BTI 2018 Country Report

North Korea

Status Index
2.16 # 125
on 1-10 scale out of 129

Political Transformation
2.60 # 122

Governance Index
1.30 # 127
on 1-10 scale out of 129
This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at http://www.bti-project.org.


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Key Indicators

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Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $3.20 a day at 2011 international prices.

Executive Summary

The process of hereditary succession which began in 2009 has reshaped the North Korean regime to bolster support for the new leader Kim Jong-un. The transition of power formally completed with the death of Kim Jong-il in December 2011 and the commencement of his son Kim Jong-un’s rule in 2012. Reshaping the regime in the style of Kim Jong-un, though, only began in earnest with his formal acquisition of power.

Politically, the key aspects of this process included the rehabilitation of central party institutions, weakening the military’s influence over politics and the economy, and the redistribution of trade licenses among power agencies. This reshaping enhanced the role of the central party’s Organization and Guidance Department and strengthened internal security agencies such as the Ministry of State Security (in charge of state treason) and General Political Department (responsible for political surveillance of the military). The old guard remaining from Kim Jong-il’s rule were removed through forced early retirement, abrupt promotion or demotion, and purges. During this 2012 to 2016 process of power consolidation, more than 140 high-ranking officials were reportedly publicly executed. The most shocking example being the fall of Kim Jong-un’s uncle Jang Sung-taek, known as “No. 2.” He was purged without warning and executed in December 2013.

With regard to foreign and security policy, Kim Jong-un has taken a much more aggressive approach than his father. Since his accession to power in 2012, the regime has nullified the Leap Day Deal with the United States (exchanging food assistance for a freeze to the nuclear program), accelerated nuclear weapons development, established the Strategic (Rocket) Force to manage expanded missile capacity, prepared for full scale war with the South (the “Great War for Unification”), begun development of long-range artillery for targets beyond 200km and formed a cyber-attack unit. After testing the third nuclear device in February, a policy for simultaneously pursuing economic development and a nuclear buildup was announced in March 2013. The number of missile tests in 2014 was considerable: 111 short- and medium-range missiles on 19
separate occasions. A wild surge of nuclear and missile activities again took place in 2016, when the government claimed to have tested both a hydrogen bomb and nuclear warhead. Various missiles were also experimented with on 25 occasions. These included submarine-launched ballistic missiles, intermediate-range ballistic missiles, simultaneous launches on mobile launch pads and experiments with solid fuel missiles. Kim Jong-un’s blunt and brash push for nuclear weapons development has evoked ever stronger and more negative reactions from the international community, including punitive measures from the United Nations and bilateral sanctions from numerous countries.

In terms of economic policy, the period between 2012 and 2014 was one of the most liberal in North Korea’s history. After his father’s death, Kim Jong-un took a permissive attitude toward market expansion. Indeed, the scale and extent of commercial business have expanded significantly during the period. Though the term “reform” was never used, North Korea took reformist measures. These comprised “economic management of our style,” new rules for dividing agricultural products between the state and farmers (in favor of the latter), establishment of 19 special economic zones in 2012, and the introduction of a “management responsibility system for socialist state firms” in 2014. The liberal tide, however, seems to have receded since 2015. Since then, there have been no more reports about North Korea’s reformist measures. In 2016, 60-day and 200-day countrywide labor mobilizations were initiated to increase production. The initiation of such policies is typically a sign that an anti-reformist phase has begun.

History and Characteristics of Transformation

Even without regime collapse, North Korea has undergone a profound transformation since the early 1990s. As a result, the Democratic People’s Republic of Korea (DPRK) is far different from the old Stalinist society that existed up to the end of the 1980s.

North Korea experienced two hereditary power transitions. Power transition in dictatorships is regarded as the most dangerous event for regime stability and survival. Indeed, there were widespread expectations of regime collapse during both transition periods. The first period (1994 – 1998) transferred power from Kim Il-sung to Kim Jong-il. The second (2009 – 2012) from the latter to Kim Jong-un. Kim Jong-un held the 7th party congress in 2016, after 36 years of hiatus, to commemorate his power consolidation.

Each accession of a new leader was accompanied by a reorganization of the ruling coalition. After inauguration of his power in 1995, Kim Jong-il gradually destroyed his father’s ruling coalition and established one of his own. Kim Jong-un has done the same since 2012. The pillar of Kim Jong-il’s ruling coalition was the military (a “military-first” policy). Besides national defense, the military was given expanded roles in internal pacification and foreign policy as well as economic privileges. Since 2012, Kim Jong-un has downsized the military’s roles and privileges. He has also disturbed its coherence as a unitary entity through an erratic appointment policy and strengthened political surveillance. Instead, Kim Jong-un has strengthened the central party’s
Organization and Guidance Department, Ministry of State Security, and General Political Department (a party agency responsible for political surveillance of the military). At least in the form of declarations, central party organizations have been given more political power and institutionally rehabilitated.

Ideologically, “communism” and “socialism” have been mentioned less frequently. Instead, the people are urged to have pride in constructing a “strong and prosperous country” with the capacity of nuclear tipped intercontinental ballistic missiles under the great leadership of Suryeong. The Juche ideology is rarely mentioned and, under Kim Jong-un’s reign since 2012, has been replaced by Kim Il-sung- and Kim Jong-il-ism.

The North Korean economy is no longer based on “plan” mechanization, but rather on a politically controlled market economy based on party-state dominance, rent-distribution and commercially operating state firms. This transition has two aspects. On the one hand, to ensure its survival, the regime has co-opted the expanding market as a source of revenue and a means of guaranteeing privileges for groups loyal to the regime. Since the early 1990s, a financial self-sufficiency principle for public organizations boosted their participation in commercial activities. Reflecting the conspicuously hierarchical structure of power in the country, it has been easy for various party-state entities and individuals closely linked to the regime to benefit from the newly expanding market – both legally and through corruption. Corruption has become rampant and plays the double role of supporting expansion of (illegal) commercial activities and redistributing profits thereof to regime-friendly entities. On the other hand, the introduction of a “management responsibility system for socialist state firms” in 2014 officially abolished centralized plan directives for state firms.

The mechanisms for internal and external security have likewise transformed. Traditionally, internal regime security operated more through ideology and soft coercion of party organizations than by police force and physical punishment. Since the 1990s, confronted with a serious weakening of the party-state apparatus and expansion of commercial activities, the regime’s dependence on state violence has significantly increased. This has been realized through an increased number of public executions, enhanced role for the police force and state security organizations, and a systematized penal system. Externally, the beginning of Kim Jong-un’s reign in 2012 signaled an unambiguously determined pursuit of deterrence through possession of nuclear weapons and ballistic missiles.

The intensity of North Korea’s conflict and isolation with neighboring countries has increased. North Korea enjoyed relatively cordial relations with neighboring countries between 2000 and 2007 while accepting gradual denuclearization. The regime has openly turned away from denuclearization since 2009. With the accession to power of Kim Jong-un, it has restarted and openly accelerated nuclear and missile buildup since 2012. As North Korea’s nuclear capability increases, so has international pressure, sanctions and isolation.

Today, the North Korean party-state can be characterized as very strong for political domination and military buildup, but very weak for providing key public goods. North Korea has become one
of the poorest and most isolated countries, with one of the gravest records for human rights violations, nuclear weapons, various ballistic missiles, and cyber-attacks.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

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. When the party-state was significantly weakened in the 1990s due to economic collapse, the military stepped in and maintained internal order, often using extreme violence, including public executions. Even with the “arduous march” in the 1990s, there have been no serious internal challenges. Since Kim Jong-un’s accession to power in April 2012, the role of the party organizations and various internal security organizations has increased to guard against internal challenges.

For more than 1,000 years, the Korean peninsula consisted of one politically unified territory. The separate state-building in North Korea began before the Korean War in 1950. Since then, North Korean politics can be summarized as transitions from multiple faction-coalition-rule to one-faction rule to one-man rule. The current absolute one-man dictatorship was established in the mid-1960s and transferred from Kim Il-sung to Kim Jong-il to the current leader, Kim Jong-un, through hereditary power succession. During this time, the leader/regime identity has become increasingly indistinguishable from state identity. This trend may be reversing since the 1990s due to North Koreans’ increased contacts with the outside world. Though occurring only extremely gradually, disparate groups within the population may have begun to question the unity between the regime and state.

