# Marketization in North Korea

- focusing on market mechanism in cooperation with the state

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1 Introduction

Recent changes in the North Korean economy, in particular represented as ‘marketization without liberalization’ (Smith 2009), have been drawing attention in that they break the stereotype of a traditional socialist economy. There are markets similar to those in capitalist states, where the population transacts goods and money, and enterprises are run by private individuals in practice.1 However, DPRK neither has announced a systematic reform, nor intentionally designed the current situation in which planning and markets are coexisting and intermingled. On top of this complicated situation, data about North Korea had not been sufficient for studying this development since the regime does not openly disclose information to the outside world. Therefore, it was complicated to figure out the impetus of marketization and to what extent marketization in North Korea has proceeded, and detailed analysis has been in veil for a long time. As the number of refugees from North Korea has been largely and constantly increasing, and the DPRK regime became more willing to cooperate with opening information, a good deal of studies dealing with marketization in North Korea has been conducted recently.2

The emergence of market was a new phenomenon after the famine and the collapse of the PDS, which made it an interesting object of research. Studies, that set the time frame between the death of Kim Il-sŏng in 1994 and the 2002 economic reforms, such as Lankov and Kim (2008) and Joo (2010), put an emphasis on the ‘marketization from below’, which means population’s self-organizing market activities apart from state control. Based on refugee interviews, Lankov and Kim (2008) analyze the emerging North Korean “grassroots capitalism” by figuring out the markets’ modes of operation, the scale of them, their relations with the state bureaucracy and the social and political impact of them. Also based on refugee testimonies, Joo (2010) examines the agency of so called ‘shadow economy’,3 and the supply and distribution mechanism of the consumer goods market. Choi and Koo (2005), on the other hand, investigate the dynamic change of

1 In the North Korean context, ‘private individuals’ or ‘private entrepreneurs’ do not hold the same meaning as those in the capitalist states, whose private property is legally protected. As we will see in chapter 3, although they run private businesses, they operate their businesses under control of the state.
2 Much of the knowledge base about the North Korean economy has also come from the international humanitarian and development organizations that have worked in the DPRK since the mid-1990s (Smith 2009: 232).
3 ‘Shadow economy’ is a term that indicates non-socialist sector in a socialist economy. ‘Second economy’ and
markets in three cities in North Korea – Ch’ŏngjin, Sinŭichu and Hyesan in 1990s and then examine the possibility that the collective agency of marketization could subvert the North Korean socialist system.

As more data have been collected due to the rapid increase of North Korean refugees, and markets in the DPRK are expanding at high pace, more studies shedding light on various topics related to marketization have been made. Smith (2009) analyzes provincial inequality in North Korea in relation to market opportunities of each province. Based on the data which the DPRK government made available to international organizations, Smith cautiously draws a conclusion that provincial inequality in North Korea is largely influenced by market opportunities such as proximity to foreigners, non-state sanctioned opportunities to buy and sell food, the degree of state control over local populations, and non-state sanctioned trading opportunities rather than agricultural productivity itself. On the other hand, studies focusing on the regime’s reaction to marketization have been continuously conducted as well. Yang (2010) analyzes the contents and the effect of the 2009 currency reform in North Korea, and later on Yang (2012) examines and evaluates the anti-marketization policy of North Korea in the 2000s.

Most of these studies have their focus on the consumer goods market, which is represented as Changmadang, and the studies achieved to deepen the understanding of ‘marketization from below’ in North Korea. We have less understanding, however, of how marketization involves market mechanisms such as privatization, expansion of the labor market, and division of labor. Moreover, previous studies tended to overlook the cooperative or symbiotic relation between markets and the state. This thesis aims to understand marketization in the DPRK as a multifaceted phenomenon with a broader angle, which presents market as a mechanism and as a system that cooperates with the state.

Terminology and Time-frame

There are various terms which indicate phenomena related to marketization in North Korea, for example, informal economy, private economy (sector), second economy, and shadow economy. The term ‘second economy’ is most widely used among Sovietologists together with ‘informal economy’ and ‘shadow economy’. Grossmann (1977) defines the second economy as economic activities aimed for private gain or activities in contravention of existing law. O’Hearn (1980) argues that the second economy should include activities operating outside the planning structure, which are not considered in planning or not acknowledged officially as a part of national economy. This definition of O’Hearn is close to market activities that we will examine in this paper. The term ‘marketization’ in this thesis covers both definitions of Grossmann (1977) and O’Hearn (1980), that is, i) economic activities for private gain or ii) economic activities in contravention of existing law or iii) economic activities operating outside the planning structure, thus including economic

‘informal economy’ are used as same meaning. In earlier studies about North Korean economy, these terms were used frequently, while recent studies after the mid-2000s prefer to use the term ‘marketization’ (Kim and Yang 2014: 9-10).
activities of state-owned enterprises’ utilizing a market, and those of private entrepreneurs’ or officials’ pursuing private interest. In the sense that economic activities operating outside the planning structure, terms such as private economy and private sector will be used in this thesis interchangeably with marketization as well.

The time frame studied in this thesis is mainly from the early 2000s to the present, that is, the post famine period when marketization already emerged and became pervasive in North Korea, and for which sufficient data is available through North Korean refugee surveys, and studies of international organizations. In some parts of the thesis, the period from Kim Il-sŏng era to the early 2000s (chapter 2) is dealt with to examine the historic background, and the period in the 1990s is covered to look into the early stage of foreign currency earning business (chapter 4).

Approach and Sources

Since “much of the best analysis of the North Korean economy is anchored in the policy realm, which usually used data drawn from DPRK government sources as made available to international organizations as a conventional source” (Smith 2009: 233), in this thesis I use analysis in the policy realm as main source of data, such as papers issued by KINU, KDI, Ministry of Unification, and BOK4 (see for example Lee 2007; Yang 2008; Hong 2012; Jung 2012; Im 2013; Kwak 2013; Park 2013; Kim and Yang 2014; White Paper 2015; Ryu 2016). For the theoretical background, I refer to studies of other scholars in the political analysis field such as Rose-Ackerman (1978), White (1993), John and Putzel (2000), and Acemoglu and Robinson (2012), and also scholarly analysis of specialists on economic transformation to marketization of North Korea such as Smith (2009, 2015), Haggard and Noland (2007), and Lankov (2013). For examining the latest changes in North Korea I rely mainly on newspaper articles available online that collate information on the DPRK economy such as Daily NK5 and Radio Free Asia6. Based on these sources and the scholarly knowledge base, what this thesis offers is not new data per se, but a new composition and interpretation of existing data.

Outline

I start by presenting a historical overview of marketization in North Korea. In chapter 2, I present how the central planning system used to function, how it broke down after the mid-

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4 KINU (Korea Institute for National Unification); KDI (Korea Development Institute); BOK (Bank of Korea).
5 Daily NK, an online newspaper based in South Korea, reports issues relating to North Korea. The sources are allegedly obtained from inside North Korea via a network of informants.
6 Radio Free Asia (RFA) is a broadcasting corporation, founded by the Broadcasting Board of Governors (BBG), an independent agency of the United States government, in 1996. RFA broadcasts online news, information, and commentary to listeners in East Asia.
1990s, and how this breakdown led to the emergence of markets. Finally, I also give an overview of marketization in the DPRK. In chapter 3, I argue that we have to approach marketization as the introduction and expansion of market mechanism, rather than to merely regard it as a simple market place. Here, I analyze bottom up marketization in North Korea focusing on small-scale private initiatives, and how this generated its own labor market. I zoom into some examples of privatization in service industry. In chapter 4, I discuss the political analysis of marketization, by embedding the marketization addressed in chapter 3 in a broader political context. After presenting theories from political analysis, I examine the operation of the market at the respective level in the hierarchical structure. Firstly, I look into foreign currency earning business and trading companies which are directly under the command of the authorities, then secondly, I discuss marketization at the level of factories and enterprises, and lastly I examine the association of local party officials with the market focusing on corruption issues. In the conclusion, after summing up the discussion of the thesis, an attempt will be made to understand the recent movements of the regime, together with proposals for further studies.

