



Marketization in North Korea: Scenarios for economic, political and social change

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Ulv Hanssen & Ji-Won Song





Abstract

This paper explores the spread of markets in North Korea and analyzes the potential for marketization to bring about change in the authoritarian state. Having evaluated four future scenarios, we conclude that a scenario of moderate change is the most likely future course for North Korea as it constitutes the least risky option for the state at a time when its means of social control are being eroded. Moderate change refers to significant economic reform aimed at utilizing the full potential of markets while trying to prevent meaningful change to the political system. If the North Korean people credit Kim Jong-un for the improvements in living standards they are currently experiencing, marketization will boost Kim's legitimacy. Even moderate change can be a slippery slope, however, as it might strengthen the position of a generation of young market traders who are less dependent on and loyal to the state than older generations.

Keywords: North Korea; marketization; political change; *jangmadang*; sanctions



Ulv Hanssen
Lecturer
Soka University, Japan &
Research Fellow, UI



Ji-Won Song
PhD Candidate
Stockholm School of Economics, Sweden



Content

Introduction	4
<i>The emergence of a market economy in North Korea</i>	4
<i>The North Korean state's response to marketization</i>	6
<i>How marketization affects North Korean society</i>	8
Will marketization lead to change in North Korea? Four scenarios	10
<i>Return to ideological purity</i>	10
<i>Radical change</i>	11
<i>No change</i>	13
<i>Moderate change</i>	15
<i>Keeping expectations in check</i>	17
Conclusion.....	17



Introduction

Change is happening in North Korea whether Kim Jong-un likes it or not. The rigid Stalinist economy that characterized the country throughout the Cold War has been crumbling since the collapse of the communist bloc. It has gradually been replaced by a market economy, with which the vast majority of North Koreans are now engaged. This process, which is referred to as *marketization* below, has been driven partly by grassroots forces and partly by a state with few other options. Marketization has had significant transformative effects on North Korean society and constitutes both a threat and an opportunity for the state. It is a potential threat because it weakens the state's control over the North Korean people. As an increasingly large segment of North Korean society becomes dependent on markets for survival, pressure on the government to facilitate market activity is bound to grow. Especially dangerous for Kim Jong-un is the gradual emergence of a new capitalist class whose goals might not always be compatible with the restrictions of an authoritarian system and whose wealth constitutes a source of power largely beyond the state's control. Thus far, the Kim regime has been successful at cajoling and coercing the new-rich but if state interests and capitalist interests were to conflict at some point, a powerful capitalist class could seriously jeopardize Kim Jong-un's power. However, if he accepts and even accommodates the marketization process through a program of moderate reform, which appears to be the approach that Kim is taking, he is likely to succeed in enhancing his legitimacy and consolidating his power. Either way, change is happening in North Korea and will continue to happen – it is no longer a matter of 'if', but rather a matter of 'how much' and 'how fast'.

The first part of this paper describes the marketization process that has been taking

place in North Korea since the mid-1990s. The second part analyzes the potential for marketization to bring about change in North Korea.

The emergence of a market economy in North Korea

The term 'communism' is commonly used to describe North Korea but there is very little communist about North Korea in 2019. In fact, the regime has distanced itself from communism both nominally and factually. North Korea deleted all references to communism from its constitution in 2009 and removed the iconic portraits of Marx and Lenin from Kim Il-sung Square in Pyongyang in 2012. More important than these cosmetic changes, however, are the structural changes it has made to its control economy. The state has far less control over the economy today than it did under the more strictly planned economy of the Cold War-era. A mixed economy featuring aspects of both planning and markets gradually emerged in the 2000s. While small farmers' markets have existed at the margins of the North Korean economy throughout the country's existence, it is only in the past two decades that the market economy superseded the planned economy in importance and scale. The government retains strong control over core industries such as the defense industry and heavy industries, but production of food and consumer goods is mostly left to increasingly autonomous farm collectives and de facto privatized state-owned enterprises, which largely rely on markets rather than the state for procurement and sales. Their products end up in large-scale consumer markets where private individuals trade in all sorts of domestic and foreign goods.

The emergence of a market economy has been nothing short of spectacular. Hundreds of large markets have sprung up all over the country and have long since



replaced the state as North Koreans' main source of subsistence (Haggard & Noland, 2010, p. 139). Markets, known as *jangmadang* in North Korea, are legal but come with a number of restrictions on what it is permissible to sell. Moreover, prices are not fully fluent because local authorities, at least on paper, determine price ceilings for the various products that can be sold in the markets (Ward, 2018b). Vendors are allowed to operate stalls inside the market in return for payment of a relatively small fee to the state. Merchants who are unable or unwilling to pay this fee often sell their products outside of the *jangmadang*, but such unlicensed market activity is illegal. North Korean markets are brimming with a wide variety of products, such as food, alcohol, cigarettes, medicines, soap, household appliances, clothing, cosmetics, books, bicycles, DVDs and electronics. It is often said that the only thing you cannot buy at the *jangmadang* is a cat's horn – a North Korean way of referring to something that does not exist. The products are mainly Chinese but South Korean goods are sometimes also present despite the fact that their sale is illegal. The number of domestically produced goods has increased dramatically in recent years.