Since the inception of Kim Jong-un as the supreme leader in April 2012, the identity of the regime has again undergone transformation. The 7th party congress in May 2016, held after a 36 years hiatus, marked the end point of this realignment. The symbolic status of Kim Jong-un was made equal with those of Kim Il-sung and Kim Jong-il in the ideological pantheon of “great” leaders. The leading ideology of the country was renamed to “Kim Il-sung-ism and Kim Jong-il-ism.” Significantly, the Korean Workers Party was reassigned the central political role for the regime. The possession of nuclear weapons was given a central place in the legitimation of the
supreme leader and regime: North Korea was touted as the “strong nuclear power in the East” reliant on “its own independent strength.”

The society has been secular and atheistic, though the cult of personality could appear as quasi-religious. The elements of secular modernity embodied in communist ideologies have been the building blocks of North Korea’s legal and political order. However, other ideological tendencies have intermingled with communist ideology, exerting very strong influence on the organization of the public sphere including political institutions. These include leader worship, the notion of organic unity of the nation and the chauvinistic emphasis on patriotism. These principles are hammered into the psyche of North Korean citizens through various means, including ideological indoctrination, frequent convention of mass rallies and construction of historic monuments. Though weakened somewhat since the 1990s, the regime’s propaganda campaigns that put forth a distorted world-view, and its capacity for coercion to mobilize people for political rituals, remains quite strong. Following the succession of power from Kim Jong-il to Kim Jong-un in April 2012, statues of Kim Jong-il were built either alongside those of Kim Il-sung or independently. Other monuments to the cult of personality that commemorated Kim Il-sung alone were demolished and rebuilt to jointly commemorate Kim Il-sung and Kim Jong-il, constructed through voluntary (or perhaps forced) donations from the population.

North Korea, whose capital, Pyongyang, was once known as the “Jerusalem of the East,” remains one of the most anti-religious countries in the world. Besides some official pro forma religious organizations and Pyongyang church buildings for receiving foreign guests and propaganda purposes, any sign of autonomous religious activity has been harshly persecuted. In 2016, the United States-based NGO Open Doors ranked North Korea as the worst country for persecution of Christians – followed by Iraq, Eritrea, Afghanistan and Syria – for the 14th consecutive year.

From its inception as a separate Korean state in 1948 until the late 1980s, North Korea has maintained a differentiated party-state administrative structure throughout the country based on the Soviet communist model. Though its formal structure has remained intact, its ability to function has deteriorated significantly since the early 1990s. Economic decline meant the state budget was no longer able to mobilize the resources required to supply basic state services. With internal and external security functions monopolizing the bulk of the state budget, other state services suffered from drastic budget cuts. The party-state, no longer able to fund its constituent agencies, has allowed them to take advantage of their authority to earn revenue through commercial activities. This has resulted in rampant corruption in the party-state administration.

Kim Jong-un’s focus since 2012 in state-administration has been somewhat erratic. On the one hand, he continues to grossly fail to allocate resources or take measures for the improvement of basic civil functions of government, instead prioritizing functions and expenditures for military buildup, political legitimation, and control.
On the other hand, while he has not rebuilt the tax system, he has reallocated some monopoly licenses for commercial businesses, the major revenue source for most of the party-state agencies, on behalf of the cabinet, but at the cost of the military. This has strengthened the fiscal base of the state’s civil and economic functions. In addition, due to the relatively liberal attitude toward market expansion since Kim Jong-un’s inception of power, local states have increased their fiscal capacity through increased revenue through fees collected from merchants at roughly 400 officially sanctioned market places in the country. Officials have augmented their meager salaries by demanding bribes at countless unofficial markets and illegal business enterprises. Kim Jong-un has also taken measures to strengthen mid-level political control over administrative entities and functions. Since 2012, successive mass rallies in Pyongyang have been organized for each organization of youth, women, mothers, children, workers, peasants, police-chiefs and company commanders, among others.

2 | Political Participation

There have been no free or fair elections in North Korean history, though they are nominally guaranteed by the constitution. General elections for the Supreme People’s Assembly are held every five years, most recently in 2014. They are monitored and managed by the Workers’ Party of Korea. They are a means for political mobilization of the masses and are regarded as yet another political festival to demonstrate 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 are persecuted if they fail to vote. Voters gather together and march to the voting place. The regime usually announces virtually 100% participation and 100% support for the leadership as the result of the vote.

The North Korean political system can be characterized as an absolute one-man dictatorship. The power to govern does not originate from elections or communist ideology, but rather from the “great guidance capacity” of the top leader and power delegation from him. There has never been any veto power to counter the leader’s rule. While the powerless Supreme People’s Assembly (SPA) meets once or twice a year to ratify party-state directives, the deliberative bodies of the central party, such as the Politburo and Central Committee, have rarely been convened. Between 1994 and 2010, these entities were systematically neglected in favor of the personal secretariat of Kim Jong-il. During the same period, the military’s role expanded. The party’s elected bodies were rebuilt with the 3rd, 4th, and 6th party conferences in 2010, 2012, and 2016, respectively. During the same period, several meetings of central party bodies were held including the Politburo, Central Committee and Central Military Commission. As in the past, they have been pro forma and exerted no effective political decision-making power.
Article 67 of the 12th revised constitution of 2013, as previous versions, guarantees freedom of press, publishing, assembly, demonstration, speech and association. However, the reality is that organizations exist solely as part of either the state or the party; autonomous associations are nonexistent in North Korea. The regime controls the population by forced membership in organizations, police surveillance, informant networks and (threat of) deportation to prison camps or exile to the countryside. It is worth noting, though, that there were some reports of mass gatherings in local cities in the second half of the 2000s to protest actions by local authorities, including suppression of market activities. The period of power transfer between 2009 and 2011 saw the regime attempting to consolidate its grip on society through increasing campaigns against “anti-socialist phenomena.” Kim Jong-un also promulgated “ten principles for establishing unitary leadership” in June 2013 to make his personal rule and control politically absolute.

As noted, Article 67 of the constitution guarantees freedom of speech and of the press. The reality is that mass media outlets are run by either the party or the state, and are completely controlled by the political authorities. There is no need for censorship of dissenting media, because there is no independent media to censor. Channels for independent information and horizontal communication have increased somewhat since the mid-1990s with the expansion of market activities and cell phone usage, foreign contact via smuggled DVDs, CDs and USB sticks, and access to foreign radio and television programs. In parallel, the regime has maintained regular and ad hoc bodies, comprised of multiple internal security agencies, to monitor and suppress the circulation and usage of foreign information (and the devices that carry them into the country). While the risk of political persecution is still high, some citizens criticize the regime in private circles. With the inception in 2009 of the hereditary succession from Kim Jong-il to Kim Jong-un, the internal security agencies have been strengthened. Kim Jong-un’s has more vigorously employed internal security agencies such as the Ministry of State Security, Ministry of Public Security and General Political Department. Some minister-level officials in their 60s and 70s were reportedly killed through public executions because of their private complaints about the young Kim Jong-un.

3 | Rule of Law

In the mid-1960s, the North Korean political system evolved into an absolute one-man dictatorship. Since then, at least officially, the population has been prescribed to live with “unitary thought and leadership” centered on the Great Leader. As in the past, all power is concentrated and centralized in the leader Kim Jong-un, who inherited the neo-patrimonial system from his father Kim Jong-il in 2012. The unity of power around the leader does not preclude a relatively clear separation of roles and institutional differentiation between the party, the military, the cabinet, the People’s Assembly, the judiciary and the security organizations. The leader stands above the
law, delegates powers and functions to members of the political elite and agencies, and rewards them with privileges or punishes them through purges. There is significant competition among party-state-military agencies for a greater share of power and privileges from the leader. Each party-state-military agency competes in a zero-sum game for an increased allotment of power and rent opportunities by demonstrating its loyalty and contribution to the leader. The competition for power and rent opportunities among regime agencies increased during the transition period between 2009 and 2011. With the start of his reign in 2012, Kim Jong-un has established a political order of regime agencies to his own liking. The Organization and Guidance Department within the central party and the Ministry of State Security have gained greater dominance over other regime agencies. Accordingly, their competences and prerogatives have been expanded at the cost of those other agencies.