2 Background

2.1 Overview of the historical background (Kim Il-sŏng era - Kim Chŏng-il regime and the effect of the great famine in the mid-1990s)

The central planning system established in North Korea under the Kim Il-sŏng regime, which lasted from the late 1950s to the early 1990s, developed along the lines of the Soviet central planning system. In this economic system, production targets are set by the state and are allocated to state factories and collective farms. Without private ownership and commercial activities, trading of grain was prohibited and, purchasing of food with rationing coupons became the main route for acquiring food. In subsequent years, the Public Distribution System (hereafter, PDS) consistently increased so that “by the early 1970s the state rationed almost all foodstuffs available to North Koreans and from the early 1970s, an increasing number of consumer goods were rationed as well” (Ibid.). The PDS that worked throughout almost all consumer goods including food, clothes, housing and daily commodities depending on the social status (sŏngbun), had been the major command of the official command economy in North Korea after being introduced for the first time during the Korean War. Various efforts were made to deter the growth of private economy such as

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7 See Haggard, S and Noland, M (2007) for more about the rationing system in the DPRK. Table 3.1 (Haggard, S and Noland, M 2007: 53) shows the hierarchy of entitlements in allocation at the beginning of the 1990s in detail. “The allocation of rations was made according to a complex system of occupation and age-related stratification. At the top of the hierarchy of entitlements were the military and special security forces and high-ranking governments officials, as well as those engaged in heavy labor and in general, for those in urban areas,
preventing farmers from earning significant income by working on their private plots, running mutual surveillance groups within the population and operating a travel permit system. These official restrictions on private economy worked out efficiently until the early 1990s, thereby, the allocation of resources was mainly performed by the state with a minimal role of the market. Therefore prices were set by the government instead of being set by supply and demand.

However, in the 1990s the PDS went through a severe crisis and almost broke down. After the collapse of the Soviet Union and the end of the Cold War, subsidies from the Soviet Union and China ceased, which North Korean industry was heavily relying on. China and Russia regarded North Korean policies as being economically anachronistic and as a political threat to north-east Asia which might bring huge instability to the region. On top of this both China and Russia were busy with resolving their own economic problems in the early 1990s. Furthermore, after the ‘first nuclear crisis’ in 1994, there was no expected foreign economic assistance, which could have filled up the resource gap generated by Russian and Chinese economic disengagement. This was fatal not only for heavy industrial and construction sectors but also for agricultural sectors which depended largely on the use of agro-industrial products such as electricity-fed irrigation, fertilizers, chemicals and pesticides. Consequently, agricultural productivity declined abruptly and devastating floods in ’95 and ’96 deteriorated the crop production even further.

All this worked together to cause the economic crisis in the 1990s and brought the great famine in the mid-1990s. The regime could not supply enough food to assure subsistence, nor provide basic health supplies to solve the aggravating ill health-conditions of the population. From 1993 to 1994, rations were increasingly delayed and delivered only partially, and after the repeated flood and drought from 1994 to 1998 the nearly broken PDS affected even the privileged population of P’yŏngyang (Lankov 2013: 78-79). It is said that the food shortage had been a chronic problem of the command economy due to the deficiencies of the rigid planning system and policies prioritizing military and heavy industries at the expense of consumer sectors (Joo 2010: 112). However, the food crisis of the mid-1990s was on a different scale in that it was transformed into a nationwide famine that lasted from around 1995 to 1998.

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8 Choi, Jinwook (2006) argues that the United States wished that North Korea gave up its nuclear program in return for economic assistance or economic pressure, however, for North Korea the nuclear program was the best leverage to receive attention, food, and assistance from the outside world, and most importantly it was believed to provide political security for the Kim Chŏng-il regime, thus it became the program that North Korea would not easily give up for exchange for foreign aid.

9 Haggard, S and Noland, M (2007) points out that the total supply depends on the ability and willingness of the country to maintain imports. In this regard, they argue the famine was caused by the government’s failure to secure adequate external supplies by earning adequate foreign exchange through exports, by borrowing, or through timely appeals for international aids.
2.2 Overview of marketization in North Korea

Under this circumstance, North Korean population started to seek for survival paths outside the state system by bartering, selling private properties, and trading. In so doing, North Koreans created primitive markets and the state more or less tolerated the expansion of markets that helped the population to find food and income. In the economic crisis in the 1990s, ‘farmers’ market’\footnote{Farmers’ market itself was a legal system in which farmers could sell some of their own produced crops and animal products to other citizens. It was held every 10 days and transaction of grain such as corns and rice and manufactured goods was prohibited.} turned into a big black market that covered almost all of the goods including food, manufactured goods and even some producer goods. “Individuals used whatever resources they could find from their natural, social and political environment to make money” (Smith 2015: 215), for example, families started to grow food for own consumption and for selling on markets and engaged in small-scale production of basic goods like noodles and liquor. In 1995, “huge markets began to grow in North Korea’s cities and millions of North Koreans, women in particular\footnote{Women made up the majority of North Korea’s market players at the beginning, since male population was bound to collective labor forced by the state.}, began to earn the family’s income through trade and household handicraft production” (Lankov 2013:83).

Studies by Lee (2007) and Yang (2006) presented that in the retail sales market, an absolute majority of consumers no longer buy goods through state channels, but rather utilize informal channels like Changmadang, which is similar to markets in the Western world and which became legal in the early 2000s. A study by Kim and Song (2008) estimates the size of the informal economy (private economy) in North Korea and tries to figure out the determinants and the effect of it from the late 1990s to the early 2000s, based on data collected from 700 North Korean refugees. In comparison to Lee (2007) and Yang (2006), Kim and Song (2008) has a larger number of respondents and attempt to estimate the size of the informal economy and to understand the modes of informal economic activities. The survey shows that the majority of respondents have participated in informal economic activities (hereafter, IEA) by showing that a total of 78% of the survey respondents reported to have worked in informal sectors and additionally 74% of jobholders in the formal economy also have engaged in IEA (Kim and Song 2008: 370-371). The study classifies the type of informal work into three categories: 1. private plot-related activities, 2. stockbreeding and other activities including street vending (food, fish), making consumer goods for sale, and 3. smuggling. From this categorization, it is illustrative in which ways individuals engage in market activities. The study also shows the distribution channels of basic food and agricultural products and proves that consumption of those goods through the official channel such as state-run shops and the rationing channel does not exceed 20% of the total consumption. According to the study, participation in IEA seemed to be driven by low income from the formal sector, and the higher income in IEA, thereby affecting labor supply in the
formal sector negatively.

3 Bottom up Marketization in North Korea
- focusing on small-scale privatization

In this chapter, we approach marketization from a broader angle, beyond the narrow scope and limited understanding that stems from focusing on the physical marketplace where consumer goods are traded. The market is also a system that organizes the allocation of resources in the economy. In the market mechanism, the market is the main system for allocating scarce resources in an economy such as labor and capital. In other words, the market lets the players decide what to produce, how to produce and for whom to produce. Prices are determined by the interaction between supply and demand, and they incentivize market players including households and enterprises to decide how to allocate their resources (Yang 2014: 56).

When approached from this perspective, it is useful to borrow Yang’s framework (2006) to understand the marketization in the DPRK. Yang (2006) analyzes the level of marketization in North Korea by examining three indicators used for measuring the degree of systemic transition of the former Soviet Union and Eastern Europe in the early period of their transition from a socialist economy. He stresses that the framework of ‘regime transition’ should be applied cautiously to North Korea since the DPRK has not officially announced a regime transition as witnessed in the Soviet Union or other Central European states. Yet, he assumes that when focusing on the behavior of individual economic subjects rather than on the legal and institutional context, the transition framework developed in a report by the EBRD (European Bank for Reconstruction and Development) is helpful. Six fundamental indices for evaluating transition are summarized as follows: large-scale privatization, small-scale privatization, enterprise restructuring, price liberalization, trade and foreign exchange system, bank reform. Based on refugee interviews, Yang focuses on the three indices which are small-scale privatization, price liberalization and enterprise restructuring to examine the level of marketization in North Korea.12

In this chapter, we address small-scale privatization in detail, since private ownership is a fundamental factor of a market economy and it relates to the creation of a new form of labor market. Small-scale privatization has made it possible to hire labor in the private sector and to organize a division of labor, which works as the basis of market economy.

