

A COMPROMISE FOR CONTROL:
UNDERSTANDING NORTH KOREA'S PRIVATE MARKET ECONOMY

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ABSTRACT

Free market enterprise embodies values of independent thinking and self-reliance, which are antithetical to the North Korean regime's ideological values inherent to Marxist-Leninism. However, in recent years, the Kim Jong-un regime has demonstrated more tolerance and near acceptance of the grassroots market trends that became more prominent after the great Arduous March famines of the 1990's. Enabling the private market economy may seem counterintuitive for the regime's effort to re-consolidate its influence as private markets have increased in commercial value that undermines the value of the regime's formal economy as well as undercutting the regime's influence. Additionally, the North Korean regime also confronts the decay of its influence and former tools of authoritarian control as a result of the emerging private market economy. In this paper, I argue that the Kim Jong-Un regime enables private market activity to ameliorate the long-term challenges of the regime's influence and re-establish its control. As the vivid memory of a failed reform to suppress markets under his predecessor Kim Jong-il demonstrated that disrupting the private market economy could elicit grassroots upheaval, the Kim Jong-un regime had to take a different approach. Kim's regime in turn risk further deteriorating its influence by disrupting market activity. The Kim regime therefore has accepted the grassroots market-level trends. In exchange for this ideological compromise, expert analysis of recent evidence in market trends, size, and activity demonstrate that the regime now exercises direct control to extort market funds as well as restrict size and influence.

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Introduction

In 2017, North Korea's economy is no longer a traditional command economy reflective of Marxist-Leninist values. In the 1990's, the North Korean planned economy collapsed due to external and internal pressure from the Soviet Union's collapse and rampant famines and floods that devastated the country. In turn private markets emerged throughout North Korea as a coping mechanism for citizens who were once solely reliant upon the state for sustenance and food. However, the state's inability to provide this for its people through state-regulated distribution institutions created a process of grassroots marketization.¹ Although Kim Jong-Il attempted to suppress private market activity, Kim Jong-un, his third son and third totalitarian leader, enables private market activity.

Free market enterprise embodies values of independent thinking and self-reliance, which are antithetical to the regime's ideological values inherent to Marxist-Leninism. The regime risks several vulnerabilities that could challenge its long-term stability in enabling private markets. The private market activity allows citizens to cut its dependence on the state. As the masses become more self-reliant through free market enterprise and engage in communal interaction, there will be greater chances for the formation of collective opposition or a civil society. Additionally, the markets have been a key source for the distribution of smuggled foreign media.² As information control is one of the egregious human rights violations that are crucial for regime legitimacy, enabling market activity exposes a primary vulnerability that could undermine the regime's legitimacy and stability.³

Although they posed several challenges, Kim Jong-un's regime continues to prolong the private market economy. Unlike his predecessor who attempted to displace the markets, Kim

¹ Daily NK. *The Creation of the North Korean Market System*. Green People Publishing Company, (Seoul, 2017), 14-15.

² Stephan Haggard and Marcus Noland. *Witness to transformation: refugee insights into North Korea*. Washington D.C.: Peterson institute for international economics, 2011. 101-102

³ Beyond Parallel, "Information and its Consequences in North Korea." Center for Strategic and International Studies, Korea Chair. January 12, 2017 <http://beyondparallel.csis.org/information-and-its-consequences-in-north-korea/>

Jong-un has not done anything drastic in such sense of restoring state distribution systems, such as the PDS.⁴ The counterintuitive dynamic of this policy decision forces the question: Why does the North Korean regime continue enabling private market activity, despite markets creating a potential for civil society, exacerbating an emerging principal-client problem within the regime leadership hierarchy, and serving as a primary source for distribution of illicitly smuggled foreign media?

It will be intriguing to understand the underlying rationale that justified the Kim Jong-un government to compromise its core values and risk undermining its regime's legitimacy by accepting the grassroots marketization. Understanding the regime's motives underlying this policy decision could hold implication on several other aspects of North Korea's foreign and domestic policy. For example, as this nation is already under international economic sanctions for its illicit nuclear weapons program, this policy of enabling private market enterprise could hold deeper strategic significance for the regime's sanctions evasion mechanisms. This policy decision could also shed light on the regime's internal political dynamics, as political stability is a common concern in academic or policy assessments of totalitarian and post-totalitarian states. As a failed reform under Kim Jong-il revealed the potential for backlash in a closed state such as North Korea, Kim Jong-un's decision to enable markets could offer keen insights to how regime dynamics have changed under the third supreme leadership of North Korea. Finally, the North Korean government's ambivalence towards the private market economy could hold suggestions for the potential of economic reform and opening.

In this paper, I argue that the Kim Jong-Un regime enables private market activity to ameliorate the long-term challenges of the regime's influence and re-establish its control.

⁴ Moon Soo Yang, "The Evaluation of 2015 and the Prospects for 2016: The North Korean Economy" The Institute for Far Eastern Studies, December 17, 2015 http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0401V.aspx?code=FRM151217_0001.

Enabling the private market economy may seem counterintuitive for the regime's effort to re-consolidate its influence as private markets have increased in commercial value that undermines the value of the regime's formal economy as well as undercutting the regime's influence. However, the North Korean regime also confronts the decay of its influence and former tools of authoritarian control as a result of the emerging private market economy. As the vivid memory of a failed reform to suppress markets under Kim Jong-il demonstrated that the private market economy could elicit backlash, the Kim Jong-un regime had to take a different approach. Additionally, the private market space has become an arena for the low to mid-level elite engagement for additional profit and income earning opportunities, which also comes at the risk of creating countervailing influences that could directly undermine and even challenge the central government's governance. Kim Jong-un, therefore, confronts a much different social reality that could risk the further deterioration of his regime's influence and overall state control. In turn the Kim regime has demonstrated it will not only accept these new socio-economic changes to its society, but also control and extort funds from the markets.

There are also two alternative explanations to why the Kim Jong-un regime enables the private market economy in North Korea. First, the private markets fulfill the regime's need to earn hard currency. Both the regime's General Markets and the black market 'jangmadang' generate revenue that goes directly to regime funds. Funds include the fees that state officials and law enforcement officers charge, or extort, from merchants and market vendors. Additionally, as North Korea's decentralized economy entails state officials needing to fund their own budgets and income, experts have also cited that there is a spillover between the state's formal economy and the informal economy.⁵ Although the legality of such endeavors is dubious, these interactions have not only revived key state enterprises that the regime could exploit to evade

⁵ Justin V. Hastings. *A Most Enterprising Country: North Korea in the Global Economy*. Ithaca, N: Cornell University Press, 2016.12-14

sanctions. Consequently, these interactions could reveal key implications about North Korea's sanctions evasion tactics. Second, the long-term residual impact of the economic collapse of the 1990's has forced the regime to concede to market change. While these two explanations provide plausible arguments that are actually not mutually exclusive with the paper's main argument, they fall short in providing a comprehensive assessment of the strategic rationale and the variable of regime's declining influence and regime loyalty shaped his decision.

In sum, this paper will further address how the underlying strategic rationale for Kim Jong-un's decision to preserve markets is tied to his objectives to preserve loyalty and re-establish the regime's control to address the problem of the state's deteriorating influence.

I. Background on North Korean Private Markets

The origin of North Korea's private market economy is often cited with North Korea's economic collapse in the 1990's due to flooding, famines, and geopolitical changes with the Soviet Union's collapse. Although private 'black' markets did flourish and expand then, the Korean Institute for Unification (KINU), a South Korean government funded think tank, highlights local farmers markets existed in the 1970's throughout both rural and urban areas; notable cities with farmers markets included Pyongyang, Hamhung, Cheongjin, and Sinuiju.⁶ The Arduous March and the collapse of North Korea's Public Distribution System (PDS) in the 1990's, these markets expanded both in terms of size, consumption, and range of products as North Korean citizens could no longer rely on its government for food and necessity distribution through the PDS.⁷ The North Korean government turned a blind eye towards this illicit commercial activity, as it lacked the capacity to support the PDS.