North Korea has maintained a pro forma institutionally differentiated judiciary, although it has never been independent. There have been two major changes in the judiciary since the 1990s. The first concerns its place in the power structure: although no more independent than before, the declining role of party organizations has expanded its contribution to the regime’s control over society. Until the end of the 1980s, the North Korean regime retained control largely through the political surveillance function of party organizations in all areas of life. Since the late 1990s, the regime has noticeably strengthened its internal security institutions and sought to differentiate and reinforce penal law. With the expansion of the market in the 2000s, North Korea created new economic regulatory laws and updated old ones, although it still has no legislation covering property protection and contract enforcement for private businesses. In essence, the main pillar of the regime’s dominance over society has been transitioning from rule by the party to rule by law. On the one hand, enforcement of the law by the security agencies and judiciary has been entangled with serious corruption. On the other hand, rule by law has been bolstered by brutal state violence. The second major change came with the increase in corruption. No longer able to fund the judiciary through its budget, the regime gave tacit consent for it to raise its own revenue by “selling” justice. Judges and prosecutors have been the greatest beneficiaries since the market crackdown in the second half of the 2000s, when bribes became commonplace. These officials are usually regarded as “the richest” by their neighbors, according to North Korean refugees interviewed in South Korea. There has been no noticeable change regarding the function of the judiciary since the start of Kim Jong-un’s rule in 2012.

Office abuse is systemic up and down the bureaucratic ladder. Traditionally, North Korean authorities have criticized the problem of bureaucratic red tape by party-state officials and their “arrogance and undue exercise of authorities.” The traditional narrative of the problem has been that the supreme leader’s good intentions are distorted by lower officials for their private gain. North Korean authorities have seldom adopted the expression of “corruption” or “bribe taking.” The rampant corruption, however, could not be concealed since the early 1990s. Starting in the
early 1990s, burdened by fiscal collapse, both at 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” including excessive corruption. However, these groups have been more interested in taking bribes themselves than in stamping out corruption. Though high-level corruption has been intermittently prosecuted, this has generally been done for the aim of political purges rather than for anti-corruption purposes. During and after the transfer of power to Kim Jong-un, many high-ranking officials were purged, most of them under the pretext of corruption. On several occasions since early 2015, Kim Jong-un has talked about the need to eradicate corruption among lower officials. Since then, some deterrent measures have been taken, including party inspections, public executions and the inhibition of corruption through “unbounded loyalty to the leader.”

Chapter 5 of the constitution guarantees basic civil rights. The reality is that the regime ignores civil rights and carries out repression when presented with even the most insignificant political resistance from the population. Traditionally, law enforcement has been applied discriminately depending on the individual’s political attribution, such as his or her membership to the party or strength of personal patronage network, and, more recently, his or her ability to provide bribes. Public executions and sudden deportations without due process persist. Also, mistreatment and torture at labor and prison camps are still widespread. The Korea Institute of National Unification, a government-funded research organization in South Korea, estimated in 2014 that about 80,000 to 120,000 people were detained in such camps. Moreover, freedom of movement is heavily restricted and requires official permission. In addition, the control of the border with China has significantly tightened, and those caught attempting to flee the country are usually sent to labor or prison camps. Finally, with the drastic increase of corruption since the 1990s, law enforcement has become a kind of private business both for officials and organizations involved in public and state security, as well as prosecution and judicature. The UN General Assembly has passed resolutions on human rights violations in North Korea for 12 consecutive years (2005 – 2016) and urged the Security Council to submit this issue to the International Criminal Court since 2014.

4 | Stability of Democratic Institutions

The political system of the Democratic People’s Republic of Korea is a one-man dictatorship managed through party organizations, internal security agencies and the brute force of the military. Its cohesion comes from the dependence of the elite and power agencies of the regime on delegation of power and allotment of privilege by the supreme leader. With leadership of the country transferred from father to son once
again in 2012, when Kim Jong-il bequeathed power to Kim Jong-un, North Korea is widely regarded as a Kim dynasty.

When it comes to the welfare of the population, the regime’s record is one of chronic policy failure and permanent crisis. The most conspicuous failures included the great famine and the virtual collapse of state administration in the mid-1990s. The regime has so far succeeded in keeping the society docile despite the hardship wrought by its policy failures by turning a blind eye to corruption and the illegal market economy.

There are no meaningful democratic institutions in North Korea. The current system of personal rule is essentially maintained through a policy of divide and rule among elites, regime organizations and societal groups utilizing the politicized distribution of wealth and career opportunities, a totalitarian system of surveillance and ideological manipulation, and, ultimately, brute force. With power passing from Kim Jong-il to his son Kim Jong-un in 2012, there have been no meaningful changes to this reality.

5 | Political and Social Integration

The North Korean regime is based on one-party rule by the Workers’ Party of Korea. In practice, by the 1960s the Workers’ Party had lost any semblance of political function in the articulation, aggregation and arbitration of interests, instead transforming itself into an instrument of personal rule. Beginning in the mid-1970s, the party was instrumentalized by Kim Jong-il to consolidate his personal ascension as designated successor. In this context, the party’s dominance over other regime agencies and its capacity over political and ideological control of individuals in their homes and workplaces significantly increased. In the mid-1990s, however, the party was confronted with a crisis regarding its traditional status and function in the political system. The party has become incapable of totally controlling the population and less essential for regime survival. As a consequence, it has been neglected by both the people and regime. Beginning in the 1990’s, Kim Jong-il promoted the military at the cost of the party as the pillar of regime survival. The rise of Kim Jong-un since 2009 has been accompanied by attempts to weaken the dominance of the military and promote regime agencies. Non-military roles (e.g., economic business privileges) have been redistributed in favor of the party and other agencies. In this context, the organizations and procedures of the central party have been, at least pro forma, rehabilitated. Among others, the Organization and Guidance Department of the central party recovered its old status as the core agency of the regime. Local party organizations have de facto replaced the top government agencies as the main implementation structures and play a dominant role in exercising government power and collecting fiscal revenues for the central government. On the whole, under the Kim Jong-un, the party has not rehabilitated the traditional mechanisms of totalitarian
control over the individual, but has restored its political dominance and maintained itself as the top local governing agency.

North Korea has long been extremely segmented along bureaucratic lines, regional domains and politically determined status groups. Kim Jong-il took advantage of this segmentation to strengthen his personal power by promoting competition for his favor between bureaucratic and regional groups and securing loyalty of the more privileged groups. With no rule of law or guarantee of property rights, and amid rampant corruption, members of bureaucratic and regional segments formed themselves into self-contained cliques which manipulated the upward flow of information to defend their departmental interests and increase allotment of resources.

The intensity and effect of segmentation has increased since the 1990s, as each bureaucratic agency was required to self-finance by participating in commercial activities. The most powerful domains include the Kim family and the party, the military, the “Second Economy” (which administers weapons production), the Ministry of State Security, the Ministry of Public Security and the Presidential Security Unit. Each domain, in turn, comprises several subsidiary domains or segments. Traditionally the most powerful has been the domain of the Kim family and the party. With the enhanced role of the military during the period of the “military-first” policy, the relative position of the military improved. Under Kim Jong-un’s rule since 2012, it seems that the most important domains comprise the Kim family, central party’s Organization and Guidance Department, Ministry of State Security and central party’s Commission of the Second Economy (in charge of nuclear development and missile production).

No survey data on support for democracy is available. The regime has attempted to convince the population that political life in Western democracies is undesirable and even disastrous. In any case, the only way most North Koreans would know anything about such a life would be second-hand (e.g., through viewing smuggled videos). However, there are indirect and vague indicators related to the issue of approval of democracy. In annual surveys by the South Korean Ministry of Unification of refugees from North Korea conducted before 2001, “economic difficulties” was chosen by two-thirds of the refugees as the most important motivation to leave their country. This response was reduced to 12.1% between 2014 and 2016. Instead, whereas “yearning for freedom” motivated 10% before 2001, it described the motivation of 35% of refugees between 2014 and 2016. In the later period, as many as 18% even expressed “discontent with the system.” The degree of “good will for the South,” about 20% before 2001, increased to almost 80% between 2014 and 2016.

The regime has long promoted fragmentation of social groups and atomization of individuals through totalitarian control over society. This has caused the social spaces for solidarity and trust among autonomous individuals to vanish almost entirely. Instead, the party’s Propaganda and Agitation Department has choreographed the
semblance of organic solidarity and trust between “the Leader, the party and the masses.”

Three social capital issues in North Korea since the 1990s should be noted. First, the overall level of surveillance by the party-state remained very high, even if the increase of activities outside the party’s purview since the 1990s has reduced the effectiveness of political surveillance. This surveillance impedes trust among individuals. The second factor is the rise of spontaneous market arrangements, which promote trust between individuals, albeit of a precarious and rudimentary in nature. For example, private merchants have (illegally) established a national network to exchange information on commodity prices. Similarly, private merchants organize regional transportation, parcel services and money transfers in networks which are admittedly unstable and primitive. These market functions, which are taken for granted in most other countries, are a novelty in North Korea. The third factor is corruption, which has become rampant; North Korea is considered one of the most corrupt countries in the world. This works against a general sense of solidarity and trust among individuals.