12 According to Yang (2006), since large-scale privatization and bank reform have barely happened in North Korea, those two indicators are excluded in the analysis. Trade and foreign exchange system seems to have changed to a certain degree, but refugee interviews do not allow a good understanding of the level of change, thereby, this index is not included in his study either.
3.1 Privatization level

In principle, in socialist states like the DPRK, ‘private property’ does not legally exist. Means of production belong to the state and the people are required to work at state-run farms, factories or enterprises. No individual is permitted to own private profit from production, thus people should rely on the distribution system to get life necessities including food, clothes, houses and so on. As the PDS ceased to perform its original function the population began to mobilize all resources they could make use of, such as land, livestock and labor, and gains from market participation consequently turned into private property. In most of the cases, private gains merely managed to support living, nevertheless some managed to earn more than the minimum income for survival and they were able to organize their own business. The scale of privatization and organizing one’s own business shows a deviation depending on owners and area of business. In the following, small-scale privatization will be examined by looking at various cases which show how a new labor market and the division of work within it developed.

The survey of Yang (2006) shows that the privatization level is low when it comes to state-owned industrial factories and enterprises both in center and local areas. The majority of the interviewees answered that the percentage of these factories and enterprises run by individuals is between 0% and 10%. However, in other sectors such as restaurants, shops, service stores and trading companies, it can be assumed that privatization has proceeded to a certain degree. On average, 30% of these sectors are estimated to be run by private owners and in particular, restaurants show almost 50% of privatization level. Shops and service stores show a privatization level above 40%. In the case of small-scale privatization, the survey concludes that approximately 70% of the adult population was participating in market activities. Another study by Yoon (2013) supports the argument that small-scale privatization is present to a certain extent in the DPRK. In the study, refugees were asked about the ratio of privately owned means of production. The answer that there were “plenty” or “some” of privately owned means of production vary from sector to sector, with the percentage of privatization being 32.6% in mines, 59.0% in fishing ships, 71.2% in government-purchase stores, 79.2% in restaurants, 73.8% in freight cars, 81.8% in noodle factories, and 79.4% in artificial meat. This confirms the findings of the survey of Yang (2006), where it is also found that privatization levels in restaurants, shops and service sector are considerably high.

3.2 Privatization and the organization of labor market

Private ownership inevitably relates to private employment, such as ship owners with laborers in fisheries, individual mine owners with laborers in mining, owners of restaurants or stores with clerks in the service industry, and land owners with tenant farmers in farming sector.

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13 Service stores in North Korea include shops such as sauna, barber shop, repair shop, and leisure-related stores like karaoke and billiard hall.
(Kim and Yang 2014:43). Although the private ownership of means of production is legally prohibited, advanced marketization has led to privatization in practice. Furthermore, this privatization impacted the labor market through a division of labor. The next paragraphs look into the organization of private employment by looking into some cases.

**Mining industry** is one of the key industries in the DPRK and used to be run by state-enterprises, however, private management in the mining industry is reported. A typical way of running this business privately is as follows (Ibid., 59-61): first, individuals gain the right for the management of mines from the executives of state-run mining companies. Individuals and the executives agree to give a name which suggests that the mine is run by the state, and individuals pay an official commission to the original state-enterprise and in many cases also bribe government officials. Then the new manager secures capital, either through self-finance or through private loans, and labor. Labor are often workers who have worked at the state enterprises before or from the labor market in general. Running an abandoned mine has been regarded as an investment target for the new rich in North Korea, since it is a practical way to earn foreign currency from exports to China. The right for managing small-middle scale mines is said to be transacted at the price of $ 3,000 between the new rich and officials in mining industry. Some even excavate small-size mines around abandoned mines once run by the state and the owners of these new mines are said to employ five to ten workers for mining.

In the manufacturing industry, the division of labor sticks out more clearly. **Clothes manufacture**, which is called “Ssŏnaeki (써래기)”, is a good example to look at. The name comes from the word “ssŏlta (썰다)” which describes the process of cutting fabric according to the sample size of the product from a pile of fabric. In earlier times, this large scale of clothes manufacturing was not imaginable unless being done by state factories, until a female merchant managed to invest private capital and produce a great amount of products. When the merchant acquired information that the Youth Union would hold a Taekwondo contest and the participants were told to prepare uniforms for the contest, she ordered fabric from other merchants in border cities. Next, the cloth was sent to hired workers who tailored the purchased fabric, and subsequently to individual workers who sewed the clothes. The finished uniforms were sold to merchants either by payment on the spot or by credit, and finally the uniforms reached to Changmadangs in different cities. When there was new demand, this clothes producing system run by Ssŏnaeki started to operate again. In this way capital and labor is organized to meet the demand of the market, and the division of labor has been developed. Division of production and labor seems to have proceeded apace as the import of fabric has increased steeply while the import of clothes has decreased, allegedly a

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14 Daily NK 2015-04-09
15 Radio Free Asia (hereafter, RFA) 2015-08-04
16 Daily NK 2007-12-14
consequence of an increase in the number of individual clothes manufacturers.\textsuperscript{17}

Private production and private employment have enlarged their scale as individual manufacturers even rent state-run facilities such as machine factories of coal mines for \textit{shoe production}.\textsuperscript{18} To lend facilities to the private entrepreneur is beneficial for the officials of state-run factories since they can earn additional profits from the restricted raw material and labor. In many cases entrepreneurs pay 30\% of the sales profit as a rent for the facilities, and therefore, when the business is regarded as a profitable one, officials decide to lend facilities to private entrepreneurs. For private entrepreneurs, it is essential to rent state-run factories which can provide stable electricity to conduct large scale production of shoes. Although this state-run factory rental is taking place within only a few factories for security reasons, it proves the growth of private manufacturing and the progress of privatization in the DPRK. The division of labor becomes apparent by looking at the shoe manufacturing process.\textsuperscript{19} It has created a number of labor market segments involved in the respective procedures of manufacturing shoes such as providing raw material, cutting out the upper leather, producing the rubber sole, making the shoestrings, manufacturing the middle layer of the shoe sole and processing finished goods. The general procedures of manufacturing shoes are similar to the case of \textit{Ssŏnaeki}. Manufacturers purchase raw material from retailers who import it from China and distribute it to each manufacturing step, which takes place in households or rented factory facilities where family, students, or factory workers are hired. In the final steps, the manufacturers produce finished goods ready to be sold at the market. In this way, shoe manufacturing procedures that are closely tied with a fine distribution network, involve private employment that reacts to supply and demand of the market.

\textbf{3.3 Privatization in Service Industry}

One of the sectors which illustrates small-scale privatization most explicitly is the service industry. As seen from the studies of Yang (2006) and Yoon (2013), the privatization level is reported to be considerably high in service industry which includes restaurants, shops, and transportation industry. Another survey, conducted by Kim and Yang (2012), about the actual ratio of state enterprises run by individuals shows that even in the case of state enterprises, the privatization level in service industry is quite high. According to the survey asking refugees who left the DPRK between 2007 and 2009, more than half of the stores (51.3\%) and restaurants (58.5\%) that used to be run by the state are now operated by individuals in practice. It can be due to the fact that service industry such as wholesale and retail, food and lodging industry, and transportation industry do not require large scale capital or elaborated technology, thus it has been easy for individuals to start their business privately.

\begin{footnotesize}
\begin{enumerate}
\item RFA 2016-10-17
\item Daily NK 2015-10-27
\item Daily NK 2016-03-24
\end{enumerate}
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To what extent the expansion of service industry in the private sector would lead to economic growth in the DPRK still remains in question, however, it is undeniable that a considerable amount of income from private economy in North Korea comes from participating in the service industry. Kwak (2013) argues that formal income composed of the monthly salary paid by the state and rationing takes only 12.5% of the household income and 87.5% of household income is filled by informal income. This informal income is mainly earned from service industry such as merchandising (48.8%), transportation (11.5%), other types of small-scale service (9.4%) and private finance (10.0%).