⁶ Hyeong-jung Park, and Sahyun Choi, "Fiscal Segmentation and Economic Changes in North Korea." Korea Institute for National Unification (KINU) – Study Series 14-05, May 2014, 14-16

⁷ Andrei Lankov. "The Resurgence of a North Korean Market Economy" Carnegie Moscow Center (January, 2016), 5-6

As the markets became a regular part of North Korean life, the North Korean government implemented a series of economic reforms to reassert public control and reduce influence of private market traders. Between 2002 and 2003, the North Korean government passed the ‘Economic Management Improvement’ and ‘Socialist Market for Goods Exchange’ measures. Victor Cha of Georgetown University states these reforms allowed new markets to emerge.⁸ Specifically these reforms established the ‘General Market’ system, which legalized private market activity for consumer goods.⁹

After 2005, the North Korean government began retrenching in these seemingly pro-market reforms as it attempted to re-assert the PDS and attack the accumulated wealth of private market traders and sellers. However, the government’s attempt to suppress markets yielded local backlash that suggested a new dynamic in North Korean state-society relations. In turn the North Korean government under Kim Jong-un noticeably continued to be ambivalent towards the ongoing market activity and even passed policies encouraging farmers to withhold crop yields to sell at markets and providing more autonomy to factory managers for hiring and wage controls, which positively impacted formal and informal private market development.

Based on satellite imagery provided by the US Korea Institute at Johns Hopkins University’s School of Advanced and International Studies (SAIS), the General Markets in North Korea’s ten out of twelve provincial capitals and special cities nearly all grew in size (based on square feet per capita) between 2003 and 2014. Particularly, Sinuiju and Haeju saw expansion in over twice its size during this duration. While other cities saw little to no size expansion, USKI notes that photographs provided by defectors show that these cities’ markets have been

⁸ Victor Cha *The Impossible State: North Korea, Past and Future*. New York: Ecco 2012, 447

⁹ Daily NK. *The Creation of the North Korean Market System.*, 26-27

renovated. Furthermore, USKI analysts assess that both the satellite images and correlating photographs reaffirm that markets are becoming more crucial to North Korean economy.¹⁰

Daily NK provides further information that by 2017 the North Korean General Market system includes 387 markets across 14 different provinces with a total of 612,661 market stalls.¹¹ KINU finds that private market activity, including the General Markets and active ‘jangmadang,’ comprise a large share of the whole economy, as most North Koreans outside the elite sustain their income through private market activity.¹² It is estimated that approximately 30 to 50 percent of North Korean GDP comes from the private market economy.¹³

Moreover, Haggard and Noland contend that marketization process signals a decline in its influence and a ‘fraying of state control.’ They argue that markets have provided not only a second economy, but also an autonomous social space for civil society.¹⁴ Additionally, the expansion of markets from solely supplying consumer goods to include burgeoning service sectors, real estate, labor markets, and even informal financial exchange represents the growth of entrepreneurialism as an underlying force in expanding North Korea’s private market economy.¹⁵ In turn entrepreneurialism is tied directly to individualistic thinking that poses a direct threat to the regime’s control over its populace.¹⁶ Despite these counterintuitive factors, the Kim Jong-un regime continues enabling these markets. The regime’s policy decision therefore begs the question why it chose to do so?

II. The Argument: Enabling Markets to Monopolize Control

A. Overview of Argument

¹⁰ Benjamin Katzeff-Silberstein “Growth and Geography of Markets in North Korea: New Evidence from Satellite Imagery” US Korea Institute at SAIS, (October 2015), 37

¹¹ Daily NK. *The Creation of the North Korean Market System*. Seoul: Green People Publishing Company, 2017, 26

¹² Suk-jin Kim and Moon-soo Yang. “The Growth of the Informal Market Economy in North Korea,” Korea Institute for National Unification (KINU) – Study Series 15-02 (October 2015), 12-14

¹³ Lankov. “The Resurgence of a North Korean Market Economy” Carnegie Moscow Center, 3

¹⁴ Haggard, and Noland. *Witness to transformation: refugee insights into North Korea*. 100-101

¹⁵ Kim and Yang. “The Growth of the Informal Market Economy in North Korea,” 31-38

¹⁶ Cha. *The Impossible State*. 445

The North Korean regime continues enabling private market activity to preserve regime loyalty and re-establish its control. Although it has been over five years since he assumed power, Kim Jong-un still faces political and social challenges in preserving regime stability. Polling data and theoretical assessment provide evidence regarding the North Korean regime's declining influence and control after Kim Jong-un assumed power. Consequently, Stephan Haggard and Marcus Noland argue that the 'grassroots marketization' continues deteriorating the Kim regime's control over its entire populace. They argue markets create an "autonomous social space- a civil society" where North Koreans can practice a form of 'everyday resistance' against the leadership.¹⁷

As markets encourage autonomous mindsets through entrepreneurialism and serve as a hub for illegally smuggled information distribution, private market activity is arguably a key source of Kim Jong-un's declining influence. Additionally, markets have created a patron-client relationship problem between the Supreme Leader and his subordinate elites. Originally the centrally planned economy and fiscal structure provided bank loans and subsidies for elites to engage in state-sanctioned enterprise. However, the planned economy's collapse after the Cold War and ensuing famines forced North Korean regime elite members to turn to the private market space. Consequently, the decentralized nature of North Korea's contemporary political economy has damaged the party-state relationship as corruption become generalized the system.¹⁸ Furthermore, the regime now faces a principal-agent problem in which local and mid-level officials could undercut regime influence and pose a countervailing threat to state power.

Kim Jong-un's potentially counterintuitive decision to enable private market activity seems to pose more risks that could destabilize his leadership either through mass popular

¹⁷ Ibid, 102

¹⁸ Park, and Choi "Fiscal Segmentation and Economic Changes in North Korea." 49-51

uprising or elite fragmentation. Stephan Haggard, however, assesses that marketization could provide a tool for reinforcing and strengthening authoritarian resilience.¹⁹ As Kim Jong-un efforts to consolidate power has been an uphill battle, disrupting and interfering in markets would provide Kim with even more challenges that would compound the existing problems he faces in the international environment.²⁰ Kim Jong-un's decision, moreover, is not about reaping gains, but preventing further losses.

The following section of the paper provides deeper analysis of my main argument that Kim Jong-un's strategic rationale in enabling and accepting private market activity is related to re-establishing legitimacy and control. First, I provide qualitative evidence of the regime's decreasing control and declining loyalty throughout North Korean society. Second, I evaluate that suppressing markets provide more challenges for the Kim Jong-un regime, despite the ideological obstacles it poses. Third, I show how enabling private market activity has provided Kim Jong-un with an opportunity to actually increase the state's influence and control. Finally, I juxtapose this argument against the counterintuitive arguments that raise doubts about this policy decision.

B. Evidence of the Regime's Declining Influence

Polling data of North Korean defectors and North Koreans still living inside the country reveal that popular dissent has increased. For example, since 2008, Seoul National University conducted a series of surveys among the South Korean defector community to find that there has been consistent dissatisfaction over time.²¹ Additionally, North Korea Intellectuals Solidarity, a South Korean-based defector organization, also reported a near 90 percent agreement that living

¹⁹ Daily NK. *The Creation of the North Korean Market System.*, 11

²⁰ Ken E Gause., *North Korean House of Cards: Leadership Dynamics under Kim Jong-un.* Washington, DC. : Committee for Human Rights in North Korea, 2015. 218-219

²¹ Anna Fifield. "What do North Korean's think about Kim Jong UN? This survey tries to find out." *The Washington Post.* November 12, 2016. Date Accessed on May 4, 2017. https://www.washingtonpost.com/world/asia_pacific/what-do-north-koreans-think-about-kim-jong-un-this-survey-tries-to-find-out/2016/11/01/2a2cc357-34a9-464c-b32f-1291d16dd1b0_story.html?utm_term=.7ec5f8bb0050

conditions in North Korea deteriorated under Kim Jong-un.²² The Center for Strategic and International Studies (CSIS), a Washington D.C.-based think tank, provides further insight by conducting a poll inside North Korea. CSIS surveyed a co-ed group of 36 people across 8 provinces.

The CSIS survey's findings corroborate the qualitative evidence provided by defectors. Among its findings, CSIS found that 35 out of the 36 surveyed expressed discontent with the Kim Jong-un regime within their family and private space. Additionally, 36 of the 36 surveyed responded that they no longer rely on the government's PDS for sustenance. The survey also reveals that the survey correspondents expressed the most frustration and anger over government interference into their market activities.²³ As Daily NK estimates nearly 4 million North Koreans engage in market activity, the CSIS survey reinforces the validity of this notion of everyday North Koreans' emerging self-reliant attitude and disappearance of dependence on the ruling Korean Worker's Party and state.²⁴

There is also evidence of the Kim Jong-un regime's concerns about loyalty within the nation's elite. Justin Hastings accurately observes that the past two North Korean regimes have 'survived' despite immense internal and external security, political, and economic challenges due to a buy-in from the elites.²⁵ Although he has been in power for over five years, the increase in high-level defections and the unprecedented severity and number of political purges under Kim question if he consolidated his base of power.

