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Executive Summary

In the latter part of 2008, North Korea entered a new phase of crisis. At that time, Kim Jong-il had a stroke, while relations with South Korea and the United States were already strained. The regime seemed to feel it imperative to strengthen the level of internal watchfulness, and subsequently intensified provocations against South Korea and the United States in 2009 and 2010. Kim Jong-il’s youngest son was designated as his successor in January 2009, promoted to the rank of four-star general in September 2010, and shortly afterward elected vice chairman of the Workers’ Party Central Military Commission (CMC) at the Party Delegates’ Conference. Little is known about the young successor Kim Jong Un (Kim Jong Eun is the Korean way of transcribing the heir’s name, while he is usually referred to as Kim Jong Un within the Western world). It appears quite obvious that the power of the CMC and the Worker’s Party was strengthened, and Kim Jong-il, by granting posts to family members and supporters and by promoting generals, carefully revived loyalties and secured his succession.

In the meantime, the regime backtracked from the reformist policies of 2000 – 2004, taking a conservative turn in 2005. With a crackdown on market activities in 2008, the regime initiated consecutive 150- and 100-day “production battles” in 2009, aimed at boosting production levels. In November of the same year, “money exchange measures” were carried out. These were reportedly initiated by Kim Jong Un, the designated successor, and caused rapid inflation that peaked in March/April 2010 and seriously disrupted the economy. It has been reported that the regime had its prime minister publicly apologize in February, and the two high-ranking officials nominally in charge of the matter were publicly executed in April.

In the past 20 years, the regime has proved itself to be remarkably resilient, though with fluctuating degrees of stability. Currently, the regime once again faces challenges of increasing difficulty. As it entered 2011, the North Korean regime stood at a crossroads, deciding whether to engage in compromise both internally and externally, or to intensify provocations and internal
control, thus risking increased tension with both its own population and with neighboring countries.

**History and Characteristics of Transformation**

North Korea has experienced profound changes since the early 1990s. As a result, the Democratic People’s Republic of Korea (DPRK) has become a different country in comparison to the old Stalinist society that lasted until the end of the 1980s.

North Korea’s transformation, however, has been qualitatively different then either that of China and Vietnam, or of the former socialist countries in East Europe and the former Soviet Union. During the past 20 years, there has been neither collapse and transition nor attempts by the regime to engage in meaningful reform and opening.

Due to a sudden and drastic deterioration of the economy in the early 1990s, the regime has faced difficulties in retaining control. One of a number of means of strengthening the system was the creation of the “military-first policy” in 1995. The military was assigned the role of directly maintaining the minimum level of production and social order, and in return was given political, ideological and economic priority over the party and any other agency. The military’s first policy had a triple objective: to prevent the collapse of the military as an organization; to deter the deepening of internal unrest; and to defend the country. The worst period was between 1995 and 1997, a time called the “arduous march” by North Korea. International humanitarian assistance began in 1995. The “slow motion starvation” in the 1990s inflicted a human toll of 482,000 additional deaths between 1994 and 2005 and 128,000 fewer births from 1995 to 2004 according to calculations by (South) Korea Statistics based on the results of a population census by the United Nations Population Fund (UNFPA) in 2008. However, the market expanded rapidly during the period. The regime reestablished itself in 1998. Outwardly it pursued a policy of accommodation with South Korea beginning in 2000, and enjoyed economic support from its southern neighbor until the end of 2007. Internally, it pursued a policy of adjustment in support of the market expansion, which peaked in 2004. From 2005 on, the regime increased its control over market activities and sought to expand the role of the state sector in the economy. North Korea exploded its first nuclear device in 2006.

Starting in October 2008, North Korea took an aggressive policy both internally and outwardly. Since that time, the previous cordial inter-Korean relations and the apparently promising six-party negotiations on the nuclear issue have become strained. Worst of all for North Korea, Kim Jong-il suffered a brain stroke in August 2008 and had to disappear from the public eye until October. Consequently, the regime had to take serious steps to prepare a political succession even as conditions for the regime’s survival became less certain. In January 2009, Kim Jong-il designated his youngest son as his successor, and began in earnest to construct an environment conducive to the success of this hereditary succession. Externally, the regime thereafter
attempted to improve its negotiating leverage through various aggressive provocations. Internally, the regime has strengthened state control over the economy and society, while bolstering internal police surveillance. The regime has taken various measures reorganizing economic sectors and actors in order to increase its control. It initiated consecutive 150-day and 100-day “production battles” in 2009. This type of national mobilization had not been attempted since the 1990s. At the culmination of this period were the “money exchange measures” in November 2009. These proved to be an almost direct confiscation of money from both rich and subsistence-level merchants. As result, North Korea suffered under a period of hyperinflation in 2010: In November 2009, the price of one kilogram of rice was about 2,000 (old) Korean won. On November 30, the old money was exchanged for a new currency at a ratio of 100 to 1. In early January 2011, the price of a kilogram of rice reached above 2,000 (new) won. Thus, in the space of 13 months, the price of rice rose about 100 times on a nominal basis.

The main features of North Korea’s transformation since the early 1990s can be summarized as post-totalitarianism without economic reform or political liberalization. North Korea has become post-totalitarian in the sense that the old structure for “ever-present total control over the individual” was no longer able to be maintained. However, the regime has not yet given up the intention to restore this control, despite having lost the capacity. The result is that the current North Korea is an amalgamation of still-strong remnants of the old system and nascent elements of the new, a mix that works to the detriment of economic development and human rights.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

The state’s monopoly on the use of force has not been challenged in North Korea since the end of the Korean War in July 1953. Traditionally, the military has been regarded as the “party’s revolutionary armed forces.” In the new party statute of 2010, which replaced the old one of 1980, it is regarded rather as the “revolutionary armed forces created by Kim Il Sung.” The drastic and rapid deterioration of the economy in the early 1990s significantly weakened the traditional instruments for penetration and control, especially party organizations. The military directly intervened to maintain internal order in the mid- to late 1990s, gradually ceding this role to various police forces and the implementation of penal law as the early 2000s progressed.