Transportation business including buses and freight cars is a good example that shows privatization in service industry. The most representative transportation in North Korea is a freight car or bus called sŏbisŭch’a (셔비차), which is a compound word of service and car. In and after the severe economic crisis in the mid-1990s due to deficiency of fuel and electricity, trains and cars could not operate any longer. Under the condition that capability for transportation in the nation was more or less paralyzed, state organizations and state enterprises started to utilize their vehicles to make a profit. They transported passengers and freight and with the profit from this business they could support rationing or purchasing resources for production. Later on, as marketization progressed to a certain extent, the new rich who had built up their own capital began to purchase used trucks from China or Japan and started to utilize them for transportation business. In this case, owners of vehicles register self-owned transportation as state-owned asset and hire drivers privately. With the permit for running a vehicle gained from officials of state enterprises, owners can run a transportation business by carrying passengers or goods from city to city. Owners pay a certain amount of the profit to officials, which is taken for officials’ private benefit and also recorded as profit of state enterprises. Operation of Service-cars has made a smooth transportation of people and goods throughout the country feasible, and thus has stimulated active transaction through the market across the nation. There have been trials to control privately running transportation business in 2010 and 2015. However, cracking down service-car business seems to be highly improbable since service-cars hold responsibility for a considerable amount of transactions, and profit from running service-cars is beneficial for state enterprises, and since only foreign currency is accepted as fare.

The importance of growth of service industry lies in the fact that it promotes interaction between different sectors of the market. For instance, Ssŏnaeki or shoe manufacturing industry studied beforehand would have not been possible without support of transportation business. Distributors who connect traders and wholesalers, wholesalers and retailers, and retailers and consumers have enhanced market size and promoted division of labor across the market.

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20 Daily NK 2010-10-26, RFA 2017-01-09
21 State’s running transportation business will be dealt with in Chapter 4 later on again, from the perspective of state-enterprises’ participation in commercial activities.
4 Marketization embedded in a political context

Since marketization is regarded as an economic phenomenon at a first glance, it is no surprise that most of the studies about marketization in the DPRK have been made by economists. This economic analysis on marketization of DPRK is based on the perspective such as ‘marketization from below’ or ‘self-generated marketization’ while assuming that the expansion of marketization is a threat to the regime and thus takes hostile stance with the state (Park, Hyeongjung 2012). ‘Self-generated marketization theory’ puts an emphasis on the role of economic subjects at the bottom such as households and enterprises, and argues that marketization in North Korea took place naturally as the population sought for a survival path (Yang 2014: 72). This analysis is effective in analyzing the emergence of Changmadang after mid-1990s as we have looked into in the earlier chapter and it is useful to examine the behavior of economic subjects like households as well.

State-involved marketization theory

However, we should not be buried only in this perspective to have a comprehensive understanding of marketization in the DPRK. Another approach starts from the assumption that there exists a certain power related to the state which leads marketization. Political analysis in the study of markets pays attention to the way in which power and power relations influence the structure and operation of markets in reality. This interest in the influence of power and power relations criticizes that economic analysis tends to overlook the importance of power and to marginalize the impact of power relations (Park, Hyeongjung 2012: 208). ‘Power-involved marketization theory’ regards the role of political organizations as being important motives in the expansion of marketization in the DPRK. It puts an emphasis on foreign currency earning while embracing Changmadang which takes place at the bottom of the hierarchical structure. These two approaches should be seen as complementary, rather than opposite or exclusive.

In the previous chapter we have studied the evidence of self-generated marketization in the DPRK. We have seen a complex market economy with focus on privatization and private employment involving division of work and the emergence of service industry. In this chapter, we will embed the concept of self-generated marketization into a broader political context. Firstly, I present the theories from the political analysis on markets which can be applied in examining marketization in North Korea. Secondly, based on a political analytic


23 For the studies taking this perspective, see Choi, Bongdae (2011).; Choi, Bongdae (2014).; Park, Hyeongjung (2011).; Hong, Min (2012).
view I will examine marketization in the DPRK. It will be examined how North Korea’s unique political system is formulating the hierarchical structure of the market and influencing the operation of the market at the respective level in the hierarchical structure.

4.1 Theories

White (1993) – the politics of state involvement

Using a power-based notion of politics, White identifies the politics of markets as a complex process involving four different types of power as follows:

“(…) the politics of state involvement involving state power; the politics of market organization involving internal association power; the politics of market structure involving economic power; and the politics of social embeddedness involving various forms of social/cultural/ideological power” (White 1993: 1-2).

In his argument, the “political process of conflict and cooperation, and political relations of domination and subordination” (Ibid., 3) are reflected in market structures and market operations. In the analysis of markets in North Korea, the first type of market power, that is, the politics of state involvement, could prove most useful and here I focus on presenting state power in relation to markets, since the conditions for the three other types of power are yet to be ripened to work in practice in the case of North Korea.

There are two common forms of state involvement in markets. In the first type, the state is directly involved in a market by exerting direct control over production, accumulation or exchange. State-run farms/factories/enterprises in the DPRK can be the perfect examples that show the state as a direct participant in the market. As White points out, state enterprises play a monopolistic role in providing key industrial inputs such as energy and basic raw materials like steel and coal in North Korea, even though this role has been largely shrunk after the mid-1990s.

The second type of state involvement in markets is through regulation which has “several layers of market penetration” (Ibid., 5). The layers vary from the basic level such as policy intervention by the government to facilitate market operations, correcting market distortions, and achieving social and developmental goals to a deeper level of institutional arrangements such as the legal protection of property rights, licensing laws, creation and validation of money and the regulation of contracts. In the case of the DPRK, selling the right for trade and permission for travelling are representative examples of state involvement in markets through imposing regulations.

Two dimensions of state involvement, with the state as a direct player in the market and with the state as a regulator of the market, will be studied in detail in 4.2.
Acemoglu and Robinson (2012) focus on the role of political and economic institutions which determine prosperity or poverty of the country. They argue that “while economic institutions are critical for determining whether a country is poor or prosperous, it is politics and political institutions that determine what economic institutions a country has” (Acemoglu and Robinson 2012: 43). Acemoglu and Robinson identify two different types of institutions; inclusive ones and extractive ones which lead to different consequences.

Inclusive institutions “secure private property, an unbiased system of law, and a provision of public services that provides a playground where people can exchange and contract; also permit the entry of new businesses and allow people to choose their careers” (Ibid., 74). Inclusive institutions offer economic incentives for education, saving and investing, and innovating and adopting new technologies which are essential for economic growth. In particular, securing private property is said to be critical for promoting investment and increasing productivity. Though securing property rights or providing public services can be provided by markets to a certain extent, the central authority is essential to impose coercive order and to do so on a large scale. Therefore, the state plays a fundamental role in operating economic institutions “as the enforcer of law and order, private property, and contracts, and often as a key provider of public services”. (Ibid.)

On the other hand, institutions which have opposite properties to inclusive ones are called extractive institutions. They are “extractive” because they are “designed to extract incomes and wealth from one subset of society to benefit a different subset” (Ibid.). Since power is concentrated in the hands of a small elite group, barely no constraints are put on the exercise of concentrated power and on structuring economic institutions to extract resources for their own sake. Extractive economic institutions enrich the elite, and wealth and power of the elite strengthens the ruling power in a vicious circle.

Acemoglu and Robinson examine the cases of North and South Korea after the division in 1953, which lead to the conclusion that different institutions in two countries brought different results in their economic trajectories. Extractive economic institutions of North Korea do not secure private property and the legal system is mainly used as an arm of the ruling Korean Workers’ Party. This comes from the absolutist political institutions which set up economic institutions to enrich the elite of the Korean Workers’ Party at the expense of society. By contrast, South Korea, although it did not have completely inclusive institutions, achieved rapid industrialization by allocation of resources by the state under General Park who ran an absolutist political regime, and after that it transited towards inclusive political institutions in the 1980s.

However, it should not be concluded that extractive institutions in North Korea are exactly the same as seen in other countries since the way power is distributed differs from country to country. While taking the unique and specific situation of the DPRK into account, it will be examined in which way and to what extent extractive political/economic institutions
work in marketization of North Korea later on in 4.2.