The website Daily NK used North Korean undercover journalists to document the existence of 387 official markets across the country (Park, 2017) but the real number is likely to be even higher. The official markets are usually located in large enclosures near urban areas. An average official market contains more than 1500 stalls. North Korean households earn more than 60 per cent of their income from these markets (Kim, 2017, p. 65), and possibly much more (DuMond, 2017; Kim, 2018, p.8). In reality, these markets function as a lifeline for most North Koreans today.

There is evidence that the North Korean government began carefully experimenting

with market pricing in the industrial sector as early as the second half of the 1980s (Park, 2016). However, the turn toward more substantial marketization, which includes the participation of private citizens rather than just state-owned factories and enterprises, did not mainly occur thanks to reform-minded leaders. Rather, it was a result of a disastrous famine in the 1990s which led to desperation but also increased creativity among people trying to survive. Until the 1990s, North Koreans had obtained food and other necessities from the state through what is known as the public distribution system (PDS). The collapse of the communist bloc had disastrous effects on North Korea and the PDS. When Russia and China stopped providing North Korea with products at subsidized 'friendship prices', North Korea found itself unable to pay for essential products such as oil, fertilizer and spare parts. North Korea's foreign trade plunged from US\$4.1 billion in 1990 to US\$ 2.6 billion in 1991 and US\$ 1.6 billion in 1998 (Kim, 2017, pp. 172–173). Trade relations with Russia suffered most, as the volume of bilateral trade fell from US\$ 3.5 billion in 1988 (with the Soviet Union) to a mere US\$ 0.1 billion (with Russia) in 1995 (Smith, 2015, p. 188). This, combined with torrential rain, bad harvests and perennial mismanagement, led to a famine that killed between three and five per cent of the entire population (Haggard & Noland, 2017, p. 6). The breakdown of the PDS compelled the authorities to allow a certain degree of market activity and this has since become increasingly institutionalized.

The capitalist turn in North Korea predictably has its downsides. Corruption is rampant and income inequality worse than ever (Haggard & Noland, 2010, p. 144). Corruption is a natural effect of the market's many trading restrictions. Police and security officers can make good money by eliciting bribes from vendors in return for



ignoring illegal market activities, such as trading in illegal goods or selling goods at prices that exceed the permitted price ceilings. Most low-ranking officers in law enforcement have little choice but to take bribes, as their official salaries are insufficient for survival. Through interviews with defectors, a study by Kim Byung-yeon (2017, pp. 188–190) found that an average North Korean household spends almost 9 per cent of its budget on bribes, which makes North Korea one of the most corrupt countries in the world. Kim (2017, p. 190) estimates that bribery makes up as much as 6–7 per cent of the country's GDP. Marketization has also created a growing gap between rich and poor. Those who lack the entrepreneurial skills to cope with the transition to capitalism are struggling. Thus, it is those who have been most dependent on the state and the PDS who are now North Korean society's biggest losers. For most North Koreans, however, the turn to capitalism has been a welcome development that has brought them unprecedented material comforts. Even the spread of corruption has been a blessing for more than a few North Koreans, as bribes can increase social and geographical mobility in an otherwise rigid system. Bribes are used to circumvent restrictions on travel and contraband trade. Payments to the right people can also get you an education and a job that would otherwise be reserved for a member of the elite.

The North Korean state's response to marketization

As noted above, marketization was grudgingly accepted during the famine. Kim Jong-il, who ruled North Korea from 1994 to 2011, never fully embraced the markets and saw them mostly as a stop-gap measure until the economy recovered and the PDS could be reinstated. Nonetheless, the markets were officially acknowledged and formally legalized in 2003 and he experimented with significant economic

reform, such as the so-called Economic Management Improvement Measures introduced in 2002. This radical reform brought state-controlled prices more in line with market values, increased salaries, partially abolished the PDS, decentralized state planning, gave greater autonomy to state-owned enterprises, established a more accurate exchange rate for North Korea's currency (the won) and sought to increase productivity by giving workers material incentives (Gray & Lee, 2017, p. 56). Legalization essentially decriminalized activity in which almost everyone was engaged. It looked like North Korea was finally liberalizing its economy.

The trend did not last, however, and eventually Kim Jong-il changed course and tried to roll back many of these measures in an effort to reinstate a more centralized control economy (Haggard & Noland, 2010, p. 142; Lankov, 2015, pp. 122–125; Park, 2009). His most infamous attempt to reverse capitalism in North Korea was the disastrous 2009 currency reform, aimed at halting the emergence of a middle class. The reform stipulated that all citizens had to exchange their old won for newly printed currency but the government set an upper limit equivalent to about US\$ 30 on how much money could be exchanged, effectively eliminating any savings of North Koreans in excess of this upper limit. The reform also devaluated the won by making one new won worth the equivalent of 100 old won. However, the government inexplicably decided that employees of state-run enterprises, factories and other institutions were to remain on their old salaries. This effectively amounted to a hundredfold wage increase overnight and naturally led to hyperinflation. The reform generated enormous discontent among average North Koreans, severely damaging people's trust in the government and toxifying the North Korean won. As a result, today no one saves won for fear that



another government reform might render them worthless. North Koreans stockpile and conduct trade in foreign currencies, such as the Chinese yuan and the US dollar. The North Korean government eventually realized its mistake and issued a rare apology to the people (McCurry, 2010). It subsequently executed a senior official who was scapegoated for the currency reform failure (Branigan, 2010).