II. Economic Transformation

6 | Level of Socioeconomic Development

North Korea is one of only a few countries in the world for which the World Bank, UNDP and other international organizations do not publish conventional data on human development, gender inequality, poverty, and income inequality. Nevertheless, it can be assumed that poverty and inequality are extensive and structurally ingrained by two political factors: first, the rigid political classification of individuals through the caste-like “songbun” system and second, the regime’s political control of individuals’ participation in profitable opportunities.

First, the “songbun” caste-like class system determines the bulk of life opportunities of individuals. An individual is given a place in the system through the overall assessment of the person’s presumed degree of loyalty to the regime, taking into account the individual’s relatives. The main framework of the system consists of three major “songbun” groups and 51 categorizations. According to a 2014 report by the UN Commission of Inquiry on Human Rights in the Democratic People’s Republic of Korea, “the ‘songbun’ system used to be the most important factor in determining where individuals were allowed to live; what sort of accommodation they had; what occupations they were assigned to; whether they were effectively able to attend
school, in particular university; how much food they received; and even whom they might marry.”

Second, as the market has expanded since the early 1990s, the regime has favored ruling agencies and loyal individuals in the distribution of profitable opportunities according to their importance for regime maintenance. On the one hand, new opportunities, outside the direct purview of the party-state, through the expansion of market activities have ameliorated the rigidity of the “songbun” system. On the other hand, the regime’s political distribution of profitable opportunities through business licensing in favor of regime loyal individuals has inhibited the fundamental weakening of the “songbun” system. One example is the fact that the majority of workers sent to abroad to earn foreign currency are members of the party and residents of Pyongyang. In the end, the better one is connected with the regime, the better chance one has in accessing more powerful or profitable opportunities.

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<td>Inflation (CPI)</td>
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<td>Unemployment</td>
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<td>Foreign direct investment</td>
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<td>Import growth</td>
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<td>Current account balance</td>
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<td>Public debt</td>
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<td>External debt</td>
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<td>Total debt service</td>
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### Economic indicators

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<th>2013</th>
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<td>Net lending/borrowing</td>
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<td>Tax revenue</td>
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<td>Government consumption</td>
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<td>R&amp;D expenditure</td>
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<td>Military expenditure</td>
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Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

### 7 | Organization of the Market and Competition

Since the introduction of a “management responsibility system for socialist firms” on May 30, 2014, North Korea’s economic system can be characterized as a state controlled market economy based on commercially operated state firms. With this system, the state’s direct management of state firms through obligatory plan directives was abrogated and autonomy in the management of state firms was increased. Though without direct planning, the state’s or regimes’ authority on the management of the national economy and state firms remains overwhelming. The state maintains the right to appointment of managers, a monopoly in banking, it is the licensing authority for almost every significant commercial activity, prohibits private firms and employment, and retains the capacity for arbitrary political intervention in the economy. Though the utility of the market mechanism is de facto officially acknowledged, the private entrepreneur is not and commercial business is licensed only to party-state agencies. Even though private investment has become widespread, it can only be realized under the official guise of shared participation in state firms or commercial subsidiaries of state agencies. In addition, this type of private investment remains illegal and highly corrupt. The more important an economic activity is for regime maintenance or the more lucrative a commercial activity is for the regime, the weaker is competition and freedom of entry and the stronger is state (regime) control and monopoly. Though the size and extent of commercial business has expanded gradually into almost all economic sectors including mining, transportation and real estate, there remain very strong constraints in terms of market-based competition. Business licenses are only given to official party-state entities. Their maintenance or deprivation is basically decided by the top leader and frequently falls prey to interest competition between regime agencies. The revenue and property of private partners have been time and again confiscated in arbitrary crackdowns by internal security organizations. In addition, all commercial activities remain informal, as they have not
yet been integrated into the official economic system. Free entry and competition has been the strongest among subsistent merchants dealing in small daily necessities in local markets; these markets numbered above 400 in late 2016. Even in this case, however, entry and competition have been considerably restricted by corrupt local officials.

Kim Jong-il sponsored and bequeathed to Kim Jong-un a large variety of monopolies as a means of both raising revenue and maintaining loyalties through political distribution of rent opportunities. The most important of these opportunities are export and import licenses as well as other domestic business licenses. The supreme leader monopolizes the right to assign them, distributing them to major agencies of the party, the military and internal security services. Trading companies affiliated with these groups were given monopoly licenses for export and/or import for certain goods, taking advantage of huge gaps between domestic and international prices. Their export goods have mainly consisted of natural resources and extractive products such as minerals, timber, seafood, mushrooms, and various herbs. Regime agencies also take part in monopolized businesses through their commercial subsidiaries, including commercial distribution networks for imported goods, amusement parks and privileged restaurants. In addition, the party-state bureaucracy intervenes extensively in the domestic economy to restrict competitive entry and favor regime sponsored monopolies. The regime’s periodic “market crackdowns” are aimed less at eliminating domestic commercial transactions than shaping the economic environment to favor regime-friendly groups and individuals. At the same time, the regime has selectively tried to purge non-regime-friendly merchants from the market. Through this sponsoring of regulated monopolies and with overwhelming capacity for political intervention, the regime can strongly influence the emerging structure and agents of commercial economic activities. The rampant corruption does not harm the regime’s capacity to direct the development of the market economy nor the regime’s survival because the chain of corruption in the end favors the more powerful. With the transition of power from Kim Jong-il to Kim Jong-un, nothing has basically changed; only the distribution of monopoly economic rights has shifted in favor of Kim Jong-un’s personal court, the party and cabinet, at the expense of the military.

North Korea maintains the principle of state monopoly of foreign trade. In reality, this prerogative is exercised solely by the supreme leader. He strictly monitors and controls foreign trade, as it is the most important source of the foreign currency which is indispensable for the regime’s survival. Distribution of trading licenses to regime agencies is one of the most powerful means of maintaining the regime elite’s dependence on the leader. Though illegal, trade licenses obtained by stronger agencies are frequently resold to weaker agencies or exchanged. The agencies and individuals engaged in foreign trade have been intensively monitored by the Ministry of State Security with regard to foreign contacts and foreign currency embezzlement. The regime periodically loosens and strengthens its control over foreign trade and
redistributes licenses among regime agencies. Since the inauguration of Kim Jong-un in April 2012, the military’s share of trade licenses has been reduced in favor of the cabinet and his personal court. Smuggling along the border with China has been brisk, although since 2010 Kim Jong-un has partially succeeded in strengthening border control with cooperation from China, the country’s indispensable trading partner. Though the amount of smuggling has been conjectured to be significant, it has not been counted in trade statistics on North Korea compiled by the (South) Korea Trade Association, United Nations and IMF. North Korea’s trading activities have been greatly constrained by sanctions imposed by UN Security Council resolutions, most recently 2270 and 2321 in 2016, the European Union, and individual countries including the United States, South Korea, and Japan in response to the regime’s development of weapons of mass destruction, human rights abuses, and illicit activities. The sanctions cover a wide array of goods, products and services for export and import, from the procurement of arms and related materials, to the import of luxury goods and the international flow of funds and economic resources.

Banking is a state monopoly in North Korea. As with other socialist planned economies, the major role of the banks has been to monitor and account for the economic activities of state firms and agencies. Besides the central bank, the Foreign Trade Bank (for foreign exchange), and other functional and joint-venture banks directed by the cabinet, the country has trade banks affiliated with the party and military institutions. Because all activities which attract foreign currency were strictly monitored and controlled by the leader, the trade banks of the regime agencies also served as his personal fund management system. With the introduction of UN Security Council resolution 2270 and other bilateral sanctions in 2016, financial relations with foreign countries were made virtually impossible.

The state banking system has been virtually useless in mobilizing domestic and foreign money within North Korea for productive investment. State banks accept personal deposits, but generally do not return them, which ensures that most people avoid banks altogether. Since the catastrophic confiscatory denomination measures in November 2009, foreign currencies including the U.S. dollar and Chinese yuan have substantially replaced the North Korean won even for small daily transactions. According to one estimate, 57% of transactions at local market places for daily consumer goods were done through the Chinese yuan in 2013. With this dollarization, the state banking system has lost even residual utility as a tool for monetary and fiscal policy.