**John and Putzel (2000) – political settlements**

As a setting in which social actors interact, John and Putzel (2000) regard “a common understanding, usually between political elites” (John and Putzel 2000: 4) as a fundamental background. This common understanding, in other words, ‘political settlements’ serve the best interests or beliefs of (political) elites through administering political power. Political settlements influence the structure of property rights and entitlements, and in so doing they can assign more distributional advantages to certain social actors than to others. They impose limited access to valuable resources such as land, labor, and capital, or to profitable activities such as property rights protection, trade, contract enforcement, and so on (Ibid., 14). In short, political settlements are essentially about the distribution of rents in the society. As a state plays a main role as a coercive enforcer in structuring political and economic institutions in the study of Acemoglu and Robinson, political organizations like political parties are said to be the most effective entities in shaping political settlements.

According to John and Putzel, political settlements are central to understanding the different trajectories of developing states and the directions of reform that a state might take, and to assessing state stability and resilience. In this sense, approaching marketization of North Korea from the angle of political settlements appears to be beneficial. In particular, as John and Putzel point out, “the ideological role of the political organization” (Ibid., 16) should not be overlooked. In the case of North Korea, it should be examined how the regime tries to project administrative authority and coercive power in forming political settlements. In 4.2, it will be studied in which way political settlements in the DPRK are distributing rents for the sake of the state, together with the properties of extractive institutions.

**4.2 Operation of the market at the respective level in the hierarchical structure**

**4.2.1 Foreign currency earning business and trading companies**

As explained in the previous section, political analysis of the market assumes that the main motive, which drags marketization, comes from the commercial activities of authorities or organizations of political power. ‘Power-involved marketization theory’ sees a hierarchical structure in the market, with state-departments related to foreign currency earning business at the top of the hierarchy while emerging capitalists called *Tonchu* being situated below, local governments coming after, and retailers and producers who collect or produce exporting goods being located at the bottom of the pyramid (Yang 2014: 73). It argues that the main force which drives marketization comes from the special administrative units that support foreign currency earning business, such as Office #38 (special department in the Korean Workers’ Party codenamed Room 38), Office #39 and the involved departments, Security
Headquarters, organizations under the Ministry of the People’s Armed Forces (*Inminmuryŏkpu*), State Security Department (*Kukkaanjŏnbowibu*), and the Ministry of People’s Security (*Inminboanbu*) (Ibid.).

Here, we will examine how foreign currency earning business began to develop, and has been operating, and how this business and trading companies are associated with marketization.

**Development of foreign currency earning business**

The origin of foreign currency earning business goes back to ‘Korean Workers’ Party economy’ that belonged to Office #39, which was directly under Kim Chŏng-il’s command. The Workers’ Party installed management offices nationwide and gained huge profit by monopolizing the privilege for export through these offices. For example, when people collect products such as mushrooms, minerals and fish, management offices purchase these at low price and export the products at higher price to markets abroad including China and Japan. With the income earned from the export, offices purchase cheap merchandise from capitalist markets abroad, and in this way offices earn considerable profit. In the 1980s, however, monopolizing power of the Workers’ Party became weakened and organizations under the military and security department started to jump into foreign currency earning businesses as well. With the economic crisis in the 1990s, North Korean authorities commanded that each organization and state-enterprise should earn foreign currency on their own and solve the distribution problem by their own as well (Park 2011: 220). Against this background, the ‘new trade system’ was introduced in 1991, which allowed the respective department under the cabinet and local administrative district to found trading companies. This action motivated a bunch of organizations belonging to the Workers’ Party, cabinet and the military to establish their own trading companies to earn foreign currency. Thus, in the early 1990s it is shown that almost all kinds of merchandise were mobilized for being sold abroad by these organizations (Ibid., 221-222). The range of merchandise varies from raw materials such as mineral products like placer gold, zinc, iron ore, and coal, forest products including mushroom, bracken, Omija, and wood, and fishery products like shell, pollock, sea urchin roe, sea cucumber and eel, to scrap iron, antique, opium, and used cars.

In the mid-1990s, when the PDS almost broke down, foreign currency earning business by organizations and enterprises expanded even more. After the death of Kim Il-sŏng in 1994, military authorities gained dominant power over the Workers’ Party under the Kim Chŏng-il regime with an emphasis on *Sŏn’gun* politics (= military first policy). Kim Chŏng-il assigned management power of the national economy to the military and it received a huge privilege in the trading business, and therefore, the Ministry of the People’s Armed Forces monopolized all the resources for export. Since the early 2000s foreign trading expanded, driven by the rapid growth of China. Demand for resources from China increased largely along with the economic growth, and resources that North Korea needed could be
easily acquired from China as well (Kim and Yang 2014: 144-145). Though foreign trading business is controlled by the authorities, as we will study later in this chapter, foreign currency earning business is deeply associated with market economy and is being operated with marketization.

**Operation of foreign currency earning business**

Since the operation of foreign currency earning businesses is centered on trading companies, it is important to understand the structure and properties of trading companies. According to the trade law of the DPRK Article 10, “Trading companies are in charge of export and import. Business related to export and import is done by trading companies that are founded and received business license by law.” At a glance, they look similar to trading companies in capitalist states, however, trading companies in North Korea have unique characteristics.

Firstly, they should belong to either cabinet or the party or the military. *Maepong* trading company (which is known to have changed its name to *Gwangmyǒng* trading company in 2000), founded in 1980, is one of the most representative foreign currency earning institutions and is under direct control of the Ministry of the People’s Armed Forces. Another active trading company, *Pirobong* trading company (founded in 1998) belongs to the same authority as well. Both *Chosŏn Taesŏng* trading company and *Chosŏn Taehŭng* trading company, which exert powerful influence, belong to Office #39. *Taesŏng* trading company belonging to the party and *Maepong* trading company under the military are known as two major trading companies in the DPRK. China and Japan are the main trade partners trading used cars, medicinal herb, mining products and fishery products with China, and mainly fishery products with Japan at the high sea on the East Sea.

Secondly, even though a company belongs to the party, or cabinet or the military, it is not possible to get the permission for founding a trading company unless it owns a source for foreign currency earning, for instance, ‘production base (factories)’ or ‘source base (fishery product, forest product, etc)’ (Jung 2012: 9). *Chosŏn Chungsŏng* trading company owns herb source base and a laboratory to produce medicine as a pharmaceutical company, and *Chosŏn Ŭnha* trading company, which is the biggest clothes improvement trading company in the DPRK, has about 20 garment factories. Trading companies in North Korea, thus, are not only in charge of selling and distributing goods but are also responsible for production.

In addition to the capability of production, trading companies in North Korea should gain *Wak* (와크) to do business. *Wak*, an export license or quota for particular kinds of

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25 For more details about the list of North Korean trading companies and their affiliation, see Jung, Eun-e (2012). Based on the data from KOTRA (Korea Trade-Investment Promotion Agency), Ministry of Unification, and refugee interviews, Jung collected the list of trading companies and classified the affiliation of each company.

26 Daily NK 2007-03-18
merchandise, is essential in the foreign currency earning business in the DPRK after having been issued from the ‘Korean Workers’ Party economy’ for the first time. How much \(Wak\) is assigned to a certain trading company depends on the political power relations between the party, cabinet and the military and is decided by the leader. In the ‘military first politics’ era, trading companies under military authorities gained most of \(Wak\), however, in the new era of Kim Chŏng-ŭn it seems that a considerable part of it is transferred to the party from the military as the power of the party is strengthened with the new leader.

Profit gained from foreign currency earning business, based on the exclusive rights of trading companies, is used for financing organizations under the party, cabinet and the military. Some part of the profit also goes to related executives for private wealth accumulation. The structure of foreign currency earning companies is as follows:

On the top, there is a headquarter which is directly managed by the party, cabinet and the military. Trading companies are located below and they run branch offices in each province. Then this branch office has several local offices in counties or in cities. Location of local offices mainly relies on the location of natural sources. Under a local office, there exists a smaller branch office where the purchase of source is taking place. Here local residents can exchange sources that they collected or produced with food or daily necessities. Border towns where customs are located also have branch offices that deal with export and import (Jung 2012: 14).