Kim Jong-un, who came to power after his father died at the end of 2011, seems to have a more positive attitude to marketization and capitalism. Rather than reversing the trend, he has accelerated it. While Kim Jong-il's legacy was tainted by the famine, Kim Jong-un's tenure has coincided with a period of unprecedented wealth and social freedom. Kim Jong-un seems to understand that he has more to gain from taking credit for these developments than from obstructing them. The increasing affluence under Kim Jong-un has arguably made him more popular than his father. This suggests that it is not certain that North Korean economic liberalization will threaten the regime; in fact, it may even consolidate it.

Perhaps realizing this, Kim Jong-un has initiated some significant reforms that are reminiscent of the economic reforms undertaken by China in the late 1970s and early 1980s. The reforms, known as the June 28 measures of 2012 and the May 30 measures of 2014, have essentially decollectivized the agricultural sector, allowed farmers to keep and sell a far bigger share of their crops, increased the number of special economic zones and de facto privatized many state-owned enterprises (Gray & Lee, 2017). The latter are still nominally owned by the state but often run by private managers who pay a share of their profits to the state – a testament to how intertwined the private and official economies have become (Ward, 2017). All

this has brought desperately needed personal incentives to the agricultural and industrial sectors and – at least initially – output increased significantly. The 2013 harvest was the best for decades and, for the first time since the 1980s, North Korea almost produced enough food to feed itself (Gray & Lee, 2017, p. 62). However, food production is reported to have fallen in 2016 and 2017 (Ward, 2018c) so the jury is still out on the effectiveness of the reforms (cf. Katzeff Silberstein, 2015).

Implementation of the June 28 and May 30 measures – and the fact that there are no signs of a roll back – suggest that the North Korean state has finally come down in favor of the marketization of North Korea. If this really is the case, capitalist development seems bound to continue. In fact, it would be very difficult to reverse the trend for marketization even if there was the political will to do so. The state lacks the resources to provide an adequate alternative to the market, and both government officials and military officers have become highly engaged in and dependent on the markets for survival. Many of them leverage their elite privileges to engage in foreign trade, often in cooperation with private entrepreneurs, thus blurring the distinction between the private and the official economies (Hastings, 2016). Furthermore, since the state can no longer finance its institutions, government departments, agencies and even parts of the military are now expected to be self-funded (Kim, 2018). The only way for most state and military institutions to stay in operation is therefore to engage in market activities. Since they have strong, vested interests in the continuation of the markets, it is unlikely that government officials would enthusiastically enforce market crackdowns if such orders were to come from above. The whole state apparatus is simply too involved in and too economically dependent on the markets to abolish them.



How marketization affects North Korean society

Marketization has been a blessing for most North Koreans, who are currently enjoying an unprecedented level of social freedom and a level of material wealth unmatched since at least the 1970s. The demographic group that has perhaps benefited most from marketization is women. North Korea is in many respects a patriarchal society where women are expected to obey men and take care of the household.

Traditionally, many North Korean women were housewives without any formal income. During the famine in the 1990s this lack of a formal job was an advantage. While men were forced to attend their virtually non-paying jobs, women were free to gather food and procure goods to barter or sell in makeshift markets. Women also benefited from being exempt from the grueling 10-year military service that North Korean men have to undergo, although enlistment reportedly became mandatory for women in 2015 (Min, 2015a). Moreover, the government was less suspicious of women participating in market activities than men because it was 'normatively accepted that it was the woman's job to provide food for the family' (Smith, 2015, p. 206). These factors enabled women to a far greater extent than men to engage in market activities when the state was no longer able to provide necessities for its people. In many cases women became the breadwinners of the family and their entrepreneurialism and thrift laid the foundations for marketization in the country. Still today, the vendors in the markets are almost exclusively women. North Korean women's increased access to money has also enabled them to flee the country, which is often a very costly undertaking. There was a notable increase in the proportion of female defectors in the 2000s and in 2015 women constituted 80 per cent of all defectors (Isozaki & Sawada, 2017, p. 193). Marketization has thus

empowered North Korean women by giving them money, agency and increased opportunities.

Women are not the only beneficiaries of the semi-legalization of market activity. Marketization has produced a number of positive effects for society as a whole, such as new privately owned bus services that make domestic travel much faster and easier than in the past, when travelers had to rely on North Korea's notoriously decrepit railroad (Ah, 2014). This had made geographically scattered markets increasingly interconnected. A license is still needed to leave the city or county but such licenses are now easy to obtain through bribes, although Pyongyang remains off-limits for non-residents. North Koreans can even obtain permits to travel to China for trade and work. The lack of interconnectedness between the various regional markets inside North Korea has been identified as a key reason why economic change has so far failed to translate into political change (Kim, 2018). The loosening of travel restrictions and improved means of transportation could therefore be of great significance in the long run.