There is a strong tradition of nationhood and state identity on the Korean peninsula, which historically speaking, reaches back into the 15th century. While the closed nature of society, state and regime make it difficult to assess how strong North Koreans’ identification with the DPRK in fact is, there seems at least to be consensus among researchers that the legitimacy of the (all-)Korean nation-state is unchallenged. Given the highly ideologized nature of North Korean state and society, the identity of the nation-state cannot be evaluated without reference to the state’s idiosyncratic ideological foundations. The pantheon of North Korea’s official identity has been dominated till the end of the 1980s by words and concepts such as the Leader (Suryong), self-reliance (chuche), unification, the leading role of the party, anti-imperialism, anti-Japanese armed resistance, “our own way as the best way,” the nation as “socialist great family” and communism. Since the mid-1990s, the regime has experimented with various new formulas as definitions of identity. With the start of the “military-first policy” in 1995, the military, the soldier and the “military-first ideology” have partially (at least in rhetorical terms) replaced the party, the workers and self-reliance as core concepts. In the new party statute of 2010, the following concepts are given center stage: the “strong and prosperous
great state,” Kim Il Sung as the creator of the Korean nation, the party and the military, and continuous improvement of people’s living standards. “Communism” has disappeared, and “socialism” is less frequently used.

Though the state is secular and atheistic, its own ideology and the cult of the Leader can be characterized as quasi-religious. In principle, the freedom of religion is guaranteed by the constitution, but only as long as it does not endanger the socialist order. The problem is that religion per se is considered to be a threat to the regime. Some churches and temples are allowed primarily for foreigners, diplomats and representatives of aid organizations. The government closely monitors their activities. For the ninth consecutive year, North Korea was ranked in 2010 as the country with “the deadliest persecution of Christians in the world” by Open Doors, an NGO that monitors persecution of Christians.

North Korea shares with South Korea traditions of meritocratic (Confucian) bureaucracy and strong state institutions inherited from the Japanese colonial period. However, the recent decline in state capacity and in the ability to administer and deliver public goods (ongoing at least since the early 1990s), in addition to the country’s dolorous economic course essentially since the 1970s, has undermined these legacies. Nevertheless, North Korea has maintained a differentiated administrative structure throughout the country. The efficiency of its operation, however, has been greatly reduced since the early 1990s. In reality, the administration was on the brink of collapse in the mid-1990s. The regime’s efforts to restore its basic structure and function at least to the level of the late 1980s have not yet succeeded, though conditions have improved somewhat. Within the administration, rent-seeking and corruption have become systematic.

The regime evidently worries about the development of local cliques of party and government officials, rich merchants and criminal elements. The center constantly sends ad hoc special teams made up of various party, security-service and governmental officials to perform inspection, especially in border areas.

2 | Political Participation

There have been no free and fair elections in North Korean history, though they are nominally guaranteed by the constitution. Elections for people’s assemblies are held every five years, most recently in 2009. They are monitored and managed by the Korean Workers’ Party. They are a means for mobilizing the masses and are regarded as yet another political festival for showing off, both internally and outwardly, the people’s unified support for the regime and its leader. To guarantee 100% participation, the local police typically ascertain the whereabouts of any absentees, who will be persecuted if they fail to turn out to vote. Voters gather together and march to the voting place. Voters who do not support the candidate
must do extra work to mark their preference on the ballot, thereby publicly exposing their dissent. The regime usually announces virtually 100 percent participation and 100 percent support as the result of the vote.

In North Korea, Kim Jong-il is the absolute leader. There is no veto power able to counter his personalistic rule. He holds the three most important offices of the party-state: the party general secretary, the chairman of the defense commission and the supreme commander of the military. The central committee of the party and the Supreme People’s Assembly have not “elected” the party general secretary or the chairman of the defense commission since 1998. They have simply brought Kim Jong-il forward as such.

With the implementation of the military-first policy in 1995, the military gained a hegemonic role with respect to the party and the cabinet. Since 2005, Kim Jong-il has promoted the party as a check on the military’s power, though not with full success. Currently, it can be said that there is competition for obtaining Kim Jong-il’s favor, and for checks and balances among the party, the military and the security organization.

After the party delegate conference of September 2010, it appears that the party and its Central Military Commission have been upgraded in status. The leadership also installed Kim Jong-il’s appointed successor and other members of the Kim clan into influential positions, flanking them with loyal military officers.

The status of the police forces was enhanced, and their jurisdiction was expanded even to cover aspects of the military in April 2010. At the same time, their nominal superior was shifted from the cabinet to the National Defense Commission.

As was the case in previous instances, Article 67 of the ninth revised constitution of 2009 guarantees freedom of association and assembly. However, the reality is that autonomous associations are nonexistent in North Korea, and that strong mutual distrust prevails among individuals. The regime fosters the atomization of the population by means of party organizations, police surveillance, informant networks and the threat of deportation to prison camps.

Article 67 of the constitution also guarantees freedom of speech and of the press. The reality is that the mass media are party- or state-run, and are completely controlled by the political authorities. There is no need for censorship of or assault on dissenting media, because there is no independent media. Though no channels exist for popular expression and signs of dissent cannot be expressed in public, the population’s exposure to foreign media, including broadcasts from South Korea, has gradually increased.

Controlling the flow of information within the country is crucial for regime survival. Harsh reactions to South Korea’s “psychological warfare” (dropping
leaflets attached to radios, dollar-notes and medicine on North Korean soil) and merciless reprisals against those citizens that actually pick up and read enemy propaganda strongly demonstrate this. Still, due to the constant flow of information and – more often – gossip and rumors, the state’s information monopoly is eroding. In addition, the illegal possession of mobile phones and a few other means of communication (e.g., radios) has increased, creating another small crack in the wall of state propaganda and misinformation.