The usual function of commercial banks has been played by private bankers. The expansion of market activities since the early 1990s has produced cash-rich merchants, chiefly consisting of trade agents and wives of party officials as well as Japanese Korean and Chinese Korean residents in North Korea. They supply investment money not only to private businesspeople, but also to official state firms for production, distribution, construction, export and import. In addition, they operate
private financial services for lending, transfer, and the exchange of both domestic and foreign currency.

8 | Currency and Price Stability

North Korea has no independent central bank. The leader controls the strict centralized management of foreign currency. Foreign currencies – especially the yuan along the border with China and the U.S. dollar in other areas – have become major instruments not only for secretly holding private funds, but also for day-to-day exchanges in the market place.

After the November 2009 denomination measure replaced old KPW 100 with new KPW 1, North Korea experienced a period of hyperinflation from early 2010 to late 2012. According to Daily NK reports, the exchange rate with the U.S. dollar skyrocketed from below KPW 1,000 to about KPW 9,000 and the price for rice from about KPW 500 to above KPW 6,500. During this period, dollarization rapidly accelerated, replacing the North Korean won with the Chinese yuan or U.S. dollar. Since early 2013, both the exchange rate and price of rice have shown a downward stabilization, from about KPW 9,000 in early 2013 to KPW 8,000 in late 2016 per dollar and from KPW 6,500 to KPW 5,500 per kilo of rice.

The hyperinflation from early 2010 to late 2012 could perhaps be explained by a drastic increase in the money supply for the purpose of funding the power succession from Kim Jong-il to Kim Jong-un during the same period, including monumental construction projects commemorating “opening the gate of a strong and prosperous nation” in 2012. The downward stabilization since early 2013 can be explained through the fact that North Korean authorities have stopped printing more money. The regime must have realized that, given the deepening dollarization, it made no sense to print more North Korean won.

With the collapse of the planned economy in the 1990s, North Korea’s fiscal system also fell into disarray. The regime has suffered a drastic reduction of revenue and has allowed agencies to pursue fiscal independence. The cabinet, party, military, and security agencies have advanced as the major domains of fiscal self-sufficiency with off-budget revenue from privileged commercial activities. While the cabinet was unable to restore its revenue base, Kim Jong-il made separate deals with these powerful agencies, soliciting payoffs in exchange for trading licenses. While the cabinet drastically reduced public services, the leader turned his payoffs into monumental buildings and weapons of mass destruction, despite lasting economic stagnation. This practice has not changed even with the power transition from Kim Jong-il to Kim Jong-un. The regime’s fiscal condition was assisted by a coincidental rise in the international price of minerals between 2010 and 2015. About 70% of North Korean exports consist of coal, iron or similar products. The fees collected from granting permits for commercial activities at official market places, which
numbered about 400 in 2016, have also contributed to fiscal stabilization, at least for local governments. In 2016, confronted by the negative impacts resulting from the rapid downturn of mineral prices and strengthened international economic sanctions, the regime initiated 60-day and 200-day countrywide labor mobilizations to increase production and collect “extra-tax” extractions from the population, but such labor mobilizations do little to stimulate the general economy. Under Kim Jong-un, the official economic policy of “byungjin” (parallel development of the economy and weapons of mass destruction) continues to stifle the economy, both in terms of diverting funds to non-productive purposes and triggering international sanctions aimed at halting the weapons programs.

9 | Private Property

Under the principle of state ownership of means of production, any private property beyond daily consumer goods is still officially banned in North Korea. However, the spread of commercial activities and rampant corruption mean the real picture is more complex. Some individuals have accumulated private wealth in the past 20 years of market expansion and taken part in joint-ventures with state agencies as private investors, arrangements which are widespread if officially illegal. In essence, everything can be sold privately in North Korea, including real estate, production equipment and materials, party membership, government positions, university places and trading licenses. These instances of private ownership and transaction are not guaranteed by the law, rather they are against the law. This means the regime can act against private ownership whenever it chooses. For example, charges against most of the high-ranking officials purged recently, including Jang Sung-taek, included illegal possession of large amounts of foreign currency. The regime’s disregard for the property rights of its people was demonstrated through the money exchange measures in November 2009, which essentially confiscated private wealth kept in the form of domestic currency and caused unusually high levels of social discontent. Most Chinese and South Korean private investments in North Korea have failed and failures can typically be traced back to the country’s disregard of both the property rights of foreign investors and the enforcement of contracts. Since there have been no guarantees on legal enforcement of private contracting, disputes have frequently escalated to physical fighting among individuals and agencies. Internal security and inspection organizations have often taken advantage of the illegal nature of private property and contracts to extract bribes.

Since the mid-1970s, when Kim Jong-il started operating Bureau 39, doing commercial business has remained the prerogative of the regime’s agencies. With the expansion of the market economy since the early 1990s, the number of private individuals participating in commercial business has exploded. Some commercially talented among them have become cash-rich individuals called Donju. In reality, they have become one of the main pillars of North Korea’s economy, though their
existence and activities have remained illegal. In the case of larger investors, their individual participation has been realized in the form of de facto joint-ventures with party-state agencies. That is, they are hired by the latter as public employees and contribute investment and business talent, while the organizations provide business licenses, labor, facilities, and political protection. Smaller investors and businesses are operated as independent entrepreneurships requiring the entrepreneurs to pay their own bribes to state officials. The extent and scale of both joint-ventures and private businesses have rapidly expanded under the laissez-faire policies of Kim Jong-un. All these private business activities remain illegal, requiring business people to maintain good relations with agents of the party-state in order to protect their businesses and stay out of jail.

Over the years, there have been many attempts by North Korea to attract international joint-venture investments, especially from South Korea and China. However, the North Korean partners, usually affiliated with trading companies of the party or the military, have been notoriously unreliable and often downright dishonest. North Korea also hosted South Korean private firms in the Gaesung industrial complex and Geumgang tourist zone, both on North Korean territory, through monopoly contracts between Kim Jong-il and South Korean chaebols. The two projects, which were not economically viable without support from the South Korean government, were unable to withstand the political strains of inter-Korean relations. The Geumgang tourist zone was closed in 2008 and the Gaesung complex closed in 2016.

10 | Welfare Regime

Government-funded social safety nets have been virtually nonexistent since the early 1990s, although minimal assistance is provided to residents of the capital. International humanitarian assistance, which began in 1995, can only partially compensate for systemic state failure. Aid fatigue and the regime’s lack of cooperation with international partners led to a gradual decline in assistance levels in the second half of the 2000s. According to Voice of America, international assistance to North Korea in 2016 amounted to $49.3 million, stagnating with small fluctuations since the late 2000s. As the state sector crumbled in the wake of economic collapse, women were officially dismissed from state employment in 2002 and instead allowed to engage in commercial activities in markets, while men were required to report to their places of work every day, even if they had nothing to do (although they were able to temporarily “buy out” their work contracts). Since then, the income raised by female family members in commercial activities (mostly selling goods in local markets) maintains families, preventing a repeat of the widespread starvation of the mid-1990s. The family also functions as a safety net for the men who return, often malnourished, from military service, which typically lasts more than 10 years. Since the early 1990s, some North Koreans – especially those living within reach of the Chinese border – have traveled illegally to China in search of food or short-term
employment. Some continue to South Korea to apply for citizenship. Since the early 2000s, North Korean refugees in South Korea, who numbered around 30,000 in 2016, have sent money to relatives in North Korea. According to the U.S. State Department, remittances from the South amount to $10 to $11 million per year since 2011. These remittances are spent mainly to provide for the family’s living and partly as seed money for starting private businesses.

There are two major barriers to opportunity in North Korea. The first is deep-rooted gender inequality. On the positive side, opportunities for primary and secondary education and economic employment are roughly equal for men and women. On the negative side, the enduring patriarchal tradition puts women at a disadvantage. Only half as many women are enrolled in tertiary education as men. Women are also rarely represented in top management positions within the government, party and firms. Female employment is concentrated in lower pay sectors, where “female” characteristics are thought to be appropriate (e.g., nursing and teaching). Confronted with economic collapse, the state officially dismissed women en masse in 2002 and allowed them to participate in commercial activities, while continuing the employment of men. This “discrimination” of women turned into a blessing, improving their status in the strongly male-centered family. Now, only women could earn enough for family living, while their husbands and sons in state employment brought little home to the family.