²² Elizabeth Shim. "Survey: 9 in 10 North Korea defectors say life worsened under Kim Jong-un." December 5, 2016 Accessed on May 4, 2017 http://www.upi.com/Top_News/World-News/2016/12/05/Survey-9-in-10-North-Korea-defectors-say-life-worsened-under-Kim-Jong-Un/9831480956033/

²³ Beyond Parallel, "Meager Rations, Banned Markets, and Growing Anger Towards Government." Center for Strategic and International Studies, Korea Chair. October 3, 2016 <http://beyondparallel.csis.org/view-inside-north-korea-meager-rations-banned-markets-and-growing-anger-toward-govt/>

²⁴ Daily NK. *The Creation of the North Korean Market System.*, 43

²⁵ Hastings. *A Most Enterprising Country*, 184

In 2016, there were several high-level defections that captured international headlines. Most notably, Thae Yong-ho, North Korea's Deputy Ambassador to the United Kingdom, and Kim Myeong-chol, the Executive Director for Bureau 39 of the North Korean regime were the two highest ranking. Additionally, 13 North Korean workers of a state-run restaurant in China defected to South Korea in April 2016. While they were not state officials, the Institute for National Security Strategy (INSS) state these 13 workers were part of elite family background, which allowed them to travel abroad for work. Moreover, INSS evaluates that "this chain of recent defections...indicates that the loyalty of the North Korean elite has begun to crumble."²⁶

The dramatic increase in political purges and executions under Kim Jong-un also raise questions about the extent of Kim Jong-un's control over the regime's elite. After assuming power in 2012, the Kim Jong-un regime has executed or purged over 340 mid to high-ranking state officials and residents.²⁷ The most notable purge was of Jang Song-taek, Vice Chairman of the National Defense Commission and Kim Jong-un's own uncle. Both the manner and high-level nature of this purge sparked debate among experts. Alexandre Mansourov of the US Korea Institute of SAIS highlights that this purge could have been the result of Jang losing internal power struggle or Kim Jong-un's own personal decision.²⁸

Ken Gause of the Center for Naval Analyses (CNA) notes if Jang's purge was indeed the result of a power struggle that inadvertently forced Kim Jong-un to make a decision, there are doubtful claims about Kim's control. He states "if Jang could be brought down without the Supreme leader's direct involvement, this suggests that a coalition of powerful forces had been

²⁶ "White Paper on the Misgovernance of the Kim Jong-un Regime over the Past Five Years." Institute for National Security Strategy (Seoul, Republic of Korea: 2017), 19

²⁷ Song Ah Seol. "The Complex Ties interlinking cadres and the Donju." July 8, 2016. <http://www.dailynk.com/english/read.php?num=13981&cataId=nk00100>

²⁸ Alexandre Mansourov. "North Korea: The Dramatic Fall of Jang Song Taek" *38 North*. December 9, 2013. <http://38north.org/2013/12/amansourov120913/>

forged, possibly without Kim (Jong-un)'s full knowledge.²⁹ While the unresolved dispute over the underlying forces yielding Jang Song-taek's dramatic purge leaves questions open regarding elite loyalty for the regime, the regime's choice to purge and execute rather than co-opt leaders suggest more vulnerabilities to Kim Jong-un's developing patronage network.

Addressing the regime's growing inability to co-opt its leaders raises several key implications. In turn Daniel Byman and Jennifer Lind reveal that regime co-optation has been the primary tool the North Korean regime has employed to stabilize disputes among the elite and cultivate a minority 'selectorate' to confirm one's power. Like other authoritarian regimes, the North Korean leadership used gift giving of material and luxury items, preferential treatment for housing, access to rents, and special pet project venture opportunities as ways to 'buy-in' supporters. While both Kim Il-sung and Kim Jong-il established strong patronage networks through co-optation, this strategy is limited as loyalty is tied to the provision of private goods, and their appeal to the regime's elite.³⁰

Daily NK provides insider accounts that state officials have assessed that Kim Jong-un's handouts to be less valuable both financially and symbolically. For example, in July 2016, Daily NK reported that cadres have allegedly put the luxury gifts they received from attending the 7th Party Congress on sale at the markets. Daily NK assesses this as a significant trend. After interviewing a former Air Force Command cadre who was exiled for selling his gifts, the cadre suggested that Kim's handouts no longer hold the symbolic meaning they once did in the past. He states this is primarily because both elite and non-elite do not consider Kim Jong-un to be a true leader.³¹

²⁹ Gause, *North Korean House of Cards*. 280

³⁰ Daniel Byman and Jennifer Lind "Pyongyang's Survival Strategy: Tools of Authoritarian Control in North Korea" *International Security*, Vol. 35 No. 1 (Summer 2010), 59-60

³¹ Song-ah Seol. "North Korean officials peddle gifts from Kim Jong-un." Daily NK July 15, 2017. Date Accessed on May 4, 2017 <http://www.dailynk.com/english/read.php?cataId=nk01500&num=13992>

Daniel Byman and Jennifer Lind contend that North Korea's monopolization of authoritarian control rest on six primary tools: restrictive social policies, manipulation of ideas, use of force, co-optation, manipulation of foreign governments, and institutional coup proofing.³² The polling data and insider accounts of both elite and non-elite perceptions of the regime demonstrate that several of these tools have been damaged since Kim Jong-un succeeded his father. The markets have undercut the government's restrictive social policies as it allows for more communal interaction that creates opportunity for more personal interaction and trust-building among local citizens that the regime formally undercut with institutions, such as the *inminban* neighborhood watch system. This system served as the security apparatus' internal monitoring mechanism that forced citizens to live in closed neighborhoods and monitor one another that entailed reporting political crimes against the regime. Recent defector accounts, however, suggest that the *inminban* system is in decay due to the growth of markets and circulation of currency. North Koreans now use bribes for their *inminban* neighborhood leaders to turn a blind eye towards any actions they commit against the regime, such as moving homes outside their state-sanctioned neighborhood. Ken Gause finds that in Pyongsung nearly one fourth of its *inminban* have moved out to other locations, according to defector testimony.³³

The decline of regime security apparatus institutions, such as *inminban*, suggest that increasing forms of communal interaction could help form opportunity to enhance "everyday forms of resistance" that could set the foundation for a North Korean civil society.³⁴ These challenges are further compounded by the flow of foreign media that challenges the regime's manipulation of idea through its ideological education and propaganda.³⁵ However, the most

³² Byman and Jennifer Lind "Pyongyang's Survival Strategy" 45

³³ Ken E. Gause. *Coercion, control, surveillance, and punishment: an examination of the North Korean police state*. Washington D.C: The Committee for Human Rights in North Korea – 2013. 43-50

³⁴ Haggard and Noland. *Witness to Transformation: Refugee Insights into North Korea*. 101

³⁵ Beyond Parallel, "Information and its Consequences in North Korea." Center for Strategic and International Studies, Korea Chair. January 12,

formidable challenge lies in the regime's declining influence in co-opting its elite and virtually coup-proofing the mechanism. The tools of co-optation and use-of-force are tied as it both involves state security agents and the military. Consequently, as the regime's ability to win favor of its military elite wanes, there is greater chance the leadership's grasp on use of force will also decrease.³⁶ Although both the Kim Jong-il and Kim Jong-un regimes perceive the grassroots marketization as a key source of the state's decaying influence and control, it becomes quite obvious that uprooting them will create a whole series of new problems. This is the topic explored in the following section.

C. North Korea's Private Market Economy: An Unfixable Dilemma?

Victor Cha of Georgetown University argues that private markets have become entrenched as a "fixture of life that now is virtually impossible to uproot."³⁷ As North Korean everyday income and sustenance becomes increasingly contingent upon market enterprise rather than state institutions, the state's influence is tremendously weakened. Cha's assertion regarding how these markets are "impossible to uproot" was most clearly manifested in the government's first major attempt to completely suppress them. In November 2009, the North Korean government under Kim Jong-il enacted a currency re-denomination that essentially wiped out earnings and savings of private market traders and facilitators.³⁸ Additionally, the government temporarily closed down the General Markets to forcibly restore citizen dependence on the revived PDS. However, North Koreans unprecedentedly reacted with anger and frustration, as opposed to passive obedience.