3 | Rule of Law

There has been a relatively clear separation of roles and good institutional differentiation between the party, the military, the security organization and the cabinet. This division of roles, however, should not be confused with a working separation of power (checks and balances). Kim Jong-il monopolizes all powers under North Korea’s neopatrimonial regime. It is also true that among the agencies of the party-state, there is overlap of authority. Kim Jong-il has shifted the balance of power between party-state agencies as circumstances have changed. Until the end of the 1980s, the central party colonized all other agencies. With the introduction of the military-first policy in 1995, the military took on a hegemonic role. The party was the main instrument through which Kim Jong-il consolidated and expanded his personal power base through his long status as designated successor, from 1973 to 1995. The central party’s organization and guidance department in particular stood above any other party-state agencies. Kim Jong-il switched his core power base from the party to the military with the inception of the military-first policy in 1995. There were two possible reasons for this transfer of his personal power. First, with the simultaneous collapse of the economy and the official party-state structures of administration and production, the party’s structures and functions too were badly hurt, losing efficacy and efficiency. With all its strengths and weaknesses, the military was expected to compensate for the power vacuum, thus effecting the survival of both Kim Jong-il and his regime. Second, Kim Jong-il assumed the military’s top positions in the early 1990s, and became the top leader of all party-state agencies after the death of Kim Il Sung in 1995. Thus, he had no need to rely excessively on any single party-state organization, but was able to employ checks and balances between various party-state agencies. With the inception of the military-first policy in 1995, the party central-committee departments were significantly downsized and lost their policy-making leadership role with regard to foreign policy, economic management and other domestic issues. The military and the Defense Commission gained stature in such policy-making areas. These roles were legalized by the new Party Statue of 2010. Clauses which previously provided central party departments with the right to intervene in “administrative-economic” matters have disappeared. However, it is worth keeping in mind that the same clauses reappeared in the new statute governing local party organizations, and the
dominant role of local party organizations in local governance can be empirically ascertained.

After the designation of Kim Jong Un as successor in 2009 and the party delegates’ conference in 2010, vacant posts within the party’s central committee were filled and the power of its Central Military Commission increased. The status of the police forces was enhanced and their area of jurisdiction expanded to cover even the military in April 2010. Simultaneously their nominal oversight body was changed from the cabinet to the National Defense Commission.

The judiciary is not independent. It suffers from strict political control and rampant corruption, though it is institutionally differentiated. Until the end of the 1980s, North Korea’s regime retained control largely through the repressive influence of party organizations in all areas of life. Dissent and conflict was frowned upon, but was mainly managed politically. Since the late 1990s, the regime has noticeably strengthened its internal-security institutions. In addition, it has updated the penal law several times, and has sought to differentiate and strengthen penal law implementation mechanisms. With the expansion of the market in the 2000s, North Korea created new economic regulatory laws and updated old ones. In a nutshell, North Korea has been transitioning from a rule grounded in politics and party ideology, enforced by the party, to one dominated by punishment and law, enforced by the security agencies and the judiciary.

Corruption is systemic up and down the bureaucratic ladder. Burdened by fiscal collapse in the mid-1990s, the regime had to encourage its central and local agencies to engage in financial self-support. Party-state officials too were forced to explore mechanisms of self-support in order to survive. At both the organizational and individual level, the primary response has been to take advantage of public positions for organizational and/or private gain. Since the late 1990s, the regime has frequently sent special inspection groups to lower-ranking units to fight “anti-socialist phenomena.” However, these groups have been more interested in taking bribes than in stamping out corruption. Though high-level corruption has been intermittently prosecuted, this has generally been done for the purpose of political purges rather than for strictly law-enforcement aims. Those sentenced are usually referred to as “a few individuals” who are no longer “pursuing the well-being of the people.”

Chapter 5 of the constitution guarantees basic civil rights. The reality is that the regime can ignore civil rights and trigger at most insignificant political resistance from the population. Public executions and sudden deportations, without due process, persist. Mistreatment and torture at labor and prison camps are still
widespread. With the drastic increase of corruption since the 1990s, law enforcement has become a kind of private business both for officials and judicial organizations.

4 | Stability of Democratic Institutions

There are no democratic institutions as such in North Korea. The regime’s record of performance is one of chronic policy failure and permanent crisis. Among the most conspicuous failures have been the great famine and the virtual collapse of the system in the mid-1990s.

Though the regime is not monolithic, the socialist hard-liners have attained hegemonic power since 2005. There are no meaningful trends within the regime in favor of reform or opening, much less of democratization. In fact, North Korea’s economic policy since 2005 can be characterized as an anti-reformist opening.

5 | Political and Social Integration

Article 11 of the constitution states that the Worker’s Party of Korea has a leading role with respect to all state activities. Aside from this party, two additional “friendly” parties are allowed to exist. Since the mid 1990s, the Worker Party’s organizational discipline has been weakened. Its sub-organizations and individual members have increased their engagement in corruption and rent-seeking, seeking survival through self-support. With the market expansion and the loosening of party discipline, local party groups have to some extent taken on the role of defending local economic interests against the center, and of relaying local sentiments on unpopular measures ordered by the center.

North Korea has long been extremely segmented along bureaucratic lines, regional domains, and other stratifications of power. Kim Jong-il has taken advantage of this segmentation to strengthen his personal power while promoting competition for his favor between bureaucratic and regional groups. Each segment can be understood as a latent interest group seeking to increase its allotment of resources from the center, but not as a mediating power between society and the political system. The space for autonomous interest-seeking and interest realization is strictly checked by the necessity to promote Kim Jong-il’s power above all other goals.