The second barrier is the rigid songbun system, which politically categorizes each individual according to the principle of guilt by association to determine his or her opportunities in life. Those whose direct ancestors fought against the Japanese alongside Kim family members or exhibited particular loyalty during the Korean war, or “socialist heroes,” are rated more highly in the North Korean hierarchy and automatically guaranteed better opportunities, regardless of merit. They are permitted to live in Pyongyang and have much better chances for higher education, party membership and desirable careers than the majority of the population. The favoring of cities over rural regions, strict restriction on movement to the city, and assignment of jobs strictly controlled by the party-state all derive from the songbun system.

Additionally, the spread of corruption favors the politically powerful and those with the right political connections. The school system, though still nominally free, has been maintained solely through contributions from students and parents since the mid-1990s, resulting in a new type of discrimination against the poor.

It should also be noted, however, that the expansion of the private market has opened up a limited space for those with commercial talents, regardless of social status. Money earned from illegal commercial activities can be used for bribes which allow individuals to circumvent certain restrictions. This trend remains strong and continues.
11 | Economic Performance

The Bank of (South) Korea estimates that the North Korean economy contracted by 34.9% between 1990 and 1998 before growing by 22.8% between 1999 and 2015. After four consecutive years of positive growth (0.8% in 2011, 1.3% in 2012, 1.1% in 2013 and 1.0% in 2014), North Korea’s growth contracted in 2015 to -1.1%. Though eyewitnesses report of improvements especially for Pyongyang during the period, the economic situation remains essentially stagnant. The military-industrial complex remains the dominant sector of the economy and monopolizes the bulk of country’s resources and workforce. In contrast to Kim Jong-il’s massive investment in heavy industry, chemicals, housing construction and hydroelectric dams in the last few years of his rule, production investment has remained minimal under Kim Jong-un. He has instead lavished money on amusement parks, showcase ski resorts, political monuments, and the acceleration of nuclear and missile capacities. While Kim Jong-il’s investment drive and poor policies triggered hyperinflation, Kim Jong-un has so far been successful in stabilizing prices and exchange rates. Although industry has been operating at 20% to 30% of its former capacity since the second half of the 1990s, officially there is no unemployment. All male workers are still required to report to their places of work every day, although some of them pay bribes to leave and take up employment in the burgeoning informal sector. The total trade volume amounted to about $6.25 billion in 2015, an 18% reduction in comparison to 2014 and lower than the volume in 2011, with China accounting for 91%. Total exports amounted to $2.69 billion, 40.2% of which was made up by minerals and coal. North Korea has failed to achieve a trade surplus since 1990, and the trade deficit has fluctuated around the $1 billion-mark since 2005, amounting to $0.86 billion in 2015. The country suffered from a chronic food deficit of between 1 million and 1.2 million tons throughout the second half of the 2000s. According to FAO/WFP, the food deficit has narrowed somewhat since 2010, falling from 739,000 tons in 2012 to 40,000 tons in 2014. It again increased to 360,000 tons in 2015 and 694,000 tons in 2016. State budget figures issued by the government are extremely unreliable. There is no reliable system of tax collection. Revenue collection for the party-state has remained fragmented. Outside official tax collection by the state, the leader and individual party-state agencies have engaged in their own independent and predatory revenue collection from the population and commercial activities.

12 | Sustainability

North Korea has pursued 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, the population cultivated all seemingly arable land, with private plots
reaching the tops of mountains. The environmental consequences have been disastrous, as the rain has washed out the fertile soil from the depleted mountains and polluted the rivers. Natural resources including timber and seafood have been excessively exploited to meet short-term goals of increasing exports. Even industrial waste has been imported in exchange for foreign currency. At the same time, the very low level of industrial activity, about 20% to 30% of capacity, may have mitigated environmental problems somewhat.

Environmental degradation and lack of coping capacity have made North Korea critically vulnerable to various natural disasters. According to the Centre for Research on the Epidemiology of Disasters at the Catholic University of Louvain, since 2007, North Korea has reported 14 cases of natural disasters to international organizations, including seven floods, five typhoons and two droughts. In 2016, the Centre ranked North Korea as the country with the fourth highest number of deaths from natural disasters in proportion to the population, following Haiti, Fiji and Ecuador.

Though not followed by effective measures, Kim Jong-un acknowledged the serious environmental degradation with declarations in 2012 of a “Policy for National Territory Management” and “10 Year Plan for Reforestation.” These policies have not been supported by realistic measures to resolve the regime’s failure to supply enough food and fuel to the population, the root causes of deforestation. Since 2012, there have been intermittent mass mobilizations for tree planting, usually forced upon the local population and accompanied by abrupt bans on cultivating private plots on mountain hillsides.

With the onset of economic hardship in the early 1990s, North Korea’s education and research system virtually collapsed with the exception of a few model schools in Pyongyang and institutions for developing weapons of mass destruction. Facing the threat of starvation, teachers, students and researchers left to scavenge for food or to participate in commercial activities.

With regard to education, conditions improved somewhat in the 2000s, although schools must still support themselves; though nominally free of charge, they levy donations and mobilize students to provide free labor under a variety of pretexts. Due to a lack of state support, teachers have been virtually paid privately by parents in exchange for various forms of favoritism. The regime has also announced it would extend the period of compulsory education from 11 to 12 years in 2012, though without offering any reforms or increased investment in the education sector. The establishment of “Number One” schools in large cities to educate students who show promise in the sciences is an exception to the dismal state of education in North Korea.

North Korean authorities usually emphasize the importance of scientific R&D investments. In particular, with the start of his reign in 2012, Kim Jong-un boosted attention and investments in the technical advancement of the asymmetric military
capacities of the country. His achievements were especially revealed in 2016: several shows of long-range artillery, experiments with a hydrogen nuclear bomb and a standardized nuclear warhead, a test of a larger “satellite” rocket engine (which could be used for intercontinental ballistic missiles), and 25 launches of various ballistic missiles. North Korea has demonstrated its capacity to launch multiple missiles on mobile launch pads, mastery of technology for submarine-launched ballistic missiles, intermediate-range ballistic missiles and intercontinental ballistic missiles, all of which might be deploy “standardized” small nuclear warheads within a few years.

There has also been some progress in the field of information technology. North Korea has intermittently hacked South Korean and other countries’ servers since 2009 for disruptive and pecuniary purposes. Among others, the December 2014 cyberattack against the U.S.-based Sony Pictures Entertainment was traced to North Korea by the FBI and NSA.
Governance

I. Level of Difficulty

The on-going economic crisis in North Korea has been caused not by natural constraints of the country, but by the regime’s deliberate policy choices. Their accumulated effect will shape initial conditions for any serious reforms for establishing good governance in North Korea. Apart from maintaining minimum efficiency of a few institutions essential to regime security and survival, the quality of governance in North Korea resembles that of a failing state. The regime has nonetheless managed to sustain itself and its privileges amid collapsing infrastructure, weak institutions, endemic poverty and natural disasters.

Structural constraints for the initiation of development are seemingly infinite. In the field of state and administration, the constraints include: state capture by an autocratic leader and his loyalists, overgrown political and security institutions, rampant corruption and weak institutions, and persistent underinvestment in the state’s capacity for provision of public goods. In the economy, the constraints include: overgrown defense and military-industrial sectors, the collapse of infrastructure for manufacturing and employment, lack of protection for property rights, lack of third-party contract enforcement, depreciation in human resource capacities and depredation of institutions needed for nurturing human capital. In social terms, constraints include: a wide gap between rich and poor and between the privileged and the powerless, prolonged neglect of basic human needs, a lopsided structure of opportunity and human capital in favor of regime loyalists, generalized social distrust and lack of faith in meritocracy, and widespread patron-client networks for individual favoritism.

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 idiosyncratic communist totalitarianism. While there have been some positive changes since the early 1990s, none of these have yet provided ground for autonomous social groups. One of those changes is the regime’s fiscal deterioration, which has weakened its Stalinist methods of societal penetration and control. Market expansion has also encouraged horizontal economic connections, while North Koreans’ contact with the outside world increased with the beginning of international humanitarian assistance in 1995 and again with the expansion of North-
South exchange in the 2000s, a gradual reduction has taken place since 2009. Finally, South Korean and other international human rights NGOs have stepped up efforts to influence the North Korean people’s attitude toward the regime since the second half of the 2000s. However, in tandem with these developments, the regime has tightened countermeasures such as strengthening internal security organizations, enforcing an atmosphere of fear and mistrust, increasing the frequency of crackdowns on and punishments for contacts with foreign cultural influences, and revitalizing border controls. In sum, the regime has been forced to balance loosened social control to increase productivity and tighter control to ensure regime survival. The regime has so far been successful in navigating between the two while relying on social controls to prevent the emergence of civil society.