While the 2009 reform did not inspire an organized effort such as a coup, an increase in

2017 <http://beyondparallel.csis.org/information-and-its-consequences-in-north-korea/>

³⁶ Byman and Lind. "Pyongyang's Survival Strategy." 58

³⁷ Cha. *The Impossible State*, 447

³⁸ John Park. "North Korea's Currency Redomination: A Tipping Point" United States Institute for Peace, Last Updated on December 3, 2009 <http://www-previous.usip.org/publications/north-korea-s-currency-revaluation-tipping-point#explanations>

suicides, isolated disputes among police and community members, and anti-government graffiti revealed the underlying anger of the North Korean people.³⁹ Consequently, the North Korean government not only reopened the General Markets, but also purged and executed the Korean Worker's Party chief for Planning and Economy, Park Nam-gi, as a scapegoat for the 2009 reforms.⁴⁰ This failure and rollback of the 2009 reforms suggest North Korean state-society relations have entered into a new phase, in which North Koreans would no longer be dependent on the regime to secure their livelihood.⁴¹ The memory of the 2009 reforms remains vivid in North Korean minds. According to the 2016 CSIS survey, the North Korean correspondents identified the 2009 currency redenomination reform as the event that embodies their resentment toward the Kim regime.⁴² Moreover, the 2009 currency reforms not only revealed the population's emerging hostility toward state interference, but also the state's inability to provide security and welfare of the vast North Korean population. Justin Hastings argues that the state's monopolization of popular dependency is the crucial prerequisite for North Korea's totalitarian control.⁴³

Beyond the masses of North Korea's non-elite citizens, the regime's elite also had a vital stake now in the private economy. With the collapse of its command economy in 1994, the North Korean government enacted a measure requiring all government agencies to independently fund their own operating budgets, thereby decentralizing the North Korean economy. Prior to this measure, the central government provided financial subsidies and Central Bank loans to support

³⁹ Cha, *The Impossible State*. 445

⁴⁰ Choe, Sang-Hun. "As Economy Grows, North Korea's Grip on Society is Tested." *The New York Times*, April 30, 2017. Accessed on May 1, 2017. https://www.nytimes.com/2017/04/30/world/asia/north-korea-economy-marketplace.html?_r=0

⁴¹ Haggard and Noland. *Witness to Transformation: Refugee Insights into North Korea*. 100-101

⁴² Beyond Parallel, "Meager Rations, Banned Markets, and Growing Anger Towards Government." Center For Strategic and International Studies, Korea Chair. October 3, 2016. <http://beyondparallel.csis.org/view-inside-north-korea-meager-rations-banned-markets-and-growing-anger-toward-govt/>

⁴³ Hastings, *A Most Enterprising Country*. 102-104

these various agencies and state-owned enterprises.⁴⁴ Despite relinquishing its support, the central government continued to demand income from all levels of officials and state levels of organization.⁴⁵ Lower to mid-level regime officials had insufficient incomes to support themselves amidst the government's demand for its share of earned income. In turn they turned to the emerging private market economy to seek increase their income.⁴⁶

Hastings shares that entrepreneurialism both from state and private market actors led to the formation of a 'hybrid' trade and business network that "blurred the lines" of licit and illicit economic activity under North Korea's state regulations. Beyond state officials' family members selling personal goods on markets and local officials extorting bribes from vendors, deeper public and private sector cooperation shaped more creative income-generating ventures that combined private agency and state resources.⁴⁷ These public-private business partnerships have become a common practice. For instance, a common practice among local cadres is the selective choice of political and commercial partners outside of their official circles that could maximize one's influence, which is called the 'all-ssam' culture. While the 'all-ssam' relationships usually meant cadres forming political partnerships with individuals that had connections to higher-level authorities within the Party or cabinet, cadres in fact have been forming these relationships primarily with wealthy private entrepreneurs, referred to as *the donju*.⁴⁸ Moreover, state officials would exploit their sanctioned trading permits to sell leftover export rights to *the donju*. Fees were estimated to be approximately 10 percent of exports. The entrepreneurs would also provide additional cash bribes to ensure political protection by gaining formal state position titles. Such

⁴⁴ Park, and Choi, "Fiscal Segmentation and Economic Changes in North Korea," 37-38

⁴⁵ Hastings. *A Most Enterprising Country*. 105

⁴⁶ Kim, and Yang. "The Growth of the Informal Market Economy in North Korea," Korea Institute for National Unification (KINU) – Study Series 15-02 (October 2015), 50-52

⁴⁷ Hastings. *A Most Enterprising Country*. 9

⁴⁸ Ga-young Kim. "Report: 340 executions or purges during Kim Jong-un's five year reign." Daily NK. January 3, 2017. Accessed on May 4, 2017. <http://www.dailynk.com/english/read.php?num=14288&catald=nk00100>

ventures are quite lucrative and have revitalized several defunct state-owned enterprises as well as provided profits that kept both parties content.⁴⁹

A challenge the regime encounters in allowing these public-private business relations, however, is that it creates a principle-agent problem. In the decentralized economy, the government's low to medium officials could be sending in false information about their income earnings to be holding onto additional profits that could help them amass wealth and influence that could counterbalance the regime's dominance over time.⁵⁰ This problem in turn forces the Kim regime to "continuously intervene politically and economically to ensure that its subsidiary organization does not become too financially independent."⁵¹

Although one would assume it would be in the regime's best interest to curb the influence of its low to mid-level elites, the Kim Jong-un regime's lack of a robust patronage system made apparent by the aforementioned evidence of increasing executions and high-level defections suggest the regime has more to lose in disrupting the elites' profit-earning opportunities. North Korea as well as most totalitarian states' regime stability is tied to the leader's ability to co-opt leaders. However, North Korea's elite ties to the regime are relatively fragile as its ability to co-opt leaders is contingent upon the regime's funds for the distribution of 'private goods.'⁵² Expert analysis suggests that Kim Jong-un is likely to face obstacles in consolidating long-term support, as co-opting seems to be losing its appeal and a likely strain on funds in the royal economy that supports the regime's co-optation efforts.⁵³ The regime, however, was able to withstand any major instability as the private market economy provided a lifeline for the low to mid-level elites. Moreover, enabling the regime officials to autonomously seek profits and remain content

⁴⁹ Hastings. *A Most Enterprising Country*. 56-60

⁵⁰ Park and Choi, "Fiscal Segmentation and Economic Changes in North Korea." 55-58

⁵¹ *Ibid*, 55-58

⁵² Byman and Lind. "Pyongyang's Survival Strategy: Tools of Authoritarian Control in North Korea." 59-60

⁵³ Gause. *North Korean House of Cards: Leadership Dynamics under Kim Jong-un*. 205-206

through their involvement in the private market economy is a potential compromise the regime must make to prevent instability.

D. Accepting Private Markets as the Solution for Kim Jong-Un's Dilemma

As the markets became increasingly tied to the livelihood of both elite and non-elite, uprooting these markets no longer seemed like an option for the North Korean government. However, ambivalence towards private market activity did not mean Kim Jong-un had to cede control. Rather, Kim Jong-un accepted these new changes to North Korea's economic and social landscape to re-establish control by accepting the market as a tool for oversight and extortion.

The regime's implementation of the General Market systems in 2003 under the "Socialist Markets for Goods Exchange" reveals one aspect of the North Korean regime's restored control by enabling markets.⁵⁴ As mentioned in the background, the 2003 measure, under Kim Jong-il legalized the consumer market exchange. While certain experts contend that this measure was to acquiesce to the private market economy due to the state's inability to provide for its citizens thereby damaging its credibility, Haggard and Noland contend that the General Market system intended to restore regime control.⁵⁵ While these markets were run through 'private' traders, the vendors and managers operated within state sanctioned space. More importantly, the regime charged taxes and operating fees for vendors to ensure their compliance with state regulations. Charging fees also allowed certain government agencies, such as the Ministry of Public Security, to extort funds directly from the markets. This charge on market vendors not only provided a new source of hard currency, but a tool of direct leverage.

For example, in 2015, Daily NK reported that the government raised its fees pending on the products a vendor sold. By interviewing an insider source from North Korea's Yanggang

⁵⁴ Daily NK. *The Creation of the North Korean Market System*. 30

⁵⁵ Haggard and Noland. *Witness to Transformation: Refugee Insights into North Korea*. 64-65

Province over phone, Daily NK confirmed that the regime manipulated the growth and diversification of these markets by establishing a customized pricing model for their fees based on stall size and the product's profit margin. Additionally, the government enhanced law enforcement to ensure that vendors paid their dues through daily inspections.⁵⁶ Beyond affecting the market vendors, the Kim regime also sought to indirectly influence consumers to go exclusively to these institutions.