Marketization has also coincided with the rapid spread of mobile phones (Choe, 2016). In cooperation with an Egyptian firm, a state-run mobile network operator, Koryolink, was set up in 2008. Koryolink was first reserved for the elites but is now available to anyone who can pay the rather hefty subscription fee. The number of network subscribers has expanded from about 10,000 in 2008 to about 3 million a decade later. This is a significant number in a country of some 25 million people. As elsewhere, the latest phone has become an important status symbol in North Korea.

The mobile network blocks international calls and internet access (a special North



Korean intranet is available) but other forms of technology are increasing North Koreans' access to information from the outside world, especially South Korea. The penetration of Chinese memory cards, USB sticks, DVDs, mobile phones and computers into North Korean markets has made file sharing easy. As a result, bootleg South Korean movies, TV shows and music have become widespread and extremely popular in North Korea. Although the sale or consumption of foreign, and especially South Korean, popular culture is forbidden, this is becoming increasingly difficult to control due to technological advances. Defector interviews indicate that 70–80 per cent of North Koreans regularly watch foreign movies or TV dramas (Baek, 2016, p. 185). It is difficult to overstate the impact of South Korean popular culture on North Korea. Inspired by their capitalist brethren in the south, an increasing number of North Koreans wear flashy (by North Korean standards) clothes, dye their hair, undergo rudimentary eyelid surgery and even use South Korean slang when among friends. In short, the influx of South Korean popular culture is changing how North Koreans look, talk and perhaps think (Baek, 2016). Importantly, South Korean popular culture has once and for all debunked North Korean propaganda claims of South Korean poverty and economic inferiority. (Even the Pyongyang government has long since given up making such easily falsifiable claims.) North Koreans today know very well that their half of the peninsula is lagging far behind the south by almost every metric. There are also more than 30,000 North Korean defectors living in South Korea who can attest to the enormous discrepancy in affluence. Many defectors keep in touch with their families in the north and even support them financially through a new system of underground money transfers (Lankov, 2013). Although the causality between exposure to foreign popular culture and disillusionment with the

North Korean regime is far from straightforward, it is undeniable that outside impulses often induce critical thinking and behavior among North Koreans in various ways. In a 2013 defector survey, 84 per cent of respondents reported that South Korean dramas had influenced their decision to escape North Korea (Lee & Soo, 2013, p. 199).

In the west, those in their 20s and 30s are often referred to as millennials. In North Korea they are known as the *jangmadang* generation. Unlike their western counterparts, who are often stereotyped as lazy, North Korean 'millennials' are known to be extremely industrious and creative. They went through their adolescence during the famine years of the 1990s and they are accustomed to making money without relying on the state. They are therefore believed to be less loyal to the state and more rebellious than their parents. In a recent documentary on the *jangmadang* generation, a North Korean defector describes them as 'bold and audacious', without much respect for the regime's social control and rules (Liberty in North Korea, 2017). This observation is corroborated by Baek (2016, pp. 184–185), whose study on North Korea's 'hidden revolution' characterizes North Korean millennials as 'capitalistic, individualistic, and more likely to take risks', as well as 'significantly less loyal to the state and its leadership'. Many therefore pin their hopes for change on the *jangmadang* generation, which makes up 25 per cent of the North Korean population (Baek, 2016, p. 183). Thae Yong-ho, a former deputy ambassador to London and one of the highest ranking North Korean defectors ever, shares this hope. In an interview with *Voice of America* he stated that 'If this process [of marketization] continues, the country will reach a tipping point where the people begin to stand up for not just their



economic rights, but also their political rights' (cited in Lee, 2017).

This certainly sounds promising, but can marketization really lead to political change?

Will marketization lead to change in North Korea?

Four scenarios

The answer to this question depends on what is meant by change. It is possible to envision four future courses for North

Korea: radical change, moderate change, no change and a return to ideological purity.

Table 1 Four scenarios for change in North Korea

Radical change	Moderate change	No change	Return to ideological purity
A complete transformation of North Korea through either democratization, coup or war.	Considerable liberalization of the economy. Some improvement in civil rights (mainly to facilitate market activity) but not in political rights.	The state continues to fluctuate between accommodating markets and cracking down on them. The state maintains an ambivalent stance toward markets and market activity.	Markets are abolished and replaced with a planned economy similar to that which characterized North Korea during the Cold War. Ideological purity is emphasized.

As is evident from Table 1, 'change' is treated as encompassing economic, political and social change. The analysis below examines the potential for each of these courses against a backdrop of rapid marketization in North Korea. The scenarios are ordered according to our assessment of the degree of probability, from least to most likely: return to ideological purity, radical change, no change and moderate change.

Return to ideological purity

Marketization has likely evoked strong displeasure among many leaders in Pyongyang, who are worried that growing individualism and materialism might threaten the socialist system and, by extension, their own power. It is therefore possible to imagine that North Korean

leaders might attempt to bring about a return to the ideologically pure days of Kim Il-sung. This would naturally entail a return to a heavily planned economy with few, if any, market elements. This is precisely what Cha (2012, p. 58) predicted at the beginning of the Kim Jong-un period. Cha speculated that North Korea would attempt to return to the Kimilsungism of the 1950s, 1960s and 1970s – an era when North Korea was at its most ideologically pure. Cha dubbed such an eventuality '*neojuche* revivalism', referring to the country's Cold War ideology of *juche*, or self-reliance. In his New Year speech on January 1, 2019, Kim Jong-un did indeed stress the 'might of the independent socialist economy' and a policy of making the national economy 'Juche-oriented', perhaps signaling a reversion to a more



closed and self-reliant economic system (NK News, 2019).