Though, to date, the emergence of any meaningful open conflict has been successfully prevented, there is considerable potentials for internal conflict. Such conflicts mainly exist along two dimensions: between regime and society and between the top leader and elites. The existence of these internal pressures is confirmed by the regime’s brutal suppression of the population and the supreme leader’s tight control of regime agencies and the small ruling coalition.

Regarding the first dimension, between regime and society, North Korea usually resorts to brutal repression to prevent outbursts of open conflict. With the start of Kim Jong-un’s rule in 2012, his pro-market policies have eased relations between the regime and population. However, he returned to mass labor mobilizations in 2016, accompanied with intensified repressive measures.

With regard to the other dimension, between top leader and elites, Kim Jong-un has resorted to traditional measures for preventing an outburst of open conflict. As in the past, he has resorted, though with more forcefulness, to purges and public executions of select members of the high-ranking elite, intentionally provoking intense fears among them.

Kim Jong-un has gradually been confronted with increasing challenges. This is because, in tandem with his increasingly aggressive security provocations, outside powers have strengthened economic sanctions and the inflow of disruptive information.
II. Governance Performance

14 | Steering Capability

The North Korean regime has shown a remarkable capacity for maintaining its core strategic priorities over extended periods of time. However, these policies are not designed with the intention of initiating transformation toward democracy and market economy. Kim Jong-un indeed seemed to take positive measures, including the introduction of economic reform measures, more toleration of market activities, and the intermittent mention of “love for people.” They, however, proved to have no real traction and induced no meaningful change in regime policy.

It appears that, especially since 2005, the North Korean regime has been focusing on five strategic objectives. First, to proceed with the acquisition of nuclear and missile capabilities; second, as a nuclear power, to normalize relations and sign a peace treaty with the United States; third, to establish a vertical relationship with South Korea in which the South provides political and economic support for the regime; fourth, to secure the funds necessary to maintain the regime through diverse projects which attract foreign currency (e.g., mineral exports, influx of foreign aid, export of workers, and illegal activities); fifth, to maintain internal political stability through preferential treatment of groups loyal to the regime and by strengthening the security forces.

Emboldened with enhanced nuclear weapons and missile capacity, Kim Jong-un’s North Korea has become more aggressive in its pursuit of the first three objectives since 2012. As for foreign currency earnings, the dramatic fall in mineral prices in 2013 and 2014 prompted North Korea to place greater emphasis on increases in the export of minerals, sending workers abroad and to coal processing.

Aside from the policies required for regime survival, the regime’s policies for promoting economic reforms and the people’s welfare have never been pursed with real sincerity and determination.

In North Korea, priorities and the implementation of policies are organized strictly hierarchically. Paramount priorities include the maintenance of the top leader’s political status and extravagant living. These must be implemented without hesitation and disregarding any expenditures concerns. Their implementation is guaranteed by the personal court and party, the two most powerful institutions beyond the top leader himself. The second most important priorities comprise sufficiently arming the regime to defend against internal and external challengers. The implementation of this goal is guaranteed by party dominated weapons production and the military itself,
under the top leader’s careful direction. The most neglected priorities of the regime are to manage civilian economic sectors and public infrastructure. Implementation is carried out by the cabinet, a comparatively weak institution in terms of power, prestige and resource. Even when officially declared as a top priority by the top leader himself, the policies for which the cabinet is in charge are routinely sidelined by other priorities advanced arbitrarily through naked coercion by the top leader himself, the party or military.

This power dynamic remains true under Kim Jong-un’s rule. He indeed promised to relieve hunger during his inaugural address, talked frequently about “love for people,” and introduced some economic reform measures. Nonetheless, he has never mentioned the contradictions and need for a change in prioritization among his three top priorities of maintaining the god-like prestige of the top leader, accelerating military buildup, and his “love for people.”

Foreigners sometimes assume that North Korea’s increased contact with the outside world will lead to policy changes. In reality, there has been extensive contact by way of learning delegations, North Korean diplomats and trade agents abroad, students in foreign universities and workers and travelers in China, Russia and other countries, as well as foreign visitors to North Korea. We can safely assume that economic experts in North Korea have long since accumulated sufficient basic knowledge of the theory and practice of successful reform in China and Vietnam. This was hinted at in the official reform packages of 2002 and 2012, which also indicate that the regime has learned how to accommodate and domesticate the market forces in its favor.

There are also signs that North Korea has learned from policy failures. With its money exchange measures in November 2009, North Korean authorities tried to confiscate savings from the population and significantly weaken the market forces at large in the national economy. The results were economic collapse, extreme hyperinflation, unusually high levels of political discontent, and full-scale dollarization (or yuanization) of the economy. Since then, North Korean authorities have taken a much more permissive attitude toward market forces and become far more cautious in economic policy.

There have, however, been structural limits to this learning. Whenever it contradicts the need for internal political stabilization and coercive resource mobilization for political legitimation and military buildup, the learning has been ignored. This has been the norm rather than the exception.
When considering the use of administrative personnel, two factors must be taken into account. First, North Korean society is based on the “songbun” system, by which individual’s opportunities in life are largely determined by his or her presumed level of loyalty to the regime. This means that all appointments and promotions are essentially politically pre-determined. Second, North Korea is one of the most corrupt countries in the world. Public appointments and promotions are up for sale and party-state positions which promise higher income from bribes are more expensive. Overall, positions in the administration of public security and the judiciary are preferred to other public-sector occupations, due to the potential income from bribes.

As well as corruption, the characteristics of the fiscal system should also be mentioned. Essentially, the state has lost its monopoly on taxation. Each party-state agency is allowed to earn its own revenue by leveraging its respective powers, thus forming largely autonomous fiscal domains. After the obligatory payoff to those further up the chain, each agency can use its off-budget revenue independently. On top of the fiscal system is the leader. Because powerful regime agencies such as the party, the military and other security organizations take the lead in the most lucrative revenue sources, the cabinet, tasked with supplying public services, has to content itself with minimal revenues from a highly inefficient tax system. Accordingly, the cabinet has had to reduce its role dramatically.

While the top-down coordination of a core set of objectives vital to regime survival has worked well to keep the regime in power, it has been unable to harmonize a wider array of conflicting objectives toward a coherent policy. The North Korean regime has been characterized by bureaucratic segmentation with a very low level of horizontal communication. Kim Jong-il, and now Kim Jong-un, has served as the top ranking and indeed the sole coordinator between government, party and military organizations. Behind the façade of this “macro” segmentation, “micro” segmentations have long existed within each bureaucratic unit. Decision-making power was concentrated with Kim Jong-il and remains so with Kim Jong-un. Major bureaucratic units typically make policy proposals directly to Kim, and receive approval from him independently. In many cases, approved policies contradict one another. His capricious decisions made during so-called “on-the-spot guidance” sessions frequently cause abrupt disruptions in resource distribution and economic operations. In reality, there has been no effective national economic policy, but rather an aggregate of independent economic undertakings by competing bureaucratic agencies aimed at self-support. Even though the regime frequently and strongly emphasizes the necessity for “enhancing the role of the cabinet in the economic management” and the importance of “improving people’s living,” there have been no noticeable achievements in those regards due to resistances from more politically powerful interests. These general circumstances have not changed with Kim Jong-
un’s assumption of power – he too wants powerful regime organizations to compete for his favors.

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 and revenues for the regime. State officials are paid below subsistence-level wages, leading them to corruption 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. The supreme leader and higher-level officials capture a greater part of illicit revenue through threats to either redistribute the rent opportunities or through threats to dismiss disloyal lower officials on the pretext of corruption. In addition, authorities maintain an extensive surveillance capacity and constantly send special teams on inspection tours, allegedly to punish “anti-socialist phenomena.” Rampant corruption does not mean that the authority of the supreme leader and the regime has broken down. After purging tens of high-ranking officials since the start of Kim Jong-un’s reign in 2012, the regime publicly executed three mid-level officials charged with taking bribes in the latter part of 2016. In addition, the regime took to disciplinary threats and mentioned “eradicating arrogance, red tape and corruption of party-state officials” in Kim Jong-un’s 2017 New Year’s address.

16 | Consensus-Building

In reality, in North Korea there is no voluntary civic consensus on goals whatsoever, though on the surface absolute unanimity is the rule of the country. Enthusiastic support for both the leader and national goals remain the façade of the system and are demonstrated and choreographed in enthusiastic public remarks as well as in diverse cultural forms.