In 2012 and 2014, the Kim Jong-un regime enacted two separate measures. First in 2014, the regime allowed farmers to organize themselves into separate production teams that could retain 30 percent of the groups they yielded, which could be later sold in the General Markets. Second, in 2014, the regime granted greater autonomy to state-owned factory managers in the hiring process, supply chain management, and choice of where they could sell their products.⁵⁷ These specific measures actually dovetail provisions of the 2003 reforms. Haggard and Noland assess that the earlier measures under Kim Jong-il had the underlying objective of providing autonomy to the state's agricultural and industrial sectors to strengthen the value of General Markets so that consumers would choose such facilities over the illicit 'jangmadang' networks in poorer areas that still remain today.⁵⁸ Although the General Markets system may be run privately, the Kim regime exploited taxing and pricing mechanisms for vendors to not only extract hard currency for the regime's funds, but also control and even manipulate the expansion of the private market space based on its defined boundaries.⁵⁹

Another way the North Korean government re-asserted its control over the private market space was by maintaining, but rarely enforcing, the traditional legal framework of the legal

⁵⁶Mi Jin Kang, "Stall Fees Raised for Market Vendors." *Daily NK*, October 7, 2015.

<https://www.dailynk.com/english/read.php?num=13503&catald=nk01500>

⁵⁷ Eric Talmadge, "North Korea's Creeping Economic Reforms Show Signs of Paying off." *The Guardian*. March 5, 2015.

<https://www.theguardian.com/world/2015/mar/05/north-korea-economic-reforms-show-signs-paying-off>

⁵⁸ Haggard and Noland. *Witness To Transformation: Refugee Insights into North Korea*. 64-65

⁵⁹ Daily NK. *The Creation of North Korean Market System*. 26

framework undergirding the nation's formal planned economy. This enables the regime to still dominate the means and justification to constrain the transactions within the private market space. The regime ensured its control by gaining the top position in a "food chain" of a mutually reinforcing group of patron-client networks. This web of corruption connected ordinary citizens operating market stalls to the regime leadership. This network of relationships ultimately ensured the distribution of profits for those engaged in the network through bribery and rent seeking. The government continued to impose its dominance of the "food-chain," as it issued the licensing permits and extracted revenue from the low-mid level elites as well as from the private market establishments by charging fees for vendor stalls. Although it maintained its distance through an ambivalent approach, the Kim regime exploited this web of patron-client networks undergirding the private market's growth to monitor and manipulate a network of commercial activity.⁶⁰ Furthermore, Kim Jong-un thus faces a much different social environment due to the 'grassroots marketization' that changed both North Korea's economic and social landscapes. As the private market activity seemed to pose a challenge for his leadership, Kim Jong-un chose to accept it as a new tool for control. In-ho Park, the founder of Daily NK, evaluates that the emergence of private markets might have started as a grassroots phenomenon. However, over time, the central government encroached upon it to see the economy develop within the regime's set limits.⁶¹

E. Counter-Intuitive Arguments and Evaluation

By enabling the private market activity, Kim Jong-un does still take on risks that could pose destabilizing consequences. A common assessment among expert analysts is that entrepreneurialism of elite and non-elite commercial actors has been a driving force for marketization. Victor Cha argues that entrepreneurialism creates an individualist way of thinking

⁶⁰ Hastings, "A Most Enterprising Country," 105-110

⁶¹ Daily NK. *The Creation of the North Korean Market System*, 26

that could foster dissent.⁶² Particularly, low to mid-ranking state officials or wealthier private traders, such as the *donju*, could use wealth to gain influence that could pose a challenge to the state. Additionally, markets have been a hub for the sale and distribution of illegally smuggled information. According to CSIS, the regime has monopolized control of information, “as it seeks to control the mind, expression, and thoughts of citizens as a tool of repression.”⁶³ The 2014 UN Commission of Inquiry report on North Korean human rights documents the legal and punitive ramifications that correspond to consumption of foreign media. CSIS found through its 2016 insider poll that over 92 percent of its correspondents inside the country consume foreign media at least once a month.⁶⁴ Furthermore, Kim Jong-un’s decision to prolong market activity exacerbates underlying forces that could bring out challengers to the regime’s status quo.

The Kim Jong-un regime, however, overcomes these potential obstacles by withholding the use of force and suppression. For example, in 2016, Kim Jong-un ordered 60 executions, which is twice the average number of executions that took place annually under the rule of Kim Jong-il.⁶⁵ Greg Scarlatoiu of the Committee for Human Rights in North Korea emphasizes that the regime has not relented its surveillance, control, and pressure while simultaneously enabling markets. In his commentary of the aforementioned 2016 CSIS poll, he emphasizes the poll’s finding that a majority of the correspondents expressed the most grievances with state intervention in market activity. In turn this attributed social grievance reflects the underlying and growing tensions between leadership and society.⁶⁶

⁶² Cha. *The Impossible State*, 447

⁶³ Beyond Parallel, “Information and its Consequences in North Korea.” Center for Strategic and International Studies, Korea Chair. January 12, 2017. Beyond Parallel, “Information and its Consequences in North Korea.” Center for Strategic and International Studies, Korea Chair. January 12, 2017 <http://beyondparallel.csis.org/information-and-its-consequences-in-north-korea/>

⁶⁴ Ibid

⁶⁵ “White Paper on the Misgovernance of the Kim Jong-un Regime over the Past Five Years.” Institute for National Security Strategy (Seoul, Republic of Korea: 2017), 18

⁶⁶ Greg Scarlatoiu. “Commentary: Dissatisfaction But No Evidence yet of a Pyongyang Spring.” Center for Strategic and International Studies, Korea Chair. October 6, 2016. Date Accessed on May 1, 2017. <http://beyondparallel.csis.org/commentary-dissatisfaction-no-evidence-yet-pyongyang-spring/>

As the regime maintains the legal infrastructure to punish both entrepreneurs and state officials, the regime still imposes its influence over market activity and containing threats to central government influence. While mass arrests and executions have been co-opted by bribery, Scarlatoiu evaluates the regime maintains firm control of the market activity.⁶⁷ However, as the 2009 currency redenomination revealed the underlying animosity a rollback of markets could induce, the Kim Jong-un regime realized the limits the use of force and suppression could have. Moreover, to avoid instigating instability, Kim made a compromise to enable markets and avoid crossing the ‘red line’ now dividing state and society.

While this decision does not restore the regime’s monopolization of authority and obedience it once commanded prior to the Arduous March, the Kim Jong-un regime’s balance of force and concessions have allowed it to re-define loyalty. The state’s tolerance and acceptance of the hybrid market activity between government and citizens reveal loyalty is no longer the ‘unquestioning support to the paramount leader.’⁶⁸ Rather it is the “combination of the fear of the consequences of stepping out of line, and the opportunity the state provides to make money on one’s own.”⁶⁹ There is clear evidence reaffirming the challenges of declining state control and dubious loyalty confronting Kim Jong-un after his succession. Thus, accepting private market activity provided his regime with a means to regain his declining control.⁷⁰

III. Alternative Explanation #1: Hard Currency for Sanctions Evasion

Another explanation for Kim Jong-un’s decision to enable the private market activity is the North Korean regime’s need for hard currency to adapt to the sanctions environment. Based on evidence, this argument is plausible and quite convincing in many ways. Earning hard currency has been a challenge for the North Korean regime since the end of the Cold War. For

⁶⁷ Ibid

⁶⁸ Hastings. *A Most Enterprising Country*. 105

⁶⁹ Ibid. 105

⁷⁰ Daily NK. *The Creation of the North Korean Market System.*, 11, 26

instance, the regime decentralized its economy under internal and external pressures in 1994, which ultimately forced all members of North Korea's elite to earn their own budgets and income.⁷¹ After assuming power, Kim Jong-un declared the Byungjin line policy of simultaneous nuclear development and economic reforms. His regime has committed more ballistic missile and nuclear provocations than the past two leaders combined.⁷² This belligerence in turn elicited the international community's reaction with the imposition of 4 new UN Security Council Resolutions 2087, 2094, 2270, and 2321.⁷³ As North Korea's recent provocations in 2016 suggest it will not stop in its objectives to attain a nuclear deterrent, greater international scrutiny and economic sanctions will be expected for North Korea's near future.