**Association of foreign currency earning business and trading companies with marketization**

The association of the foreign currency earning business and trading companies with marketization cannot be explained without considering the \(Wak\) system.\(^{27}\) For example, organizations under the military firstly install a source base of fishery product and a branch office in the major harbor cities. In principle, collection and distribution of fishery products is done by military troops, however, the military is not able to conduct this procedure because of lack of finance and labor. As a solution, private enterprises or individuals were given the management rights through \(Wak\), under the condition that it still runs under the name of a military organization officially.\(^{28}\) Individuals mobilize finance and labor, proceed practical affairs related to export, and share the profit with the military. To have the shield of the military has a certain advantage since it is relatively free from interventions from other

\(^{27}\) Here, the explanation about the operation of trading companies under the protection of the military owes to Park 2011: 225-227.

\(^{28}\) This is similar to the cases that we have looked at in the chapter 3, where private entrepreneurs rent facilities from state-run factories or enterprises to run their own business under the condition that they keep the name of state organizations. In chapter 3, we studied the cases of mining business and shoe-manufacturing business.
administrative institutions. In particular in the era of ‘military first politics’, private entrepreneurs or merchants and the military existed in symbiotic relations. Three main conditions for export business, that is, “quota for export (Wak), securing export source, and transport-means”, were assured by the military.

This transaction between political organizations and the private sector does not only apply to the organizations under military authorities. Other state-run trading companies are also known to utilize private merchants in the procedure of gathering export goods and supplying imported goods to the domestic market. Here, transferring Wak to emerging capitalists with high renting fee often takes a large part of income of trading companies under state organizations. In particular, it is said that at the end of the year more transfers take place since trading companies have a pressure to earn the allocated ‘loyalty funds’ which go to the state. Transaction of Wak is forbidden in principle, however, trading Wak between trading institutions or between trading companies and private individuals is not difficult to find in the DPRK.

Association with the market is also found at the bottom level of profit sharing of trading companies. Here, we see how the population and end units are involved in foreign currency earning business of trading companies in the case of mushroom and medicinal herb. When the command of collecting medicinal herb is given to the branch office from the headquarter, the branch office sets up a ‘local office’ in the county or in the city nearby of the district producing herbs. Then a local office installs a branch office in the producing area. This branch office hires and sends workers from outside who are capable of purchasing herbs to the site where they can purchase herbs from residents. People bring herbs they collected individually from mountains to the branch office and get goods such as sugar, food, and daily necessities for the price, which they can most easily cash in at the market. Remainders after self-consumption are sold or exchanged with other goods at the market. ‘Source-purchase instructors’ hand in the allocated quota of herb and they sell the surplus of goods to a broker transacting with China or sell the surplus by themselves at the market. Herb gathered at the local office is directly sent to local offices in the border towns owning customs, and is officially exported to China. Allocated foreign currency earned from trading is submitted to the headquarter and the remainder of profit is used for importing merchandise from China. Some of the imports are first transacted at the warehouse of trading companies with wholesale merchants, who distribute products to markets all over the country. Consequently, as the size of trading companies is enlarging and foreign currency earning business is growing, the amount of transactions in the market and the scale of the consumer goods markets are expanding.

Even though foreign currency earning business is cooperating with marketization and has an aspect of promoting marketization to a certain extent, we should be cautious about

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29 Daily NK 2015-12-08
30 This part with the operation of foreign currency earning process of mushroom and medicinal herb owes to Jung 2012: 24-25.
drawing a conclusion that this business leads to transformation to capitalism directly. It lacks forward and background linkage effects with other industrial fields since it mainly relies on the unilinear export/import path, via export of mining goods and collected resources such as forest products and fishery products on the one hand side, and import of substitute materials like food and light industry goods on the other hand side. This can be explained by the fact that boosted marketization related to foreign currency earning is focusing on stabilizing the regime and securing the interest of political organizations rather than on transformation into a new system. Periodic abolition and consolidation of trading companies also shows that operating of these companies can be easily influenced by the will of the regime. For instance, strong censorship on trading companies and foreign currency earning individuals in 1996 ended up deactivating a couple of major trading companies under military authorities. In 2010, another measure was taken by the Korean Workers’ Party to disband trading companies under military authorities except trading companies controlled directly by North Korea’s Trade Department.\textsuperscript{31} It is assumed that by suppressing trading companies and the market, the Party tried to set a new economic order through sale and distribution of goods by state-run stores.

\section*{4.2.2 At the level of factories and enterprises (non-foreign currency earning businesses)}

\textbf{State-factories and enterprises cooperating with the market} 

Association with the market can be also observed in the operation of state-owned factories or enterprises. Here, we see how state-factories and enterprises are cooperating with the market, and how the authorities deal with private enterprises. There are two different opinions about market-related economic activities of state-owned enterprises in the DPRK (Im 2013). One is the analysis that actual marketization proceeds in a way such that most of the activities of state-owned enterprises are composed of non-planned activities, utilizing the market actively while maintaining the appearance of state-owned enterprises. The other opinion is, that the situation is nothing more than limited marketization of enterprises, and argues that major state-owned enterprises are still under control of national planning even though the planned economic system is often assessed to be broken down. It is hard to say that one of the two taken alone explains the situation of North Korea. We should rather focus on the assumption that these two phenomena are intermingled, and on the fact that marketization of enterprises, in the narrow as well as in the broad perspective has accelerated recently.

First, we examine how state-owned enterprises are making use of the market and are forming a relation with market at the respective step of carrying out the plan. Firstly, at the

\footnote{\textsuperscript{31} Daily NK 2010-01-20}
stage of setting the plan, a manager takes the market situation into account in his decision making. Managers try to figure out the possibility of using Tonchu (emerging capitalists), the sort of usable resources, and their amount available in the market (Ibid., 52). As the lack of resources became severe, state planning was distorted and has been malfunctioning, and only managing to meet the direct commands from the leader. Accordingly, state planning given by the cabinet became even less powerful, so that the goal of state-owned factories and enterprises became to meet just the minimum of the allocated production. For example, a construction company which has 10 work groups put 3 groups to work on the state-plan, and the remaining 7 groups were often mobilized to produce profits by involving in 8.3 line production or private construction work of Tonchu (Ibid., 53). In the case of factories or enterprises in the local area, the importance of state-planning and that of self-reliant planning was reversed even more. Since daily-necessities and raw materials for production were not provided sufficiently from the state, it was even harder to meet the plan and the state could not exert forcing power easily.

Secondly, at the stage of production, factories and enterprises secure resources that are not supplied by the state from the market such as food, raw materials, transportation means, operational funds and labor. Sometimes there exist pseudo-contract manufacturing relations between factories and merchants, often in the case of producing light industry goods with relatively high profitability. In particular, association with the market is revealed more explicitly from the ‘double’ manufacturing and selling procedure of goods. Goods manufactured for meeting the state-planned allocation have a lower quality for not containing luxurious additives to meet the state-set price, while on the other hand, goods manufactured to be sold at the market by merchants have a relatively high quality. The latter products are sold at the market at the wholesale price and compose a certain portion of the income that light industry factories earn. In the case of a construction company, if there is no finance provided by the state, the company searches for Tonchu. The company works on the construction project and with the profit earned from this project, the company can meet the allocated profit. However, it is often pointed out by the testimonies of North Korean refugees, that in the case of large scale state-owned factories or enterprises, relying on the market for production is rare and is made very cautiously only when necessary. In general, when it comes to munitions factories, the portion of 8.3 production is small, except in a few cases where munitions factories produce 8.3 goods to sell these at the market when there is demand of city population (Choi 2014: 178). For example, P’yŏngyang Electricity company

32 However, in the case of the field where the state strategically chooses to support and command detailed production goal, it is difficult to adjust the set plan. In particular, when the state provides supplies for production, assignments for factories and enterprises should be regarded as a foremost goal.

33 8.3 line is a production line that manufactures daily necessities by using waste materials from the original production. Nowadays, it means a production line out of state-planning in general.

34 See Chapter 3 of this thesis, where it is explained how pseudo-contract manufacturing relation between factory and merchants works in mining business and shoe-manufacturing industry.
manufactures miniature transformers or other daily necessities made out of electric wire to sell at the market, when the resource is not secured for the main production. The profit from this activity is used for distribution to workers, for covering expenses of the factory, and for informal income of executives.