No survey data on support for democracy is available. With increasing availability of information and intensifying contact with the outside world since the mid-1990s, not least due to continuous policy failure by the regime, the North Korean population has become capable of complaining about and being critical of the regime and the system, though not in public. However, recent reports on “public unrest” (or at least “civil dissent”) within the border region with China remain
highly speculative, and might turn out to be little more than wishful thinking evoked by current events in North Africa.

The regime has long promoted the atomization of the population. The individual has been dependent on and controlled by the party-state in almost every regard. From an economic perspective, this dependency has weakened with the spread of market activities and self-help efforts aimed at survival. The expansion of commercial activities has relied on the emergence of the rudimentary level of trust needed to enable exchange among market participants. To overcome the ubiquitous uncertainty of daily life, bureaucratic and market clientelism has become indispensable for individual survival.

II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty and inequality are extensive and structurally ingrained. Famine and malnutrition have been ongoing phenomena since the early 1990s (in varying intensities) and have seemed to be intensifying again in recent years.

With the spread of market activities, the landscape and features of wealth distribution have become more complex. To be sure, continuities with past practices remain. Administrative determinants still exert a strong influence. There have been and remain wide gaps in income and opportunities between urban and rural environments. The state still takes care of Pyongyang and other groups essential for regime maintenance. However, changes to this picture are evident. Because of the weak institutions, continuous policy failures and market expansion, gaps between the rich and the poor have significantly expanded. Members of politically privileged groups have in general taken advantage of their political capital for the purpose of enrichment. People in the city or other commercial hubs have been able to take part in the expansion of the market, while others have had little opportunity to do so. About one-third of the population is regarded as requiring aid from international humanitarian groups.

7 | Organization of the Market and Competition

Officially North Korea still maintains the institutions and principles of a command economy, albeit a decentralized one. Both in theory and reality, the party-state agencies continue to enjoy rights of control over almost all economic activities in the territory. Major decisions are made by Kim Jong-il. Major public agencies
function as economic monopolies. They compete for the distribution of resources and business licenses from Kim Jong-il by displaying power and political indispensability. Private entrepreneurs are afforded business opportunities only as hired agents for public organizations’ commercial activities. Independent private undertakings are allowed only at the subsistence level. These take place under an increasingly competitive environment, though they have to muddle through numerous and discretionary official and private interventions on the part of local administration and the party-state agents. Little is known about the military’s parallel economy, which by some estimates accounts for one-quarter of the country’s entire economic activity.

Kim Jong-il sponsors a large variety of monopolies as a means of raising revenue. The most important one is that of export and import licenses. Kim Jong-il monopolizes the rights to assign these, and distributes them to major agencies of the party, the military and the internal security services according to each one’s contribution to his hard currency stores, management of power and the survival of the regime. Trading companies affiliated with major party agencies, the military and internal security services have taken advantage of the huge gaps between domestic and international prices, occupying market-determining positions. Their main export goods have mainly included natural resources or extractive products such as transition metals, minerals, timber, sea foods, mushrooms and various herbs. In addition, the party-state bureaucracy intervenes extensively in the economy to restrict competitive entry and to authorize small or large monopolies.

North Korea is rich in natural resources such as rare earths, molybdenum, coal and magnesium, which are increasingly exploited and monopolized by Chinese companies.

Kim Jong-il strictly monitors and controls foreign trade, as it is the source of foreign currency indispensable for the regime’s survival. The regime periodically loosens and strengthens its control over foreign trade. During the 2000 – 2004 period, the regime took a rather permissive attitude to market expansion and foreign trade. As result, many unauthorized trading companies, often affiliated with various units of the military, took part in foreign trade. Since 2005, the regime has sought to restrict market expansion and recentralize foreign trade. Through the money exchange measures of November 2009, the regime even tried to confiscate “illegal” foreign currency holdings from trading companies and merchants.

North Korea’s most important trading partners remain China and South Korea. Between 2004 and 2009, China’s share in North Korea’s foreign trade increased from 39% to 52%, while South Korea’s rose from 20% to 33%. Trade with the special economic zone in Kaesong has rapidly increased despite inter-Korean tensions, from $41.69 million in 2008 to $1.44 billion in 2010.
Banking is a state monopoly, and has played a role in controlling the economic activities of state firms and agencies. State banks receive personal deposits. However, they typically do not return such deposits. Therefore, people do not bring their money to the bank, keeping it instead for themselves. A problem has been that money issued by the central bank doesn’t flow back into the state banking system. This became even more serious with the expansion of market-based activity in the 1990s. Money increasingly flows and is held outside the state financial system, while the state is starved of cash. Therefore, the state has periodically resorted to radical measures such as “monetary reform” to coerce the population into giving up its money. The last such activity was the “money exchange measures” of November 2009. As a substitute for the state banking system, informal and illegal private banking facilities have since the mid-1990s gradually developed in parallel with the market expansion. All banks in North Korea are cash banks.

8 | Currency and Price Stability

North Korea has no independent central bank. The domestic currency has been regarded as unreliable due to rapid inflation, especially since the early 2000s, when the regime allowed some measure of market expansion. In 2010, the inflation rate rose to particularly high levels in the aftermath of the money exchange measures of November 2009. There has long been a wide gap between the official and market foreign exchange rates. Foreign currencies, especially the U.S. dollar and the Chinese yuan, have become major instruments of value holding and exchange. Even transactions between state firms at above a certain scale have been concluded in foreign currency since the mid-1990s, if not on the basis of barter.