However, such a reversion would appear to be both unwise in theory and almost impossible in practice. Reversing the modest economic freedoms that North Koreans have enjoyed since the mid-1990s would be a recipe for disaster. If there is one thing that North Koreans have responded to with violence, it is attempts by the state to rein in their new-found economic freedoms. When the government closed off the markets to women under 50 for a brief period in 2008, there were reports of riots in some cities (Lankov, 2015, p. 125). In 2015 a 'massive brawl' between merchants and security guards erupted at a market in Musan in the northeast of the country (Min, 2015b). The incident, which led to an unknown number of fatalities, was apparently precipitated by attempts by the security guards to confiscate certain goods from vendors. These and similar incidents (cf. Cha, 2012, pp. 452–453) suggest that average North Koreans might be willing to confront the ruthless authorities if their livelihoods are threatened (cf. Park, 2017, p. 35). If the North Korean state were to reverse marketization and return to a fully planned economy, it is not impossible that the people's discontent would spill over and turn into overt protest and perhaps riots. Even if Kim Jong-un were willing to take that risk, a reversion to a fully planned economy would still be almost impossible in practice. One of the main reasons why Kim Il-sung's North Korea was relatively successful was that it benefited from both economic and ideological support from the communist bloc. Kim Il-sung was adept at taking advantage of Sino-Soviet rivalry, often obtaining beneficial trade deals by threatening to switch ideological allegiance to one side or the other (Lankov, 2015, p. 21). Despite the adulation for *juche* and self-reliance, North Korea has always been highly dependent on outside assistance

(Myers, 2010). Reviving the dubious 'glory days' of the 1950s and 1960s would be impossible without economic support from an ideologically likeminded communist bloc. In the absence of heavily subsidized imports and grants from the Soviet Union and China, North Korea simply does not have the means to reintroduce a fully functioning distribution system. Regression to the ideologically pure days of Kim Il-sung is therefore the least likely of the four scenarios.

Radical change

Radical change could come in many forms, such as democratization, a coup d'état or war. Since war is partly determined by the actions of external forces, such a scenario is beyond the scope of this paper. We are mainly interested here in the potential for state-driven change toward democracy and anti-state mobilization by grassroots or elite forces with the aim of overthrowing the government.

It is of course possible, albeit probably overly optimistic, to view Kim Jong-un's unexpected rapprochement and engagement with the outside world in 2018 as the beginning of a slow drift toward a more open and democratic society. A more democratic and market-driven North Korea would be more palatable to western investors and could therefore serve North Korea's longstanding goal of becoming a 'powerful and prosperous state' (*kangsong taeguk*).

However, such a turn does not appear likely. A democratic turn would entail a sudden expansion of people's social rights (freedom of assembly, freedom of speech, freedom of the press and so on). This would be a highly risky strategy as it would undermine the oppression and fear that the system is built on and could seriously jeopardize Kim Jong-un's power. In the words of Cha (2012, p. 447), 'The greatest vulnerability for a regime



like North Korea is when a population loses its fear of the government. Once the fear is gone, all that is left is the anger'. This makes it very unlikely that radical change would ever be initiated by the North Korean leadership. This becomes even more evident if one considers that the official North Korean explanation for the fall of communism is ideological decay rather than economic mismanagement. The state narrative is that the communist countries succumbed to dangerous influences from the outside and reformed themselves to death. The lesson that the North Korean leadership drew from the events of the late 1980s and early 1990s is that reform is dangerous. We should therefore not expect radical reform to emanate from above.

It is also possible to speculate about the potential for a bottom-up revolution or a military coup. Some scholars go so far as to claim that 'it is difficult to imagine a more plausible alternative to a collapse or coup situation on the Korean peninsula' (Richey et al., 2017, p. 3). Without rejecting this possibility, such scenarios are improbable at present for two reasons: the state's extreme brutality and North Korea's peculiar situation as the backward half of a divided nation. First, the North Korean state is still simply too oppressive for an Arab Spring-style uprising to take place. The magnitude and extensive nature of North Korea's instruments of social control are, in the words of Haggard and Noland (2017, p. 30), 'legendary'. The state controls an impressive surveillance network that extends all the way down to neighborhood informers (*inminban*), who are responsible for reporting 'suspicious' behavior by neighbors (Tudor & Pearson, 2015, p. 121). Such institutions make any kind of collective action difficult to conceal, and any attempt at mass mobilization of resistance would be nipped in the bud long before it made it to the streets. Even if a gathering of protestors were to take to the streets, they

would undoubtedly be arrested and perhaps publicly executed as a warning to others against further disturbances. The spread of bribery may have made it possible to get away with minor transgressions but open displays of political resistance and revolt are still virtually impossible. This might change in the long term if the weakening of state power outlined below (in 'no change') continues unabated, but for now a politically motivated bottom-up revolution seems highly unlikely.