Lastly, at the stage of disposal of produced goods, the market seems to take a bigger role. Enterprises secure finance by selling produced goods directly or indirectly through the market. Participation in commercial activities of state-owned enterprises used to be found mainly in foreign currency earning businesses as we have seen from the previous section, yet, nowadays it can be observed in other fields as well. Due to an electric power shortage, railroads in the DPRK relying on electricity were by and large out of order, and due to the low state-set price the national railroad could not earn profit. Recently, as a way of earning income, the national railroad started to sell tickets to merchants or rich individuals at a higher price. When tickets are sold at an expensive price like this, it is said that diesel locomotives are operated and transport service is well secured. Currently, main customers for this service are wholesalers, and the national railroad lets emerging capitalists invest for setting up a new service while sharing the profit from this service with the state. In seaside towns, state-owned fishery enterprises also started logistics businesses by using their ships. Another example for state-owned enterprise’s commercial activity is the gas selling business of Ponghwa Chemical plant. Ponghwa Chemical plant is a refinery that refines crude oil transported by the oil pipeline from China. Liquefied gas produced from this plant is being sold to areas in P’yŏngyang and it is reported that even the delivery services to the households are provided by private gas sellers in P’yŏngyang. On top of earning their own income, through the market, enterprises also try to meet their obligations of the PDS to the workers. Since enterprises cannot supply the goods which should have been given under the PDS, a part of products manufactured by the enterprises themselves are given to workers instead, and workers can exchange this at the market with cash or goods necessary for life.

The authorities and private enterprises

Regarding private enterprises, the authorities turn a blind eye on activities of private enterprises on one hand, and try to control them on the other hand. First, there have been strong censorship and control over private enterprises since 2007 such as the joint censorship of the State Security Department (Kukkabowibu), The Security Command (Powisaryŏngbu), and the Ministry of People's Security (Inminboansŏng) in March 2008. Later on, an

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35 Daily NK 2015-02-05, RFA 2015-07-16
36 RFA 2015-05-29, Daily NK 2015-06-24
37 Onilŭi pakhansosik (North Korea Today). 2008-04-09
Joint censorship was made on the companies that individuals invested and borrowed the name of state-organizations and enterprises.
intensive control in 2009 shut down foreign currency earning enterprises and restaurants run by individuals. However, the state took an action that promotes privatization and expansion of private enterprises as well. ‘8.3 work’, which allows not to attend group work when a price is paid for it, is more or less systemized and prevalent in North Korea these days. Traditionally in socialist states, most adults are assigned workplaces by the state, and private economic activity is not allowed officially. In North Korea, however, after the collapse of the state economy, the population started to participate in private economic activities, and the state lost control over workers of state-owned farms, factories and enterprises. 8.3 work is said to have expanded even more recently, due to the pressure of earning ‘loyal foreign currency funds’. Executives of factories or enterprises recommend workers not to attend collective labor, but rather earn money from outside and pay ‘8.3 money’. The more 8.3 money is paid, the lower the duty for enforced mobilization and compulsory attendance, and the population prefers to pay 8.3 money which guarantees more income by participating in market activities.

Another noteworthy point about the stance of the authorities towards private enterprises lies in the Enterprise Act of the Democratic People’s Republic of Korea (hereafter, Enterprise Act), proclaimed in November 2010. Article 12 (Grounds for organizing enterprises) announces that “Demand of institutions, enterprises, and associations is also able to organize enterprises” and Article 13 (Request for organizing enterprises) states as follows: “Institutions, enterprises and associations who wish to organize enterprises should submit an application to the organizations in charge of the corresponding enterprises. The applications should contain the name of the enterprise, the number of employees, the category of business, relevant indices and the scale of business”. These articles show the possibility for embracing private capital to establish businesses such as restaurants, shops, trading companies, factories and other types of enterprises (Kim and Yang 2014: 68).

4.2.3 At the level of local party officials focusing on corruption

The prevalence of bribery is often considered to be one of the noticeable features of North Korean economy. Borrowing the notions from Rose-Ackerman (1978), corruption can be classified into two categories, that is, grand corruption and petty corruption in terms of degree. Grand corruption typically works at the level of high-ranking bureaucrats and politicians on a

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38 NK chishikinyōndae 2010-01-14
39 8.3 work originates from ‘8.3 goods production movement’ or ‘8.3 line’ led by Kim Chŏng-il on August 3rd 1984, which originally means production of byproduct from waste materials.
40 Daily NK 2014-07-02. ‘Loyalty foreign currency funds’ is sent to the finance of Office #39 and composes private property of Kim Chŏng-ŭn. ‘Loyalty foreign currency fund’ is collected not only from foreign currency earning business but also from the population individually as the economic crisis became severe.
41 New Focus International 2013-09-04 “In North Korea, you have to pay for a day off”, Daily NK 2014-08-04
42 Enterprise Act of DPRK was not officially made public. Here sources rely on the article about Enterprise Act of DPRK at http://www.tongilnews.com/. For more details about Enterprise Act, see Park, Whon-II (2012).
large-scale and is often combined with one-time transactions. Petty corruption, in contrast, occurs at lower levels of administrative officials with exchange of smaller value. It is related to people’s daily life, for example extortion of policemen on the street or paying bribes to facilitate bureaucratic processes. Even though the scale of corruption itself is smaller than grand corruption, petty corruption is more pervasive in the everyday life of the North Korean population. In this chapter, we examine the way North Korean local party officials and security personnel are condoning or even promoting market participation of the population through petty corruption. First, we look at the background that enables the existence of petty corruption and we see the examples and the impact of petty corruption in the DPRK.

The survey of Kim (2010) based on data collected from 225 North Korean refugees who escaped from North Korea mostly in 2007-2009 proves that bribery is widespread and household expenditures on bribes are considerably high. The average share of expenditure on bribes in total household spending from 1996 to 2007 was 8.95%, which corresponds to 6-7% of North Korean GDP. The reasons for giving bribes seem to be mainly related to market participation. 43.4% of bribes is made for working in markets, with 31.75% “to continue to work as a vendor banned by the authorities” and 11.66% “to start a vending business”. The survey also asked who the respondents think are the main bribe-takers according to their experiences. The main bribe-takers are said to be police officers with 54.7% followed by National Security agents with 22.4%. Both are in charge of monitoring markets and in particular, police officers are the first authority to deal with market participants.

Bribery to the authorities either at central or local level is illegal, and givers and takers therefore can be punished by law. However, as we have seen, bribe taking is widespread in the DPRK. When we assume that there are three players in bribery, which are the state, officials, and market participants, we can conclude that bribery is a result of finding the optimal response of these three players. The state, responsible for monitoring and controlling bribery, is capable of punishing the representatives of the state who are taking bribe. Yet, the state chooses to turn a blind eye on it unless it reaches to the degree that threatens the existence of the regime, since bribery functions as complementary income for officials which the state cannot guarantee. For a government official, the purpose of receiving bribe is firstly for survival, and secondly for personal enrichment. Complete loyalty to the regime which punishes market participants might hinder him from surviving economically and disloyalty to the regime is yet too risky by bringing difficulties in surviving politically. Therefore, officials choose to remain partially loyal but become corrupt by receiving bribes from market participants. Market participants share similar interests with government officials. They avoid challenging the regime directly since it is too risky in the current North Korean regime, but choose to continue participating in markets by bribing government officials. Bribery has become one of the survival strategies in North Korea when the state failed to operate its planned economy system properly: “Unlike officials and Party members in Mao’s China who had been more or less protected from food shortages during the ‘Great

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43 This approach of seeing bribery as an optimal outcome of three players owes to the analysis of Kim (2010).
Leap Forward’’ (Smith 2015: 220), the majority of North Korea’s officials were threatened by poverty and hunger as the rest of the population and it became also necessary for them to find a way to secure food and income from non-state channels. Under this circumstance, enforcing state controls over private economic activities was not in the interest of the Party and government officials, especially not of those who were poorly paid at local level (Ibid., 221). Party membership remained still important, but mainly for the reason that it helps them to gain more private gains by being engaged in private economy activities.