North Korean economic policy has been characterized by continuous policy failure. The result has been continuous disruption and a high rate of inflation. Among the reasons for this have been the following: a prioritization of regime survival over economic efficiency; the primacy of a “defense-industry first policy”; the chaotic coexistence of a command economy and market transactions; the lack of a functioning financial system; rampant corruption and rent-seeking; a woefully underdeveloped domestic consumer industry; trade monopolies; and more. The money exchange measures of November 2009 seriously disrupted the economy. The regime de facto sought to confiscate private merchants’ holdings of North Korean won and foreign currency (by setting a strict KPW 100,000 upper limit on the amount that could be exchanged, or later amending this to KPW 150,000 in cash and KPW 300,000 in bank savings) pushing many of them into bankruptcy. Therefore, “back-alley banking” was also influenced by these disruptions in a significantly negative way. By early 2011, the government had not yet addressed this problem through any effective policy.
9 | Private Property

Nearly all property, including imports, exports and domestically produced goods, belongs to the state. The Heritage Foundation’s 2011 Index of Economic Freedom gives North Korea a score of 5.0 out of 100 points (as compared to a world average of 43.6) in its property rights category. The arbitrariness of North Korean property rights was quite strikingly demonstrated in April 2010 when the government simply seized a number of properties owned by South Korean companies in the Kumgangsan tourist region.

Officially, the large majority of productive properties still fall into the category of “property owned by the whole people.” However, fiscal constraints have weakened the state’s ability to control its own property, leading to a substantial increase in administrative agents’ control over the portion of state property falling into their individual domains. The expansion of the market expansion, though illegal and taking place on a small scale, has meant that de facto private ownership over productive means has also emerged. In some cases, parts of state firms’ facilities have been leased to private businesses.

The rate of commercial activity has risen dramatically since the mid-1990s, although private business remains illegal. The main participants fall into one of two categories: first, the local subsidiaries of trading companies run by major party agencies, the military or the security services; and second, subsistence-level merchants or household businesses. The first category combines public and private actors. The major public agencies have hired private entrepreneurs as their commercial agents, giving them the status of public officials. While members of the second category can be classified as private businesses, they are illegal and must maintain good relations with agents of the party-state in order to protect their business from discretionary intervention.

10 | Welfare Regime

Social safety nets are virtually nonexistent, with the exception of international humanitarian assistance. Until the end of the 1980s, the state guaranteed comprehensive social security. Since the early 1990s, the state has lacked the capacity and perhaps even the will to provide the population with basic human needs, while family and village structures crumbled under the burden of extended famine. International humanitarian assistance began in 1995, but aid fatigue and the regime’s lack of cooperation led to a gradual decline in assistance levels in the second half of the 2000s.
Three institutions seriously limit equality of opportunity in North Korea: first, a rigid system of status classes divides society into 51 subclasses, which are in turn divided into three broader categories based on an individual’s assumed level of loyalty to the regime; second is a principle of guilt by association; and third, a strict restriction on movement from rural districts to the city. Though women technically have legal equality with men, they continue to suffer as a result of the society’s traditional patriarchal biases. In addition, the spread of corruption favors the politically powerful and those with the right political connections. The market expansion has opened some marginal space for the commercially talented, regardless of individual’s political and/or gender status limitations.

11 | Economic Performance

The Bank of (South) Korea estimates that the North Korean economy contracted by 34.9% between 1990 and 1998, and grew by 20.2% between 1999 and 2009. Nevertheless, the economic situation remains disastrous. The same bank estimated North Korea’s 2009 growth rate to be -0.9%. Growth in 2010 was almost certainly even lower, due to the serious disruptions caused by the money exchange measures in November 2009. Due to continuous mismanagement of the economy, North Korea has periodically suffered from high rates of inflation since 2000. After the failed currency reform of November 2009, the inflation rate exploded in 2010. Industry has been estimated to be operating at about 20% to 30% of capacity since the second half of the 1990s. North Korea has not achieved a condition of trade surplus since the early 1990s, and its trade deficit topped $1 billion in 2005. The country suffered from a chronic food deficit of between 1 million and 1.2 million tons throughout the second half of the 2000s. The official announcements of state budget figures have been extremely unreliable. Reliable tax collection seems to be nonexistent. Both the population and individual party-state agencies are called constantly upon to donate whatever is available, including money, labor, waste and compost, etc.

A significant increase in Chinese direct investment has been evident in recent years.

12 | Sustainability

North Korea has pursued a resource-intensive industrial growth, failing to take environmental concerns into account. Due to shortages of arable land, hillsides have been cultivated. Shortages of firewood have led scrub and small trees to be cut down. The situation has been significantly aggravated since the mid-1990s. Confronted with starvation, any seemingly arable land has been cultivated, with private plots reaching even to the tops of mountains. Natural resources have been excessively extracted for export. Even industrial waste has been imported in
exchange for foreign currency. The very low level of industrial operation, about 20% to 30% of capacity since the mid-1990s, may have mitigated environmental problems somewhat. Neither the small number of environmentally ambitious projects launched by foreign NGO’s and aid agencies nor the few solar-powered street lamps along one prominent street in Pyongyang change the overall dismal picture in any significant way.

With the onset of economic hardship in the early 1990s, North Korea’s education system virtually collapsed outside the presence of a few Potemkin schools in Pyongyang. Facing the threat of starvation, teachers and students left to scavenge for food or to participate in commercial activities. Conditions improved somewhat in the 2000s. However, schools still must support themselves; though nominally free of charge, they levy donations and mobilize students to provide free labor under a variety of pretexts. North Korean authorities usually emphasize scientific R&D investments. The results can only be guessed from their ability to produce weapons of mass destruction, including the development of missiles and nuclear explosives. The most recent breakthrough was displayed by the regime’s 2010 demonstration of the capacity for industrial-level production of enriched uranium, which was achieved faster and more efficiently than has been the case for Iran. Some steps forward have also been made in the field of information technology. However, North Korea’s most talented academics are cut off from international scientific discourse, and therefore tend to fall behind due to a lack of information on recent developments.
Transformation Management

I. Level of Difficulty

There is considerable disagreement among scholars with regard to the potential for successful governance or lack thereof in North Korea. Some scholars point to the country’s Confucian traditions, a well-established educational system that existed from the 1960s through the 1980s, the existence of heavy industry and high-tech economic sectors, the “Confucian work ethic,” the population’s strong sense of nationalism, and the tradition of centralized government and administration. However, others point to the dramatic erosion of basically all favorable structural factors since the 1990s. This latter evaluation remains also rather pessimistic with respect to structural constraints on governance.

