as an object of social ownership. Since then it has moved step by step to complete a state monopoly over the distribution of grain and foreign currency, suppressing private markets (*jangmadang*) while expanding distribution networks through state-run stores. To encourage residents to use these stores, even imported goods are channeled through them wherever possible. While such measures can be read on one hand as formalizing the underground economy, on the whole the policy is converging toward stronger state control of the economy.

Large-scale national projects are also being used as instruments of economic stimulus. The construction of housing in rural and urban areas and the "Regional Development 20×10" policy are representative examples. Under the housing drive, hundreds of thousands of new homes have been built in Pyongyang and across the country. The 20×10 policy—a plan to build twenty light-industry factories each year over ten years—was expanded from the second half of 2025 to develop pharmacies, service outlets, and cultural facilities together within the same complexes. Unlike the past, when the authorities often announced economic policies only to implement them partially or let them fizzle out within a few years, these projects are being pursued with relative consistency and are producing visible results, which sets them apart.

With external conditions improving and the internal economy recovering gradually, North Korea appears to be consolidating a conviction that—rather than depending on outside assistance or negotiation, as in the failed 2018 Hanoi summit—it can guarantee its own security and economy through its own strength. This confidence is directly reflected in its policy toward South Korea and the United States. North Korea now officially defines South Korea not as a partner for dialogue but as its "most hostile state," and appears to view a South that proposes seeking prosperity through negotiation and assistance as an obstacle to its confidence-based course. The two-state doctrine written into the constitution reads not as mere rhetoric but as the institutionalization of this strategic judgment. Toward the United States, too, Pyongyang is shifting the negotiating agenda away from denuclearization and toward gaining recognition as a nuclear-weapons state.

IV. Is This Confidence Sustainable?

Is North Korea's confidence, then, sustainable? Several considerations call for caution. The first is a question of scale. The North Korean economy is recovering, but its size remains modest compared with similarly situated countries such as Cambodia and Vietnam. It is true that North Korea withstood the existential crises of intensified UN sanctions in

2016–17 and the COVID-19 pandemic, yet its current level of recovery is not sufficient relative to other countries. Its economy is only about one-sixtieth—roughly 1.7 percent—the size of South Korea's. Moreover, stimulus through national projects is possible only so long as a solid fiscal base is sustained. The Supreme People's Assembly's open admission that fiscal capacity is limited shows that North Korea itself recognizes this constraint.

A more fundamental problem lies in the direction of policy. Rather than using its improved external environment to reform its economic structure, North Korea is moving to strengthen state control over distribution and production. The emphasis on self-sufficiency and self-reliance, the suppression of private markets, and the expansion of state distribution networks have all been tried repeatedly in the past, and the results have often been declining productivity and distorted resource allocation. It bears watching whether this tendency—to reinforce closedness precisely when external conditions improve—is a repetition of past patterns.

Projects that tangibly improve residents' lives, such as housing construction and the 20×10 policy, are meaningful in that they are pursued consistently, but they face limits if sustained by fiscal outlays alone without structural reform. With the resilience of the North Korean economy still fragile, it is worth examining closely whether Pyongyang is using its improved external environment to reinforce a closed socio-economic structure rather than converting it into a foundation for sustainable growth.

V. Implications for the Korean Peninsula

North Korea is currently choosing, on the strength of its confidence, to treat South Korea as an adversary and to refuse dialogue. Yet if the foundation of that confidence is structurally fragile, this stance warrants reconsideration. Sustainable peace on the Korean Peninsula can be sought not through confrontation and severance but only through mutual engagement by way of dialogue. Whether North Korea can convert its present confidence into a driver of stable development rather than a pretext for refusing dialogue—and whether it can come to see South Korea as a partner for dialogue rather than an object of hostility—will be the key factor shaping the future of the peninsula. KIEP