Second, the Korean Peninsula's divided nature has implications for the likelihood of elite coups. It is true that the massive transfer of labor from the official to the private economy has diminished the state's revenues and left the ruling coalition with less money and fewer perks to dole out to party and military elites in return for their loyalty. In addition, this trend has been exacerbated by the increasingly strict sanctions regime to which North Korea is subjected due to its missile and nuclear programs. There is of course a possibility that party and military elites might turn on the current leadership once the money and perks they have hitherto enjoyed in exchange for their loyalty dry up. However, North Korea differs from other dictatorships in one important regard: it is the backward half of a divided nation. This means that if there were to be a regime collapse leading to a temporary power vacuum in North Korea, there is a considerable risk that South Korea would seize the opportunity to reunify the peninsula through absorption. In this case, most, if not all, of the party and military elites would lose their power, and some could even face charges of crimes against humanity (Nebehay, 2017). It is therefore obvious that elites in the Workers' Party and the military have a vested interest in the survival of the regime, and will probably put up with reduced amounts of Cognac and Cuban cigars as long as they are



allowed to remain in their positions of relative privilege (Lankov, 2016b).

More or less the same argument could be made about North Korea's new economic elite – the so-called *donju*. *Donju* means 'money masters' and refers to the class of North Korean new-rich that has amassed tremendous fortunes through capitalistic enterprise over the past 20 years. The *donju* could potentially be a force for radical change due to their unrivalled economic power, but thus far they have been the opposite. The new-rich have joined forces with the political elites in a bid to consolidate their own power and maintain the political status quo. Sometimes the *donju* cooperate with the political elites through business operations in which government officials secure the necessary licenses and the more resourceful *donju* take care of the commercial management. At other times they join forces in a more literal sense – through marriage (Tudor & Pearson, 2015, p. 166). In the past it would have been shameful for a member of the political elite to marry someone of lower status but that has changed with the emergence of the North Korean new-rich. As in other countries, money and power have a way of finding each other. Finally, like the political and military elites, the *donju* have an interest in political stability. If North Korea were to collapse and be absorbed by South Korea, the primitive business ventures run by the *donju* would stand no chance against South Korea's mighty conglomerates (Lankov, 2016a). We should therefore expect neither the political and military elites nor the *donju* to be the instigators of political change. On the contrary, they may turn out to be significant veto players against any action that could lead to radical change.

No change

How about the option of no change? Could the government continue its tendency to

fluctuate between accommodating and cracking down on the markets, which has been the case for the past 20 years? In such a scenario, the government would sporadically attempt to resuscitate the PDS and continue to regard the markets as a stop-gap measure. Reforms, if carried out, would be prone to sudden reversal. This scenario is suggested by Buzo, who argues that as long as North Korean leaders continue to value regime survival over everything else, change will be kept to an absolute minimum. Buzo (2018, p. 252) rejects the notion that Kim Jong-un is more reform-minded than his father, and argues that the reforms seen under Kim Jong-un are merely an attempt 'to wring whatever can be wrought from the existing system without modifying it'. Kim Jong-un, Buzo writes, has 'shown strong continuity with his father's policies in rejecting reform options', even if he has been a little less prone to repress the markets than his father (Buzo, 2018, p. 247).

While far from implausible, this is a very pessimistic reading of current events – albeit that given the number of past disappointments in regard to change in North Korea, pessimism is perhaps warranted. It is also possible to make an argument that is the exact opposite of Buzo's claim that Kim Jong-un needs to avoid change to stay in power. Perhaps avoiding change would in fact reduce his chances of staying in power. In an era when the people rely more on the markets than they do on the state, the state may be gradually losing its power. If so, this loss of power will continue for as long as the state fails to adapt to changing realities and could eventually jeopardize the continued existence of the political system.

How is marketization weakening the power of the state? Traditionally, the North Korean state has been able to demand absolute loyalty and obedience through



three sources of power: (a) a state monopoly on the 'legitimate' use of force; (b) a monopoly on information; and (c) legitimacy that stems from the role of the state as provider for the people. However, today all of these sources that sustained the power of the state have been severely weakened by marketization-related changes.

First, while the state still has a monopoly on the use of force – and does not hesitate to use it against potential threats – the rapid spread of corruption among law enforcement officials now ensures that there are ways to avoid punishment for many offenses. Consumption of foreign media, smuggling, unlicensed trading and illegal travel, to name a few, are crimes people can now get away with in return for bribes. It is even possible to buy your way out of North Korea's dreaded prison camps. Needless to say this empowers potential regime challengers as it gives them options for circumventing government repression. That said, the state's monopoly on the use of force is still its most effective means of social control, and its weakening due to corruption should not be overstated.

Second, the state's monopoly on information has been dramatically weakened by the emergence of outside information. Before outside information began to seep into North Korea in the 1990s, the government had the ability to control the narrative on all aspects of social life. North Korea's failures were glossed over and when they became too obvious to ignore they were blamed on the hostile policies of the US. Moreover, the successes of other countries, especially South Korea, went unreported in the North Korean media, which meant that North Koreans lacked reference points from which to assess their own country's progress. However, as the influx of foreign information in the 1990s began to challenge

many of the deeply entrenched state narratives, many North Koreans learned for the first time that South Koreans did not live in extreme poverty, but what looked like unimaginable affluence. This realization poses perhaps the greatest long-term threat to the North Korean regime as there is simply no easy way to explain the discrepancy between north and south other than the different political systems, thereby acknowledging the flaws of North Korean socialism.