Since the mid-1990s, the North Korean economy has suffered from four primary structural constraints: the prioritization of the military-industrial complex, dramatic deterioration of the country’s administrative and infrastructural capacity, international isolation and sanctions, and the regime’s prioritization of its own survival over economic efficiency. The restoration of the country’s system of economic management, as well as of basic industries and infrastructure, commenced in 1998 but had shown only marginal success by the end of the 2000s. The regime benefitted strongly from cordial inter-Korean relations and the generous assistance provided by South Korea between 2000 and 2007, as well as from market expansion between 2000 and 2004 – 2005. However, inter-Korean relations have deteriorated since 2008, aggravating North Korea’s economic difficulties. In addition, the regime abandoned its comparatively market-friendly policies in 2005. Economic policy has subsequently become schizophrenic due to the conflicting imperatives of cracking down on market activity while simultaneously adjusting to its overwhelming influence. Following its increased level of security provocations beginning in 2009, international sanctions against North Korea have been significantly enhanced.

North Korea’s historical trajectory has shown no trace of civil society development. North Korea’s population has successively experienced periods of feudal domination, Japanese colonial rule and the Communist system. However, there have been some changes since the early 1990s. First, with the regime’s fiscal
deterioration, Stalinist mechanisms of societal penetration and control have weakened. Second, horizontal economic connections have emerged as a consequence of market expansion. Third, North Koreans’ contacts with the outside world increased as international humanitarian assistance began in 1995, and again with the expansion of inter-Korean exchanges in the 2000s. Fourth, in the latter half of the 2000s, international and South Korean human rights NGOs stepped up efforts to influence the North Korean population’s attitude towards the regime. However, as more information from the outside world has slipped in, the regime has tightened its system of “socialist education,” and continues to maintain extensive networks and complex mechanisms able to foster mutual mistrust and feelings of physical insecurity among individuals.

North Korean politics has long been characterized by very low levels of internal conflict both among elites and between the regime and the society. The North Korean regime even endured the serious famine of the second half of the 1990s without any serious overt challenge from the population. Regime policies have periodically resulted in significant failure without provoking serious resistance from the population. However, several factors have gradually, though not rapidly as expected, triggered increasingly vocal public protest against the regime’s policy failures: market expansion, increased information supply from the outside, (especially from South Korea), and increased levels of refugee and commercial travels to and from China. In particular, the money exchange measures in November 2009 aggravated relations between the regime and society. In February 2010, for the first time in the history of North Korea, the prime minister apologized for disruptions to the economy and in March publicly executed the two high-ranking officials nominally in charge of the money exchange measures.

II. Management Performance

14 | Steering Capability

The necessity of developing previous achievements further is discussed within the elite. China’s economic development, for example, is a subject of discussion in Pyongyang. What is always stressed is that enhancements in all fields have to be developed the Korean way.

While avoiding necessary internal reforms, the regime has focused on increasing the flow of a variety of unproductive external rents, including the export of raw materials; exploitation of location through tourism and the development of transport routes; strategic rents in the form of assistance from China or the extortion of aid.
through developing weapons of mass destruction; foreign aid; and migrants’ earnings in the form of remittances or the export of workers to special economic zones or enclaves such as the Kaesong industrial complex.

This overarching policy became more evident in 2009 and 2010. During this period, the regime cracked down on market activities, revived 150- and 100-day “production battles” aimed at spurring industrial production in 2009, and initiated money exchange measures in 2010. However, it simultaneously sought to open several ports as export enclaves (modeled after the Kaesong industrial complex), attract Chinese tourism and mineral-extraction investment, and negotiate transit exits for the landlocked northeastern Chinese regions. This kind of economic strategy is typical of semi-rentier states, a status which already describes North Korea’s economy. About 50% of the country’s export revenues originate from the extraction of natural products, primarily minerals. With the cessation of aid from South Korea in 2008, the regime has sought new sources of external rents as a way to avoid internal reforms and allow it muddle through despite economic sanctions. From 2000 to 2007, South Korea assisted North Korea annually with 400,000 to 500,000 tons of rice, 300,000 to 350,000 tons of fertilizer, and about $300 million in foreign currency derived from two production and tourism enclaves and other trade relations. Following the attack on the corvette Cheonan, South Korea halted trade relations on May 24, 2010, aside from participation in the Kaesong industrial complex.

The regime has shown remarkable tenacity in sticking to its policy priorities, risking enhanced outside sanctions and the aggravation of internal conditions. It is believed that, since 2005, North Korean regime has put forward five strategic objectives: first, to be acknowledged as a nuclear power; second, as a nuclear power, to normalize relations and conclude a peace treaty with the United States on its own terms; third, to pursue an anti-reform policy domestically while expanding external commercial relationships in order to earn foreign currency; fourth, to frame inter-Korean relations in such a way that South Korea assists the North Korean regime economically; fifth, to strengthen internal security and make the hereditary succession successful. Particularly since late 2008, the regime has intensified offensives aimed at coercing South Korea and the United States to accept the five objectives, provoking stronger counter-measures from the latter country. In addition, the regime has also hardened its domestic policy during the same period. These priorities, of course, have nothing to do with transformation toward democracy or to a market economy.

In implementing the regime’s top priority of safeguarding its own existence, North Korea’s government has been quite successful. The regime has stuck tenaciously with its five objectives even when confronted by internal difficulties and outside opposition. Most remarkable have been its achievements in developing a nuclear weapon capacity. Pyongyang experimented with nuclear devices in 2006 and 2009,
and is on its way to developing a capacity for enriching uranium. The regime has shown the clear intention of developing its own operational nuclear weapons and carrier systems. Since 2009, the country has intensified provocations aimed at forcing South Korea and the United States to back down.