There is no strategic consensus on democracy in North Korea. It can only be assumed that many North Koreans, including some members of the elite, privately hold political views different from those publicly expressed. That is, they must maintain and express absolute loyalty to the regime to survive politically and physically, while constantly transgressing official policies and privately wishing for more efficient and humane arrangements. The most recent example among elites is ex-Minister Tae Young-ho, whose main task over more than 10 years at the North Korean embassy in London was to defend the superiority of the North Korean system. After he defected to Seoul in 2016 with his family, he became an ardent and systematic critic of North Korean system.

There is no strategic consensus on a Western-style market economy in North Korea. However, increasingly there seems to have appeared a vague conviction that people’s lives would improve with a market economy. The problem for the regime has been that its push for earning foreign currency revenue through commercial activities has
lowered ideological taboos on capitalism. In this respect, it seems that Kim Jong-un is more adamant to take risks than his father, Kim Jong-il.

There are no political actors advocating for democratization who are able to counter or co-opt anti-democratic powers. The completion of the second hereditary succession from Kim Jong-il to Kim Jong-un in April 2012 once again confirmed the elite’s willing or unwilling submission to the continuation of the status quo. Though there was a reorganization of the regime through selective purges, rebalancing of power-relations among regime agencies, and generational changes, the political character of the regime remains basically unchanged. There were some measures for economic reform between 2012 and 2014, but these stalled thereafter. This is perhaps because they were pushed by Jang Sung-taek, who was purged in December 2013.

There is no civic participation in the process of governing or decision-making. Instead, the leadership presumes to act on behalf of the people. There are no autonomous civil organizations. Elections and political meetings are regularly held, but without any participatory purposes in the political process. People are urged to participate in elections, mass rallies, meetings at job and residential places to express their enthusiastic support for and unity with the regime. In general, deliberative units of the state and party (e.g., the People’s Assembly, Central Committee and Party Congress) are powerless.

Much past injustice awaits reconciliation. The regime considers about a quarter of the population to be members of “hostile classes,” treating them as potential enemies of the state. The regime has also maintained political concentration camps since 1947, with about 200,000 known detainees since the 1980s. The number of public executions registered by the North Korean Human Rights Database Center, a South Korean NGO, ranges between 100 and 200 per year for the 1995 to 1998 period. According to National Intelligence Service, about 140 high-ranking officials were publicly executed between 2012 and 2016. Executions and arbitrary legal decisions continue to this day. There have also been numerous cases of purges, extra-judicial arrest, torture, confinement and deportation. History is constantly rewritten in order to justify the Kim family’s status, which entails blaming others for injustices and
mobilizing the masses against internal – and especially external – political enemies. Several murder cases for private vengeance against lower-ranking internal security officers have been reported in recent years.

Reconciliation between the DPRK and other nations has also not been achieved. The official media harshly denounce the Japanese and Americans for committing egregious historical crimes against Koreans.

17 | International Cooperation

The three Kim regimes could not have run the country as they have without economic assistance, initially, from the former Soviet Union and the Eastern Bloc and, now, from China. This aid (and Chinese political support in the international arena) are a necessary part of the DPRK’s long-term strategy. This is not necessarily a development strategy, but rather a survival strategy.

The regime has allowed an inflow of international assistance in the form of knowledge transfer, capacity-building and other cooperative undertakings only insofar as they have not endangered the regime’s existence. The terms for delivering food and other goods for humanitarian purposes have also always been strongly and politically contentious issues between North Korea and international donors.

Even with implementation of monitoring on international standards, there has always been a strong suspicion that aid was being diverted to the military and the regime. Even though it has a history of engagement with international assistance organizations stretching back to 1995, North Korea’s level of cooperation has remained at the most elementary level, focused on intermittent emergency humanitarian assistance and small-scale experiments in developmental aid.

The above also applies, in the main, to Chinese aid. The difference is that Chinese aid has mostly been given directly to the North Korean regime to ensure its survival. Consequently, there has been less contention over delivery conditions between the two countries.

According to Voice of America, $49.3 million, mostly in the form of nutrition assistance, was provided to North Korea in 2016 by the international community. International assistance amounted to between $200 and $300 million in the early 2000s, $40 to $60 million in the mid-2000s, $100 million in 2011, $60 million in 2013, $20 million in 2014, and $42.7 million in 2015.

Relations between the North Korean regime and the international community have always been characterized by mistrust. The regime fears that increased contact with the outside world will undermine its own internal security. It has persistently tried to limit and manipulate engagement with the international community to its own benefit. However, other 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 the international community have been able to forge compromises. However, these brief thaws typically deteriorate due to security disputes.

Mistrust between North Korea and neighboring countries increased since 2009 on matters of security due to North Korea’s refusal to denuclearize, accelerated development of nuclear weapons and ballistic missiles, and military and political provocations against South Korea. U.S. mistrust of North Korea once again deepened after the breakdown of the “Leap Day Deal” in 2012 (exchanging food assistance for a freeze to the nuclear program). China has, with some reluctance, consistently agreed with the implementation of increased sanctions against the regime each time North Korea has carried out nuclear and long-range missile tests.

North Korea’s relations with neighboring countries – especially South Korea and Japan – have been strained. South Korea shut down the Geumgang tourist project in retaliation for North Korea’s killing of a tourist in 2009, stopped inter-Korean trade in 2010 as sanction against North Korea’s attack on a South Korean Corvette and shut down the Gaesung industrial complex due to North Korea’s 4th nuclear test in 2016. Poor relations are mainly due to three factors, namely North Korea’s development of weapons of mass destruction, its persistent rejection of internal reform and opening, and its paranoia over its own internal security. Whenever there were signs of changes with regard to these three factors, there were periods of thaw and increased cooperation with outside actors. Such periods occurred in the early 1990s and in the first half of 2000s and in 2007. Regrettably, the last thaw did not last long and a new frost has set in since 2009. As a result, North Korea has been an isolated island amid centers of economic growth, and has served to obstruct economic integration between South Korea, China and Japan.

While North Korea’s relations with South Korea and Japan have remained stagnant or regressive, it has upgraded its links with China. China’s rapidly growing demand for raw materials and North Korea’s desperate need for foreign currency have stimulated trade between the two countries. However, the third nuclear test in February 2013 strained relations between North Korea and China. To offset deteriorating political relations with its closest ally, North Korea made attempts at rapprochement with Japan and Russia in 2014, but to little effect. With the fourth and fifth nuclear tests and numerous missile tests in 2016, North Korea has become ever more isolated in the international community and suffers from various multilateral and bilateral sanctions.
Strategic Outlook

As it enters 2017, Pyongyang is bracing for a new confrontation with the international community, particularly with the United States. The usual uncertainties which accompany North Korean disputes are dramatically amplified in 2017. Rather than coping with just one unpredictable leader, Kim Jong-un, the current confrontation adds a second in Donald Trump. In addition, the challenge is further amplified because the United States now perceives a direct nuclear threat from North Korea. Indeed, North Korea is projected to be able to attack the U.S. mainland with intercontinental ballistic missiles within a few years (i.e., during the Trump presidency).

New provocations with advanced nuclear weapons and ballistic missiles in 2017 would increase the international sanctions against North Korea, which had already significantly tightened in recent years, particularly in 2016. The U.S. Congress’ approval of the North Korea Sanctions Enforcement Act of 2016, empowered the Obama administration to significantly strengthen sanctions against North Korea. South Korea has also revised its assessment of the North Korean nuclear threat from one of “development” to one of “real deployment” and concomitantly vowed to augment pressures upon its northern neighbor. In addition, many other Western countries imposed bilateral sanctions against North Korea. The UN Security Council adopted resolutions 2270 and 2321, respectively, in March and November of 2016.

These economic pressures are designed to persuade North Korea to return to denuclearization talks. Considering North Korea’s determination to possess nuclear weapons, some countries argue that the international pressures must be strong enough to make the North Korean authorities perceive the risk of regime collapse. These sanctions aim to deepen North Korea’s international isolation diplomatically, drastically reduce the regime’s foreign currency earnings through obligatory limits on minerals imports from North Korea and by making it difficult to hire North Korean workers, and exclude North Korea from the international financial system by prohibiting banking relations and designating it as a major money laundering state.

The regime is unlikely to halt its provocations in 2017. North Korea appears determined to be acknowledged as a nuclear power and to revise relations in East Asia to make them more suitable for regime survival. The problem for North Korea is that, as it gears up its provocations to realize these objectives, the international community will concomitantly increase (potentially deadly) countermeasures. This fatal game will continue in the foreseeable future.