Third, the legitimacy of the state is suffering because reciprocal relations between the people and the state have broken down. Until the 1990s the state provided food, housing, education and basic welfare in return for absolute loyalty and sacrifice. The rigidity and brutality of the state were tolerable because the state gave something back. However, the breakdown of the PDS and the semi-privatization of many social services, such as education (Unification Media Group, 2018) and healthcare (Soh, 2016), mean that the reciprocity that sustained relations between the state and the people has disappeared. The state today hardly gives anything back to the people. Official monthly salaries are the equivalent to US\$ 0.5–1.75, which makes it impossible to survive on official salaries alone. The minimum sustenance requirement for a family of three or four people is approximately US\$ 15 per month (Lankov, 2015, pp. 125–127). These unsustainable salaries force North Koreans to the markets but the state still demands a *de facto* market tax. The *jangmadang* generation have never experienced a functioning socialist system and most have never received much from the state. This could diminish their sense of loyalty to the regime and its leaders. If some measure of reciprocity is not reinstated in relations between the people and the state, the legitimacy of the state will continue to dwindle.



A number of analysts argue that the status quo is untenable. Kim and Roland write that 'the status-quo will inevitably at some point lead to a regime collapse given the great economic weakness' (Kim & Roland, 2012, p. 512; cf. Frank, 2016, p. 15). Such a collapse scenario is certainly possible, but not inevitable. There is a chance that North Korea will 'muddle through' without substantial top-down change, as it did in the 1990s when it faced far more dire conditions (Noland, 1997). Nonetheless, maintaining the status quo appears increasingly difficult for the North Korean state because all three of the factors that sustain its control over the people have been weakened. The state's ability to coerce through force has been weakened by bribery, its ability to use propaganda to justify the political system has been undermined by the availability of outside information and the legitimacy it derived from maintaining relatively reciprocal relations with the people has been shattered due to the breakdown of the PDS and the welfare system. If measures are not taken to adjust to the changing realities, it seems likely that the state's power will continue to diminish as time passes. If left unchecked, this weakening of state authority could reach dangerous levels. This is not an option if the leadership wants to ensure its political, and perhaps even physical, survival.

Moderate change

Given the risks and problems connected with both too little and too much change, the most sensible and likely course for the North Korean regime appears to be one of moderate change. Moderate change would entail efforts to bolster economic growth through market liberalization while keeping political change to a minimum. In other words, the North Korean state can be expected to act in a rational way that neglects neither the country's potential for economic growth, nor the means of control that have hitherto secured its survival. This

kind of change would be likely to bring about better living standards and thus offset much of the antipathy the public secretly harbors toward the government. It would also arguably increase the government's legitimacy by bringing back some degree of reciprocity between the state and the people.

It is difficult to predict what the exact content of moderate change might be, but one possible scenario could start with retroactive legalization of activities that are already taking place. This would mean an unequivocal legalization of market activity and a relaxation of restrictions on domestic travel and assembly. Such an expansion of social rights could be tolerated because it is to a large extent already happening and is required for economic growth. A possible next step could be legalization of activities that would boost production, such as allowing North Koreans to freely choose their workplace. North Koreans are currently assigned jobs by the state. Many of these official jobs are extremely unproductive due to chronic shortages of necessary inputs and a lack of any incentive to work hard. (As noted above, official salaries are tiny.) North Koreans who want to engage in private business – which is to say nearly everybody – must either do so after official working hours or pay a monthly fee to be legally absent from work. These absence fees can be up to 20 times the absentee's monthly wage (Lankov, 2015, p. 95), which means that factories and enterprises earn more from absent workers than present workers. This is clearly an inefficient and unproductive system. Allowing people to choose their work freely, even outside the official economy, would spur a dramatic increase in North Korean industrial or manufacturing productivity. Such measures could form part of a moderate reform strategy that aims to spur economic growth without posing too much of a threat to the political system. In the



moderate change scenario, an expansion of social rights is allowed only to the extent that these rights are conducive to a more effective and productive economy. In other words, social rights that are not directly needed for a stronger economy, such as freedom of speech, the press, religion, political participation, and so on, would remain suppressed.

Judging from Kim Jong-un's first six years in power, this seems to be the course he has chosen. This is evidenced by his enactment of the June 28 and May 30 measures described above and his largely hands-off approach to the markets. This is a reasonable policy line and probably the only way he can remain in power for a long period. If Kim Jong-un is able to convince the North Korean people that he is responsible for their newfound affluence, marketization might actually enhance his popularity.

How effective a program of moderate change can be under the current sanctions regime, however, remains to be seen. UN sanctions on North Korea have been in place since 2006, but have increased dramatically in scope since 2016. While earlier sanctions mainly targeted military and luxury products, the recent rounds have banned virtually all international trade with North Korea. As long as the sanctions remain in place, reforms will have only sub-optimal results, due to the inability to engage in international trade and attract desperately needed foreign investment. Kim Jong-un's diplomatic overtures with South Korea, China and the USA in 2018 were undoubtedly attempts to obtain sanctions relief and thereby maximize the effects of his moderate reform program in the future. The success of this program is therefore partly dependent on whether the sanctions are removed or stay in place.