Internally, the regime has intensified its repression of market activities since 2008, has strengthened internal security organizations, and has inaugurated attempts to establish Kim Jong Un, the youngest son of Kim Jong-il, as his father’s designated successor. Meanwhile, the domestic economy has stagnated, with serious disruptions related especially to the money exchange measures of November 2010.

The regime demonstrated some open-mindedness in sending delegations to China, South Korea and Western countries between 2000 and 2004 – 2005. Since 2005, reformist officials have been purged and the number of delegations sent has been reduced. In addition, North Korean delegations have been less welcome within Western countries since the country’s nuclear tests and other provocations. A number of high-ranking delegations have been denied visas, and some students studying within the European Union have been sent home. Exchanges with China, on the other hand, seemed to reach a peak in 2010. With the turn of domestic economic policy back in a conservative direction, economic strategies of command and public mobilization have been noticeably revived, particularly since 2008. In addition, following the strengthening of international sanctions after North Korea’s second nuclear test in 2009, as well as South Korea’s 2010 suspension of inter-Korean commercial trade after North Korea’s attack on the Cheonan corvette, North Korea’s economic policy has reemphasized an autarkic self-reliance. North Korea’s economic priorities have in general focused on using domestic natural resources to develop heavy and chemical industries, using outdated Cold War-era technology and facilities donated by the Soviet Union, Eastern European countries and China.

15 | Resource Efficiency

The socialist regime remains the major obstacle to increasing the efficiency of resource use. What improvement has taken place has done so mainly outside of the central government’s official activities. In the past, rigid central planning and economic irresponsibility made it impossible to use agents and resources efficiently. With the expansion of the market and concomitant weakening of control by the center, agencies and managers increased influence over the properties and resources under their supervision. Though this remained illegal, they developed horizontal relations among these bodies and took part in commercial activities, ceding properties or licenses under their control to semi-private businesses. In a nutshell, the central authorities’ official intentions and policies have not been
implemented with increasing efficiency. However, individual party-state agencies have improved efficiency by using assets under their control in informal and illicit ways to enhance revenue.

The North Korean regime has been characterized by bureaucratic segmentation with a very low level of horizontal communication. Kim Jong-il has served as the top-ranking and indeed the sole coordinator among the competing quasi-independent bureaucratic monopolies of the military-industrial complex, the party and its economic subsidiaries, and the civilian economy under the control of the cabinet. Behind the façade of this “macro” segmentation, “micro” segmentations have long existed within each bureaucratic unit. Decision-making power is concentrated with Kim Jong-il. Major bureaucratic units typically make policy proposals directly to Kim, and receive approval from him independently. In many cases, approved policies contradict one another. On his “on the spot guidance tours,” he is expected to give directions, and personally interferes with the daily operations of business. In reality, there has been no national economic policy, but rather an aggregate of independent economic undertakings by bureaucratic agencies aimed at self-support. For example, the monetary exchange measures of November 2009 were initiated to create a political slush fund for Kim Jong Un, the designated successor. To stabilize the economy, the supply of food had to be increased and the only solution at hand was to open stores designated for wartime use. However, this policy was rejected by the military when the money exchange resulted in skyrocketing inflation in 2010.

Corruption is rampant in North Korea. Corruption within the bureaucracy has been used by the regime as a systemic device to extract rents from the populace while simultaneously securing loyalty. Party-state officials have been provided with below-subsistence-level wages, leading them to exploit the potential for corruption inherent in public office in order to make ends meet. Anti-corruption campaigns have been carried out not in order to reduce corruption, but for the purposes of enhancing political discipline and regaining control. Higher-level officials can capture a great part of these illicit revenues through periodic threats to dismiss “disloyal” lower officials on the pretext of corruption. In addition, the central authorities maintain an extensive surveillance capacity and constantly send special teams on inspection tours, allegedly to punish “anti-socialist phenomena.” Thus, the rampant corruption does not mean that the state’s authority has broken down.

16 | Consensus-Building

The expression of enthusiastic support for all policy goals and any abrupt change suggested by Kim Jong-il is required. Even questioning the “Dear Leader’s” guidelines openly will inevitably lead to serious punishment, and most probably a term of “socialist reeducation” in a North Korean labor or reeducation camp. Under
dictatorship as strict as that of North Korea, camouflage of preference has been rational and systemic. Based on refugee testimonies, however, it can be guessed that much of the population in fact has private opinions that differ from official policy goals. Most recently, the decision to designate Kim Jong Un as successor was made by Kim Jong-il without any public consultation. Though the public expression of opposition is very risky, popular discontent seems to be widespread. In addition, Kim Jong-il reversed a period of comparatively market-friendly policies in 2005. There are indicators of latent conflict along policy lines between market-friendly and orthodox socialist groups within the elite and the population at large.

There are no political actors advocating democratization that are able to counter or co-opt anti-democratic powers. The reversal of reformist policies in 2005 was supported by high-level officials within the central party, the military and the military-industrial complex. The latter has sought to defend the traditional state-and defense-bound bias of resource distribution, which had seemed threatened by accelerating attempts at reform by technocratic cabinet officials in the second half of 2004. The military does not want reform of the collective farm system, as this has made it easy to secure agricultural products for its consumption.

North Korea has always been a segmented society. Kim Jong-il and his regime have consciously expanded this segmentation, making use of it in order to maintain the dictatorship. The population has been classified into three major groups, with 51 subclasses, according to individuals’ perceived loyalty to the regime, with opportunities and resources redistributed accordingly. Divide and rule has been an explicit regime policy. The regime itself is segmented along vertical bureaucratic lines, with horizontal communication difficult. In this case, checks and balances function to the exclusion of policy coordination. Wide gaps in opportunity and welfare have been artificially maintained between Pyongyang and the rest of the country, and more broadly between urban and rural areas. Recently, wide gaps between rich and poor have emerged, with the state making no effort to stop them from widening further. To become rich in North Korea, close alignment with the regime or its individual agents has been indispensable.