As mentioned earlier, the private market economy provided a direct source of hard currency revenue for the regime.⁷⁴ For instance, the government collects taxes, and operating fees from the vendors and managers of the General Markets.⁷⁵ With approximately 386 to 470 markets comprising the General Market system based on Daily NK and Yonhap News findings, it is estimated that the North Korean government takes as much as \$2.8 million a year in market fees.⁷⁶ Additionally, by adding the 'jangmadang' black market, the regime also collects bribes through the regime's extensive patron-client networks. Daily NK analysts note that the General Market fees alone are enough to buy 44 million tons of rice, which suggests that this is a significant quantity of income that goes directly to the state.⁷⁷ Lower to mid-level officials and elite, as mentioned earlier, became dependent on 'hybrid' commercial ventures by using their

⁷¹ Park, and Choi, "Fiscal Segmentation and Economic Changes in North Korea." 38 and Hastings, *A Most Enterprising Country*. 104.

⁷² Stephen Noerper. "US-Korea Relations: Tests, Distress, Defection, Election." Comparative Connections: A Triannual E-Journal on East Asian Bilateral Relations. Vol. 18, No. 2 September 2016 (Pacific Forum CSIS)

⁷³ Kelsey Davenport. "UN Security Council Resolutions on North Korea" Arms Control Association. Last Updated on March 2016, Accessed on May 4, 2017. <http://www.armscontrol.org/factsheets/UN-Security-Council-Resolutions-on-North-Korea>

⁷⁴ Benjamin Katzeff-Silberstein. "How Big is North Korea's Market Economy?" *The Diplomat*, December 13, 2016. <http://thediplomat.com/2016/12/how-big-is-north-koreas-market-economy/>

⁷⁵ Min Ji Kang. "Stall Fees for Market Vendors Have Increased." *Daily NK*. October 7, 2015. <https://www.dailynk.com/english/read.php?num=13503&catald=nk01500>

⁷⁶ Daily NK. *The Creation of the North Korean Market System*, 28 and Kyongae Choi. "N. Korea Operates 404 Official Markets" *Yonhap News*. December 9, 2017. <http://english.yonhapnews.co.kr/news/2016/12/09/0200000000AEN20161209005800315.html?did=2106m>

⁷⁷ Daily NK. *The Creation of the North Korean Market System*, 28

state-sanctioned resources and private investment to create income-generating opportunities. Additionally, as North Korea's legal infrastructure remained intact, the regime officials extorted bribes as additional profits through these hybrid commercial activities.⁷⁸ According to Ken Gause, the state-owned companies then are required to submit a significant portion of these funds directly back to Kim Jong-un's personal 'royal economy.' In North Korea these funds are referred to as "loyalty funds." State enterprises can be punished if they do not provide these mandated funds.⁷⁹ Moreover, the regime does have a steady base of foreign currency earning that exploits the complexities of the private market economies role in North Korea.

The public-private entrepreneurial endeavors not only generated profits for the low to mid-level elites as well as Kim Jong-un himself, but also revitalized certain key industries for the regime. He highlights that the coal-mining industry improved through this hybrid ventures. For instance, *the donju* private entrepreneurs would purchase extraction and export rights from state-owned enterprises to start their own coal mining ventures. Although these mines would be accounted for as a public state enterprise, these businesses would be run privately through the *donju's* investment. In turn these hybrid coal-mining firms had more funds under private ownership had far better production, equipment, and transportation. As these coalmines are emerging throughout the country, workers in publically owned mines use bribes for their employers in order to move to better factories.⁸⁰ According to Daily NK, these mines have high productivity of yielding more than 1,000 tons of coal a day.⁸¹ As coal remains as North Korea's primary export at 34 percent with an estimated value of \$952 million for the regime, the private market activity that generates opportunities such as joint public-private ventures can be crucial

⁷⁸Moon Soo Yang. "The Evaluation of 2015 and the Prospects for 2016: The North Korean Economy" The Institute for Far Eastern Studies. December 17, 2015 http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0401V.aspx?code=FRM151217_0001, and Hastings. *A Most Enterprising Country*. 105-110

⁷⁹ Gause, *North Korean House of Cards*. 209-210

⁸⁰ Hastings. *A Most Enterprising Country*, 110

⁸¹ Yong-hun Kim. "Green Shoots of Private Enterprise Growth." Daily NK. August 17, 2011. Accessed on May 2, 2017. <http://www.dailynk.com/english/read.php?cataId=nk01500&num=8067>

for the regime in foreign currency earnings. In turn the imposition of international sanctions exacerbating the regime's need for hard currency provides a plausible argument for its decision to enable private market activity.

However, there are several limitations to the main points undergirding this argument. One of the primary flaws is pertinent to the earlier example of the private market economy providing income-generating opportunities for elite. Although the regime is interested in ensuring cash-generating opportunities for its elite to be content, the motivating objective to justify this decision is not generating hard currency, but rather ensuring regime loyalty. As expert commentary and insider accounts of state officials and high-level defectors voicing opposition, there is credible evidence that Kim Jong-un's influence over his elite is deteriorating. While purging and execution has been the popular option to resolve this issue in his first five years of power, Byman and Lind argue that co-optation and inducements has been the long-term strategy for his predecessor, Kim Jong-Il.⁸² While generating the cash funds through extorting the General Market system and providing income-generating opportunities is significant, it is clear that the primary objective regime is to ensure his elite's long-term loyalty.

The primary weakness to this argument is that it overemphasizes the economic value the private market activity provides for the regime, especially in its sanctions evasion strategy. There are also historic examples of the North Korean regime finding less economic or strategic value in the private market economy. For instance, Kim Jong-Il's currency reforms in 2009 reveal that the North Korean government did not place significant economic value or strategic value in supporting the sanctions evasion tactics for private markets. As mentioned earlier, the regime enacted a reform that redenominated the value of the North Korean won to 0, which virtually wiped out the savings and earnings of private market traders. Haggard and Noland argue that

⁸² Byman and Lind, "Pyongyang's Survival Strategy: Tools of Authoritarian Control in North Korea" 58-63

these reforms were intentionally directed towards undercutting the growing wealth and influence of private traders, such as the *donju*.⁸³

By 2009, the UN Security Council had imposed resolutions 1718 and 1874 in response to North Korea's nuclear provocations.⁸⁴ Additionally, by 2008, South Korea severed its bilateral aid under Sunshine Policy through President Lee Myung-bak's "Vision 3000: Denuclearization and Openness," which made South Korean aid contingent upon North Korea's denuclearization.⁸⁵ Consequently, by initiating 2009 currency redenomination effort, the Kim Jong-il regime's decision to suppress markets even under increasing international scrutiny and economic pressure suggest the regime placed little economic value in the private market activity.⁸⁶ Moreover, the Kim Jong-Il regime saw declining regime control as the more pressing issue related to markets, which is an argument backed by Haggard and Noland.⁸⁷

Proponents of the sanctions explanation, however, could counter-argue that the regime still values the private market economy as it undergirded the North Korea's post-Arduous March 'hybrid' business environment that allowed North Korea's primary sanctions evasion tools, elite state trading companies (STC), to thrive under tough economic circumstances after first being established in the 1990s. North Korean STC's have been North Korea's primary sanctions evading mechanisms, which he refers to as North Korea Inc. The regime first established these firms in 1989. The regime mandated STC's to generate foreign currency directly into regime coffers for the state's operating budget.⁸⁸ As mentioned earlier, the North Korean economy became decentralized after 1994, which forced state enterprises to turn to the the private market

⁸³ Haggard and Noland. *Witness To Transformation*. 63.