There are always risks connected to change, no matter how moderate. Even moderate reforms could be a slippery slope for the government. Every reform constitutes a new *fait accompli* and consequently increases expectations for greater change in future. As the markets become increasingly institutionalized as a mainstay in the lives of ordinary North Koreans, Kim Jong-un is likely to face constant pressure to expand the rights of the people even further so that the full potential of the markets can be realized. Such pressures might start with demands for reforms along the lines described above. Over time, however, pressures may develop into more controversial calls for private ownership and a greater ability to criticize and influence government policies that hamper the market economy – essentially a degree of freedom of speech and perhaps even a modicum of political representation. Needless to say, if Kim Jong-un were to make such allowances, it could mark the beginning of the end for his regime. Private ownership would be a deathblow to North Korea's crippled socialist system, and freedom of speech, no matter how limited, would embolden latent regime critics to push the political discourse far beyond the control of the state.

The big question is how far Kim Jong-un is willing to go to accommodate these constant pressures from below. Doing nothing appears less and less like a viable option given the gradually deteriorating power of the state. Kim Jong-un may never succeed in reclaiming absolute control over law enforcement and information, but it is entirely within his grasp to restore a degree of reciprocity to relations between the North Korean state and the North Korean people, and thus strengthen his own legitimacy in the eyes of the public. However, this can only be done through reform. What Kim Jong-un will do in concrete terms remains an open question,



but change is no longer a matter of 'if', but rather of 'how much' and 'how fast'.

Keeping expectations in check

People should nonetheless keep their expectations in check. The growth of private markets will not necessarily entail a political revolution and the overthrow of Kim Jong-un. The possibility must be acknowledged that economic reforms might consolidate Kim Jong-un's power. If the regime plays the propaganda card well and succeeds in keeping outside information to a minimum, Kim Jong-un may be able to sell North Korea's modest but growing prosperity as the fruits of his brilliant economic policies. It is entirely possible that North Korea will achieve significant economic growth without fully abandoning its political system, simply by learning from other East Asian nations and liberalizing its economy (Lee, Kim, & Lee, 2009, p. 291). If Kim Jong-un were to succeed in creating such a 'developmental dictatorship', there is reason to believe that this would go a long way toward satisfying the population, much like similar developments satisfied the populations of China and Vietnam (Lankov, 2016b). North Koreans do not want change because they have a burning desire for democracy – a concept that is still alien to the vast majority of the population. Rather, they want change because they want to live more like the South Koreans they see in the movies: they want to eat three meals a day, they want decent houses with round-the-clock electricity and running water, and they want better opportunities for their children. If Kim Jong-un can fulfill at least some of these wishes and continue to facilitate market activity through moderate reforms, he should be able to stay in power for a long time.

Although this may disappoint those analysts who regard the Kim dynasty as the root cause of North Korea's problems (e.g.

Park, 2009), a program of moderate reform under Kim is desirable for three reasons. First, political stability spares the world the prospect of regime collapse and a full-fledged domestic power struggle, which most experts predict would be extremely bloody and chaotic (Bandow, 2018; Lankov, 2018; Sokolsky & Miller, 2017). Second, it will significantly improve the living standards of ordinary North Koreans. Third, although it will not lead to denuclearization, it may turn North Korea into a more responsible nuclear-weapon state. If, and this is admittedly a big 'if', North Korea were to be integrated into the world economy as a relatively open market economy, it would have a vested interest in regional stability for its own economic growth. The establishment of interdependent relations with the outside world would probably reduce, if not altogether eliminate, North Korea's inclination to make outrageous military threats against its adversaries. The result would be a more restrained and less menacing North Korea and, accordingly, something of a win-win-win situation for the North Korean leadership, the North Korean people and the rest of the world.

Conclusion

The outside world can help North Korea along but ultimately change in North Korea must be brought about by North Koreans themselves. Although there should be no illusions about imminent democratization, North Korean marketization is a cause for optimism. The spread of markets is significant not just because it improves the lives of the average North Korean citizen, but because it chips away at the state's ability to control its people. As a direct consequence of marketization, the three cornerstones of North Korean state control throughout the Cold War – force, information and legitimacy – are withering. This cannot but have a detrimental effect on the state's ability to control its citizens. As



the state grows weaker it will become more vulnerable to the efforts of change agents such as the *jangmadang* generation – disgruntled young men and women who have never experienced anything other than capitalism and see the government as an obstacle and a leech. North Korea will not be reverting to Kimilsungism anytime soon so before long we will be speaking of *jangmadang* generations in plural. Serious

thought must be given to what can be done to empower them. The same amount of creativity, time and effort should be devoted to this task as is currently being devoted to coming up with new ways to punish North Korea through sanctions. Over time, unyielding bottom-up pressure from the inside is surely a far more effective driver of positive change than either sanctions or inducements from outside.

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The Swedish Institute of International Affairs

Visiting Address: Drottning Kristinas väg 37, Stockholm

Postal Address: Box 27 035, 102 51 Stockholm

Phone: +46 8 511 768 00

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