Although the leadership claims to act on behalf of the people, there is no civic participation in the process of governing or decision-making. The big parades and mass mobilization campaigns are planned in detail by the party, and should not be confused with genuine public support.

Much past injustice awaits reconciliation. While the great majority of the population has experienced years of malnutrition, hunger and a chronic shortage of medicine and electric power, a small elite minority enjoys life to the fullest. The regime has put about 27% of the population into the category of “hostile classes,” regarding them as potential enemies of the state. These individuals face systematic
discrimination in terms of job assignments and school admissions, and are subject to particularly intense surveillance. The regime has also maintained political concentration camps since 1947, with about 200,000 inmates known to have been detained since the 1980s. The number of public executions registered by the North Korean Human Rights Database Center, a South Korean NGO, fluctuated between 100 and 200 per year during the 1995 – 1998 period. Executions and arbitrary acts continue today. There have also been numerous cases of purges, illegal arrests, torture, confinements and deportations. History is constantly rewritten in order to justify the leading role of the Kim family, blame others for injustices and adversities, and mobilize the masses against internal and especially external political enemies.

17 | International Cooperation

North Korea has shown no intention of implementing reform measures aimed at poverty reduction, though in contrast to other fragile countries, it has very strong repressive capacities. The regime has allowed an inflow of international assistance in the form of know-how transfers, capacity building and other cooperative undertakings only insofar as these have not endangered maintenance of the regime. Therefore, even though there is today a fairly long history of engagement with international assistance organizations, stretching back to 1995, the regime’s level of cooperation has remained at the most elementary level, focused on intermittent emergency humanitarian assistance. Due to difficulties in maintaining this partnership, aid fatigue and North Korea’s security provocations, the intensity of international engagement declined significantly during the second half of the 2000s. Drawing on an ideology of economic, political and military self-reliance (juche), the regime is pursuing a strategy of isolation.

Relations between North Korean regime and the international community have always been characterized by mistrust. The regime fears that increased contact with the outside world on other nations’ terms would undermine its own internal security. It has persistently tried to limit and manipulate engagement with the international community to its own benefit. However, outside countries have largely refused to accept North Korea’s demands, which have contradicted international norms and principles of engagement. During times of relative amity, the regime and international community have been able to forge some compromises. However, these have frequently broken down due to sudden deteriorations in relations, often due to security-related disputes.

North Korea’s relations with neighboring countries have been strained mainly due to three factors: its development of weapons of mass destruction, its persistent rejection of internal reform and opening, and its paranoia over its own internal security. North Korea has been an isolated island amid centers of economic growth,
and has served to obstruct Northeast Asian economic integration between South Korea, China and Japan. Although Sino-(North) Korean relations can no longer be described as “as close as lips and teeth” – especially economically – they have experienced a boost. By increasing its provocations, in large part due to its enhanced nuclear weapons capabilities since 2009, North Korea has drawn reluctant protection from China, thereby bringing on a bipolar quasi-Cold War confrontation between China and North Korea on the one hand and South Korea, the United States and Japan on the other.

Strategic Outlook

North Korea has defied observers’ expectations since the early 1990s, either for collapse of the regime or for a course of reform and opening like that of China or Vietnam. However, this does not mean that North Korea has retained its old Communist system.

Since the early 1990s, North Korea has transformed in its own way, and should thus be regarded as an idiosyncratic case of post-Communist transformation. The current North Korean system should not be understood only as an eroded version of the old one, destined for collapse sooner or later. Though the “eroded” remnants of the old Communist system still dominate the system’s official façade, they have adapted themselves to and combined with new elements of a changed situation.

Concomitant with this transformation, the regime has withstood more than 20 years of permanent crisis, with fluctuating degrees of regime stability depending on the circumstances. During the 1995 – 1998 period, the system’s internal fabric virtually collapsed. From 1998 to 2004, the regime recuperated somewhat, allowed the market to expand, and increased cooperation with South Korea and China. From 2005 to 2007, North Korea remained relatively stable, though with an increasing crackdown on market activities.

Since August/October 2008, North Korea has entered a new phase of crisis in its history. During this time, Kim Jong-il appeared to weaken, and a process of power succession had to be prepared. Relations with South Korea and the United States became significantly more strained, reducing foreign assistance and economic cooperation. The crackdown on market activities and the serious mismanagement of November 2009’s money exchange measures led to economic deterioration and further strained relations between the regime and society. In addition, the activities of 28-year-old designated successor Kim Jong Un in 2010 have increased concerns about the quality of his leadership and the future of North Korea after the death of Kim Jong-il.

North Korea has demanded that neighboring countries should accept its terms in reorganizing security relations in Northeast Asia, and that they deliver enough free assistance to support the current regime structure. When the United States refused to accept these demands, it reacted by increasing military provocations against South Korea and the United States in 2009 and 2010. At
that point, China intervened somewhat halfheartedly to support the North Korean regime’s survival.

At the beginning of 2011, the North Korean regime stood at a crossroads, faced either with making concessions and compromising with neighboring countries or with intensifying its provocations, a path which could deepen its isolation and internal crisis. For their part, South Korea and the United States must decide whether to seek a negotiated compromise with a de facto nuclear-armed North Korea or wait either for North Korea’s diplomatic surrender or collapse. The recurrent problem has been that, even without active Chinese support, North Korea’s regime has proven to be resilient, even if with fluctuating degrees of stability, while persistently increasing its technical sophistication in the development of weapons of mass destruction.

Since North Korea has substantial natural resources relevant to the future of high tech industries, the country’s potential for exports should not be underestimated.