⁸⁴ Kelsey Davenport. "UN Security Council Resolutions on North Korea" Arms Control Association. Last Updated on March 2016, Accessed on May 4, 2017. <http://www.armscontrol.org/factsheets/UN-Security-Council-Resolutions-on-North-Korea>

⁸⁵ John Park. "North Korea, Inc.: Gaining Insights Into North Korean Regime Stability from Recent Commercial Activities." United States Institute of Peace – Working Paper, (April 22, 2009), 11

⁸⁶ John Park. "North Korea's Currency Redomination: A Tipping Point" United States Institute for Peace, December 3, 2009

⁸⁷ Haggard, and Noland. *Witness to transformation: refugee insights into North Korea*. 63-64

⁸⁸ Park. "North Korea, Inc.: Gaining Insights Into North Korean Regime Stability from Recent Commercial Activities," 6-7

space became an avenue for public-private income generating activities.⁸⁹ While the private market economy provided the basis for the state enterprises to emerge during the Arduous March, their ability to adapt to the sanctions environment was contingent upon its strategic adaptation for operations outside North Korea, rather than inside North Korea.⁹⁰

Despite the private market space playing a valuable role in creating a profitable business environment in North Korea, primary evidence shows that North Korean state trading networks and sanctions evasion activities dealt with adaptation strategies beyond North Korea's borders. According to a UN Panel of Experts, North Korean firms maintained their stake and livelihood by having access to the international financial system. Anthony Ruggiero of the Foundation for Defense of Democracies assesses that the North Koreans exploit front companies that have no visible ties to the regime.⁹¹ The UN Panel of Experts report specifically states that the North Korean STCs "have intensified their business dealings via commercial online sources through complex networks of front companies, gradually disappearing in public business registries, which shows their adaptability and survivability in the sanctioned environment."⁹²

As expert analysis reveals that the vital link allowing the STC operation in the sanctioned environment exists outside of North Korea, it becomes less convincing that the hybrid market enterprise shared between private market traders and state officials was the basis for North Korea's sanctions evasion. While the cooperation of state officials with the private market actors creates a business environment that does generate a net-positive in improving certain industries, Commercial-level cooperation between regime officials and private citizens mainly serves to

⁸⁹ Hastings. *A Most Enterprising Country*, 70

⁹⁰ Ibid, 95-96

⁹¹ Anthony Ruggiero. "UN Report Reveals North Korea's Sanctions Evasion. *Real Clear Defense*. March 8, 2017. Date Accessed on May 6, 2017. http://www.realcleardefense.com/articles/2017/03/08/un_report_reveals_north_koreas_sanctions_evasion_110934.html

⁹² Report by UN Panel of Experts pursuant to resolution 1874 (2009) and accordance with paragraph 2 of resolution 2276 (2016), S/27/150, February 27, 2017, 55

benefit a state official's personal income and profits.⁹³ The private market economy did provide a basis to initially support the STC. The significance of the private market economy, however, became less relevant as strengthening its illicit access to the international financial system by reducing visibility of its ties to North Korea was the primary means for North Korea's sanctions evasion.⁹⁴ In turn the argument for the private markets' serving regime sanctions evasion tactics is less convincing.

John Park of Harvard University provides more in-depth analysis of how North Korean state trading companies (STCs) evaded sanctions and overcame the hostile international environment by improving their external procurement channels. After sanctions were imposed on North Korea after 2006, the regime was forced to adapt its STC networks to ensure the regime still received funds it needed. Specifically, STCs accomplished this "blurring the lines between state and non-state actions, and by integrating themselves even more deeply than before into the flows of the global economy."⁹⁵ In late 2009 the Chinese Communist Party (CCP) reached several political and economic agreements with the North Korean Worker's Party (KWP) to increase participation of Chinese private firms to increase cooperation with North Korea's state trading companies.⁹⁶

Park evaluates that the imposed sanctions actually strengthened North Korea's procurement networks by isolating STC cooperation exclusively with Chinese firms. Moreover, as sanctions limited North Korean STC to conduct business with these Chinese firms, North Korean STC were forced to pay higher premiums to these new firms as well as the middlemen conducting the business. Despite imposing higher costs, this improved their procurement

⁹³ Hastings. *A Most Enterprising Country*. 109

⁹⁴ Anthony Ruggiero. "UN Report Reveals North Korea's Sanctions Evasion. *Real Clear Defense*. March 8, 2017. Date Accessed on May 6, 2017. http://www.realcleardefense.com/articles/2017/03/08/un_report_reveals_north_koreas_sanctions_evasion_110934.html

⁹⁵ Hastings. *A Most Enterprising Country*. 72

⁹⁶ John Park. "The Key to the North Korean Targeted Sanctions Puzzle," 205-206

channels, primarily by offering higher premiums for Chinese middlemen who had experience and skill in evading sanctions. Park in turn puts forth that the enhanced bilateral cooperation between Chinese and North Korean firms reflects a self-financing networked model of procurement that enables STCs to both evade sanctions, but rely on this limited but costly partnership.⁹⁷

Despite the growing international pressure in response to North Korea's ongoing belligerence through nuclear and ballistic missile testing, John Park makes the decisive point that this has not affected the procurement channels established by the North Korean STC's and Chinese private companies, which are the vital link for North Korea's sanctions evasion tactics.⁹⁸ Moreover, Park's argument reveals that the international environment has not changed that much after Kim Jong-un assumed power. What has changed, however, is the Kim regime's perception of loyalty. Based on the qualitative evidence provided by CSIS and Daily NK, the Kim Jong-un regime has reason to be more concerned that declining influence and loyalty affecting regime stability. Unlike his son, Kim Jong-il had already established a firm patronage network and power base that was reinforced by the growing international pressure from the nuclear crises between 2002 and 2006.⁹⁹ More importantly, the regime became more aware of the room for instability the suppression of markets could yield after Kim Jong-Il's failed reform. Although enabling markets provided ample hard currency for the regime, this explanation overlooks the significant political value enabling and manipulating markets had for Kim Jong-un to reassert control. Furthermore, the regime's declining control was the dynamic variable that shaped Kim Jong-un's decision to enable private markets.

⁹⁷ Ibid, 209-210

⁹⁸ Jim Walsh and John Park. "To Stop Missiles, Stop North Korea Inc." *The New York Times*. March 10, 2016. Date Accessed on April 14, 2017. <https://www.nytimes.com/2016/03/10/opinion/to-stop-the-missiles-stop-north-korea-inc.html>

⁹⁹ Byman and Lind, "Pyongyang's Survival Strategy: Tools of Authoritarian Control in North Korea" 61-64

IV. Alternative Explanation #2: State Weakness and Failure to Recover Planned Economy

The second alternative explanation for why Kim Jong-un enables private markets is that North Korea's failure to fully recover its role as the provider for its citizens through state institutions and a planned economy forces the Kim regime to give into the private market activity. Andrei Lankov emphasizes that the Arduous March and the collapse of the Soviet Union revealed the planned economies inherent vulnerabilities, specifically when the Soviet Union and other trading partners withdrew aid from North Korea.¹⁰⁰ The withdrawal of this aid as well as the famines revealed the socialist planned economy as well as the Public Distribution System's fundamental dilemma tied to the supply of consumer goods. Once supply is disrupted, the socialist system would cease to function in turn leading to the Kim regime's potential collapse. Moreover, the regime had no choice but to yield to markets.¹⁰¹

Lankov primarily compares the North Korean marketization process to the Soviet Union's similar experience. Lankov draws particular parallels with the experience of Soviet states in Central Asia and the South Caucasus that yielded to economic reforms and opening as their illegal 'second economies' began to play a more significant role. He argues that the scale and share of North Korea's post 1994 private economy eclipses the economic value and significance than any other example from the Soviet Union's history. In turn if the private market economy continued to grow at a pace faster than the state's formal economy, Lankov suggests the regime may be forced to impose deeper reforms.¹⁰² Apart from the North Korean government's inability to compete with the markets, Lankov contends that the political ramifications of uprooting the markets also force the regime to give into the market-based changes in North Korea. Particularly, after the failed 2009 reforms, the regime not only

¹⁰⁰ Andrei Lankov. "The Resurgence of a North Korean Market Economy" Carnegie Moscow Center (January, 2016), 12-13

¹⁰¹ Daily NK, *The Creation of the North Korean Market System*, 42

¹⁰² Andrei Lankov. "The Resurgence of a North Korean Market Economy" Carnegie Moscow Center (January, 2016), 10-11

retrenched its efforts to re-assert control and simply adopted a “‘tried and true’ policy of benign neglect.”¹⁰³

This explanation is also plausible. For instance, the political dimensions of the argument are true in that the North Korean government did pull back from its reforms and adopted an ambivalent approach to the markets. Moreover, evidence shows that entrepreneurialism and the integration of state resources with private capital have facilitated the growth and depth of private markets. For example, the private market economy has become a primary source of the national income. The South Korean government estimates that North Korea’s private economy accounts for approximately 30 percent of the nation’s GDP, which is a significant sum. The private sector’s wealth has also become highly concentrated around the *donju* entrepreneurs who have the sufficient funds to form strategic relationships with state officials to invest and start commercial ventures.¹⁰⁴ The impact the *donju* could have is seen in their investment into key regime industries, such as coal mining.¹⁰⁵ This suggests that the state in turn has become reliant on private market actors to revitalize the state’s weakness.