Government officials at the middle and low level in the local area earn money from facilitating market related activities that had previously been almost impossible and illegal. The collapse of the travel permit system is a good example of official bans and restrictions that became impotent by the official corruption (Lankov and Kim 2008: 61-63). In principle, North Korean people should carry travel permits when they are travelling out of their area of residence. The main purpose for maintaining the travel permit system is considered to control the flows of people and information (White Paper 2015: 179). For ordinary people, private travel is only permitted for family-related business. For soldiers, government employees, and state-run enterprise workers, a special permit system for work-related travel exists. Violations of the travel permit system, are punishable (Ibid., 179-181). Article 30 of the People’s Security Control Act mentions that “People’s Security Agency regulates the travelling behavior”, and Article 149 of the Administrative Punishment Act says that “In case of violating the ‘travel order’ or entering into a restricted area illegally, punishment such as warning, fine, and nonpayment labor can be imposed”. However, the system is no longer effective since it broke down in the mid-1990s except in the areas in the vicinity of P’yŏngyang where the state-control directly exerts its power. The permit for domestic travel is issued for free in principle, however, public officials in charge of issuing the permit do not proceed the issuing process promptly without bribe, thus, it is becoming routinized to pay bribe to facilitate the administrative procedure (Ibid., 182). The interviews of North Korean refugees conducted by Lankov and Kim (2008) present cases of collapsed control of the travel permit system. None of the respondents said that travel restrictions were serious barriers but rather something which could be solved easily by bribe. One interviewee said that by paying money (500 to 1,000 won in early 1997) to a policeman who is in charge of controlling passenger trains, she and her mother were allowed to board on the train and were helped to avoid controls. Another respondent who was engaged in a relatively large-scale trade in the border area paid bribes to the officials for issuing a travel permit, and other interviews show the case that bribe even made entering into a restricted area such as Najin-Sŏnbong SEZ (Special Economic Zone) possible. In this way, trade and business in North Korea have been maintaining cooperative relations with local officials. The amount of bribe depends on the purpose of travel and the place to travel, for example, it is revealed that to
travel to P’yŏngyang and border areas, a higher fee is required to get the travel permit.\textsuperscript{44} The reasons for the high price of the bribe to travel to border areas is assumed to prevent escaping North Korea, and also to prevent contact with foreign investors.

Payable a license fee for starting up a private business is another example of petty corruption that government officials are involved in marketization. As examined in chapter 3, a few private entrepreneurs in North Korea run their own mines under the name of a state organization. For example, after securing an abandoned mine, a businessman who started to develop his own coal mine in P’yŏngsŏng had to pay $3,000 to get a license for mining business.\textsuperscript{45} A part of the $3,000 was to be used as an official payment to the state as a license fee and the other part of it is assumed to be paid as bribes to political organizations. As in the case of coal mining business, also shellfish aquaculture business requires a license fee, for instance, about $3,000 for the license to enter the sea in addition to $1,200 of official tax to the Ministry of Land in 2005 (Kim and Yang 2014: 62). There is no clear cut to what extent the money was used as tax and to what extent it was bribe, yet, it can be assumed that a great deal of the amount was required to get a license fee.

It becomes apparent that the Party stopped functioning as a “reliable transmission belt for ideological education and revolutionary principle” (Smith 2015: 212), in particular at the level of local government officials. Local government officials work as promoters of market participation rather than controllers of it, since they have become less capable to carry out their propagandistic function. Yet, we should not conclude that the involvement of party officials in marketization would bring political liberalization soon. Executions for political reasons, such as dissent to the regime, are still in practice and the freedom of criticizing the regime is still absent in North Korea. Nevertheless, it is undeniable that party officials are being increasingly involved in marketization, since the situation provides strong incentives to accept bribes.

\textsuperscript{44} RFA 2012-06-18. Defectors who escaped in early 2000s and mid-2000s said that before the 2000s P’yŏngyang was the most difficult city to get travel permit. Bribe required for travel permit to P’yŏngyang as about 10kg of rice, which is twice more expensive than bribe for other cities. According to them, border cities require more bribe but less than that for P’yŏngyang. However, a recent interview with North Korean resident shows that people should pay more to get a travel permit for a border city such as Sinŭichu and Kaesŏng, and Najin-SONbong district, than to travel to P’yŏngyang.

\textsuperscript{45} See the article Daily NK 2015-04-09 which was discussed in chapter 3 of this thesis.
5 Conclusion

In this thesis, I discussed marketization taking place in North Korea, not only focusing on the growth of consumer goods markets, but as an expansion of market mechanism embedded into the framework of socialist planning economy, and marketization in the DPRK as a phenomenon that exists and operates within the political structure in cooperation with the state. Planning economy is complemented by market structures that organize the allocation of resources in the society such as labor and capital.

In chapter 3, we discussed marketization in North Korea focusing on small-scale privatization, which is closely tied to an emerging new form of labor market with division of labor. As private ownership is not officially allowed in the DPRK, marketization exists in the shadow of the state’s turning a blind eye on it.

In chapter 4, we looked at marketization in a broader political context under the assumption that there exists a certain power related to the state which works with marketization. While keeping in mind that the state itself participates as a market player or as a regulator of the market, and that the state sets up exclusive institutions for a small subset of the society, we started our analysis from examining the foreign currency earning business and trading companies. We have seen, even though being operated under the state control, how foreign currency earning business is associated with markets through transactions of Wak, relying on individual merchants, exchanging payment received for submitting export goods with other goods at the market, and distribution of import goods. Then we moved our attention to the non-foreign currency earning business sector, by looking at how state-factories and enterprises are cooperating with the market at the respective step of carrying out the plan. In the last part of the chapter, I examined the association of local party officials with the market focusing on corruption. Government officials at the middle and low level earn money from facilitating market related activities that had been almost impossible before, such as loosening the travel permit system and tolerating private businesses against a license fee.

Starting from 2012 until present, the DPRK regime has been working on ‘6.28 policy’ called ‘our style economic management’. Despite the intention of imposing incentives to economic subjects by allowing a certain degree of autonomy, pilot operations did not work out, and it seems that the regime continues figuring out new methods for improving productivity in both industrial and agricultural sectors. However, the fact that the new economic management in the agricultural sector still adheres to the collective farm system, while in the industrial sector it sticks to the state-owned enterprise system, can be interpreted as an adjustment in the current system rather than a system-transforming reform. At the 7th Congress of the WPK the will to expand a new economic management was announced, however, no word as ‘reform’ or ‘market’ was used and mention about self-financing enterprises was made cautiously. In the new year address of 2017, ‘our style economic management’ was not mentioned, while the 5-year plan for the national economic development was stressed. No specific plans were presented for the economic management,
which is presumably due to the intense international sanctions and difficult conditions for exporting coal because of the nuclear development.\textsuperscript{46} Another reason for the tardy progress of the new economic management can be attributed to resistance of the people who owned vested interest before as in the case of reorganizing working groups in collective farms, and to a lack of capability to solve the transitional imbalance of resources (Park 2013: 21-35).

It is complicated to estimate the privatization level, the size of the labor market apart from the state planning, the size of markets related to foreign currency earning business and state-enterprises for two reasons. Firstly, there are cases where there is no clear cut between private sector and the planned sector since these two sectors are intermingled such as the former working in the structure of the latter or the other way around. Secondly, most of the case studies rely on the refugee interviews, which could be leaned too much towards a specific group of the population. Nevertheless, we have witnessed the changes taking place in North Korea tied to marketization such as expansion of markets, the formation of new labor markets, the emergence of the new rich, the increase of transactions at markets, party official’s increased involvement in market activities, and so on. Examining the changes in the DPRK is not aiming to idealize marketization as a goal of the DPRK regime, but rather to understand the meaning of the changes and to prospect the future trajectory of it. The conclusion that these changes lead to transformation to capitalism directly or would bring political liberalization soon seems to be premature. To examine the continuity or discontinuity of the new economic management remains as an important area for further studies, along with collation of more reliable data from refugee interviews.

\textsuperscript{46} RFA 2017-01-18
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