This argument, however, provides a rather myopic interpretation that neglects the regime’s objectives to restore control and its influence. This explanation fails to address the counterintuitive challenges associated with this policy decision, such as how markets strengthened elite and non-elite individualism at the expense of regime influence and provided a hub for the exchange of illegal foreign media. Specifically, the regime overestimates the extent of the regime’s ambivalence in its approach towards the market. Although state weakness and the political ramifications of suppression were indeed motivating factors for this policy decision,

¹⁰³ Ibid 10

¹⁰⁴ Choe, Sang-Hun. “As Economy Grows, North Korea’s Grip on Society is tested.” *The New York Times*, April 30, 2017. Accessed on May 1, 2017. <https://www.nytimes.com/2017/04/30/world/asia/north-korea-economy-marketplace.html? r=0>

¹⁰⁵ Kim, Yong-hun. “Green Shoots of Private Enterprise Growth.” Daily NK. August 17, 2011. Accessed on May 2, 2017 <http://www.dailynk.com/english/read.php?catald=nk01500&num=8067>

Kim Jong-un also sought to re-establish the state's dominance by not only enabling markets, but also controlling them through manipulation and extortion.

By maintaining the regime's legal infrastructure and withholding the use force, the regime forces the majority of private market entrepreneurialism, such as the hybrid commercial ventures, to operate through a network of corruption and patron-client relationships. As Hastings notes that this creates a "food-chain" of relationships, the regime's preeminent position allows it to monitor and selectively suppress potential threats without uprooting the system entirely.¹⁰⁶ Moreover, the central flaw of this explanation is that it offers implications that Kim Jong-un's influence is declining with his decision in enabling market activity. Although the private market economy is showing signs of efficiency and influence, the regime's top position in this chain of patron-client networks and ability to selectively suppress countervailing influences demonstrate that there are clearly defined limits for the *donju*, or state officials engaged in commercial venture.¹⁰⁷ Thus, it is clear the variables of re-establishing regime control shaped the Kim Jong-un regime's proactive policy to turn a potential obstacle in markets into an instrument of control, surveillance, and extortion.

V. Conclusion

North Korea's economic environment has dramatically changed after private market activity has become a key facet to the nation's economy and existing alongside the state's planned economy. After emerging during the state's time of economic downfall during the famines, Haggard and Noland argue that the private market space has served as a base for everyday resistance among citizens as well as state officials who are not high enough on the regime's hierarchy ladder.¹⁰⁸ Despite undercutting the North Korean government's monopoly of

¹⁰⁶ Hastings. *A Most Enterprising Country*. 105

¹⁰⁷ Daily NK. *The Creation of the North Korean Market System.*, 25-27

¹⁰⁸ Haggard, and Noland. *Witness to transformation: refugee insights into North Korea*, 100-101

popular dependence, encouraging the growth of a principal agent problem of elites engaging in private market activity to enhance their own profits and power base, and serving as the locus of illegal foreign information distribution, private markets have become entrenched as the emblems of the North Korean people's' livelihood. Experts, such as Victor Cha, Andrei Lankov, and Justin Hastings, argue that this made removing markets nearly impossible.¹⁰⁹ The Kim Jong-un regime in turn has overcome this challenge by intentionally enabling and accepting private market activity to re-assert regime control and address the challenge of the regime's waning influence.

The primary variable that shaped Kim Jong-un's decision to prolong the private market activity is the regime's declining influence. While the alternative explanations regarding hard currency earnings for sanctions evasion and the state's weakness forcing it into a passive position provide plausible arguments that are not mutually exclusive with this paper's main argument, these explanations are narrow in scope. Furthermore, this paper's main argument presents the more comprehensive explanation that accounts for not only these two alternative explanations, but also the primary variable of the state's perception of its declining influence and control.

Defector testimonies, expert analysis of high-level defection and rising purges, and poll survey findings from inside North Korea reveal that the Kim Jong-un regime's influence has been in decline. Enabling private markets does maintain the primary hub of 'everyday resistance' to the regime. Yet, Kim Jong-un has taken a proactive, rather than reactive, approach towards these markets by balancing tools of benign neglect and harsh suppression to re-define the terms of loyalty. Justin Hastings accurately assesses that absolute obedience to the leader no longer defines the terms of loyalty. Instead, it is defined by staying within the boundaries of autonomy

¹⁰⁹ Cha. *The Impossible State*. 445

and self-reliance that the regime defines.¹¹⁰ Although this decision forces the regime to compromise a degree of its traditional influence, the regime's ambivalence has also provided it with key benefits of extracting hard currency and adapting the state's control to North Korea's new social realities.

Addressing this question of the North Korean government's decision to continue enabling the private market activity has implications on several other aspects of North Korea's domestic and foreign policy. The primary issue linked with this paper's central question is the prospects of North Korea's economic reform and opening. Choe Sang-hun of *The New York Times* reported that private markets continue to weaken the state's control as consumerism and entrepreneurialism reveals the state's inferiority to what markets can offer.¹¹¹ Andrei Lankov also suggests that the integration of market forces and state's corresponding ambivalence allow the prospect of economic reform to be nearly inevitable.¹¹²

These assessments, however, rest on the assumption that state weakness, not the regime's objective of regaining control, is what motivated this regime decision. Consequently, based on this paper's assessment, the regime's decision to enable markets suggests that it is unlikely to pursue major reforms. By allowing a degree of self-reliance, the regime is able to prevent social backlash as exhibited in November 2009. Yet simultaneously the regime gains the political and social benefits within the food chain of "regime-sanctioned commercial activity" that "breeds corruption, oppression, and abuse."¹¹³ Although Kim Jong-un's speech at the 7th Korean Worker's Party Congress in May 2016 suggested signs of pragmatic economic reform such as by enhancing energy development capacities, agricultural output, and industrial productivity, North

¹¹⁰ Hastings. *A Most Enterprising Country*. 105

¹¹¹ Choe, Sang-Hun. "As Economy Grows, North Korea's Grip on Society is tested." *The New York Times*, April 30, 2017. Accessed on May 1, 2017. https://www.nytimes.com/2017/04/30/world/asia/north-korea-economy-marketplace.html?_r=0

¹¹² Lankov, Andrei. "The Resurgence of a North Korean Market Economy" Carnegie Moscow Center (January, 2016), 13

¹¹³ Greg Scarlatoiu and Richard Pigossi. "Market Totalitarianism in North Korea." *The New York Times*, May 3, 2017. https://www.nytimes.com/2017/05/03/opinion/market-totalitarianism-in-north-korea.html?_r=0

Korea's simultaneous pursuit of economic growth and nuclear weapons will remain as the impediment for meaningful economic reform.¹¹⁴

Thus, the North Korean regime's effort to re-establish control by enabling private market activity continues to pose obstacles for meaningful international engagement to promote reforms. However, the regime still has underlying vulnerabilities that can be exploited. Although a 2017 report by Intermedia studying information distribution inside North Korea found that the regime has enhanced its surveillance and crackdown of foreign media consumption, the regime's enhanced capabilities have focused primarily on networked devices, such as cellphones that could connect to the North Korean "Red Star" intranet operating system.¹¹⁵ Defectors in turn expressed that USB flash drives, DVDs, micro SD cards, and radio broadcasts allow them to circumvent the government's surveillance of networked device, according to Intermedia.¹¹⁶ Moreover, information injection provides a means for external actors to empower change through the tightly controlled private market space.

As the unprecedented events in November 2009 forced the regime to reconsider its policy towards markets after realizing its declining influence, another instance of popular pressure can yield real change even in a nation-state such as North Korea. Based on this paper's assessment, prospects for the regime's economic reform remain dim. Yet, the narrative of North Korea's private market economy remains unfinished. In sum the Kim Jong-un regime's decision to enable market activity may allow it to regain control temporarily; the markets' long-term impact on both state and society may change for the better over time.

¹¹⁴ Babson, "Changes in Northeast Asian Geopolitics and Prospects for Unification." https://www.brookings.edu/wp-content/uploads/2017/03/fp_20170227_unification_babson.pdf

¹¹⁵ Nat Kretchun, Catherine Lee and Seamus Tuohy. *Compromising Connectivity: Information Dynamics between the State and Society in a Digitizing North Korea*. Intermedia (Washington D.C: 2017), 55-58, 70-74

¹¹⁶ Ibid, 22

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