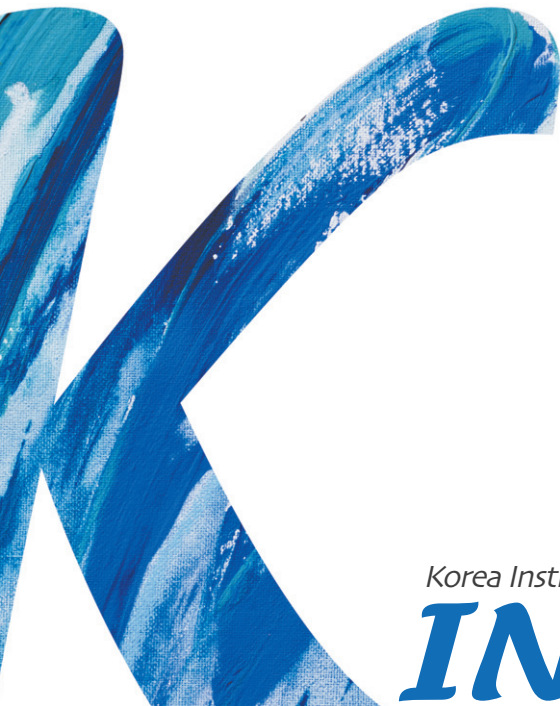


Economic Hardship and Regime Sustainability in North Korea

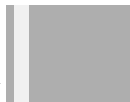
■ by Suh, Jae-Jean



Korea Institute for National Unification

INU

**Economic Hardship and Regime Sustainability
in North Korea**



Economic Hardship and Regime Sustainability in North Korea

By Suh, Jae-Jean

Korea Institute for National Unification

Printed: August 2008

Published: August 2008

Place of Publication: Korea Institute for National Unification

Publisher: President of Korea Institute for National Unification

Registration No.: 2-02361 (April 23, 1997)

Address: 4.19(Saigul)-Gil, Gangbuk-gu, Seoul 142-728, Korea

Telephone: 82-2-900-4300; 82-2-901-2529

Fax: 82-2-901-2547

(c) Korea Institute for National Unification 2008

Publications of Korea Institute for National Unification are available at major bookstores. Also, contact the Government Publication Sales Center: Tel: 82-2-734-6818 or 82-2-394-0337.

ISBN 978-89-8479-461-0 93340

Economic Hardship and Regime Sustainability in North Korea / By Suh, Jae-Jean -- Seoul: Korea Institute for National Unification, 2008
p. ; cm. -- (Studies Series ; 08-06)

ISBN 978-89-8479-461-0 93340 : Not For Sale

390.911-KDC4
330.9519-DDC21

CIP2008002476

Economic Hardship and Regime Sustainability in North Korea

by Suh, Jae-Jean

Korea Institute for National Unification

* * *

The analyses, comments and other opinions contained in this monograph are those of the author and do not necessarily represent the views of the Korea Institute for National Unification.

CONTENTS

| | |
|--|-----------|
| I . Introduction | 1 |
| II . The Regression of Socialist Regime Resilience | 3 |
| 1. Paralysis of the Socialist System Functions..... | 4 |
| 2. Loss of Regime Legitimacy..... | 9 |
| 3. The Unrest of the Cadres' Confidence Toward the Regime | 13 |
| 4. Poor Functions of Physical Constraints..... | 15 |
| III. The Creation of New Regime Adaptability | 19 |
| 1. The Creation of a New Mode of Production: Primitive Market Economy and Household Industry..... | 19 |
| 2. The Formation of a New Economy Management System: Segmentation Economy and Crony Economy..... | 26 |
| 3. The Formation of a New View of Values..... | 30 |
| 4. The Formation of a New Order: The Second Society's Order..... | 33 |

| | |
|---|-----------|
| IV. Variables of Contingencies and Regime Sustainability | 39 |
| 1. Low Possibility of Contingencies | 39 |
| 2. Possibility of Contingencies through Reform and Openness | 40 |
| 3. Paradox of Reform and Openness | 41 |
| V. Comprehensive Evaluations of Regime Sustainability | 43 |
| VI. Conclusions | 47 |

TABLE OF CONTENTS

| | |
|---|----|
| [Table 1] The relationship between the first society and the second society | 48 |
|---|----|

I . Introduction

It can be said that economic hardship and food shortage in North Korea have greatly impacted the North's overall system. The so-called "Arduous March" has broken away a great part of the planned economy system of socialism, the deformed governing style of "military first" politics has persisted over one decade and the North Korean people's attitudes and their consciousness toward the North Korean regime and its leadership has changed quite a bit.

North Korea's economy has deteriorated since the occurrence of the second nuclear problem in 2002, because of the international community's growing pressure and sanctions. The deterioration of economic conditions eventually rendered the North Korean regime's centrally planned economy and controlled functioning incompetent and led to the promotion of elements of the market economy. Both the ideological education and control that have helped maintain the North Korean regime are increasingly becoming weaker. There are definite signs that the cardinal pillars

of the North Korean socialist regime are being shaken.

In order to evaluate the regime's sustainability, this monograph categorizes the elements of the regime's resilience into three areas: regime resilience, regime adaptability and possibility of contingencies. Based on these three areas, this monograph aims to carry out a comprehensive evaluation of regime sustainability after analyzing the process of change in the three areas mentioned above.

II . The Regression of Socialist Regime Resilience

The pillars that have sustained North Korea are the planned economy, Party organization of socialism, the people's loyalty toward the regime, the power elites' strong willingness to maintain the regime and the physical constraints and control to preserve the regime. The strongest base of socialism is the socialism-based economy. When the socialist economy fails, the regime finds it difficult to garner support from the people which tends to lead to a crisis over the long run. Despite a crisis however, the regime can be maintained only if the power elites have strong conviction bolstering the legitimacy of the regime as founded by their predecessors or crack down on resistance by means of physical constraints. This chapter analyses how the socialism pillars—socialist institutions, regime legitimacy, morale of predecessors and control—change and to what degree resilience occurs.

1. Paralysis of the Socialist System Functions

Collapse of the Planned Economy

The collapse of the North Korean economy is evident in that the government is unable to allocate the budget in the planned sectors because the money of the central government has already dried up. The growing shortage of the government's finances due to economic hardship made it difficult for the government to offer the factories raw materials and a payroll, not to mention the state organizations such as the People's Armed Forces. That is to say, the functions that have planned and implemented the budget of the central government are paralyzed. The nationalization of factories, land and property does not necessarily mean socialism. Socialism should carry out the planned economy via nationalized means of production.

As a result of the dried up budget, the "Tae'an work system," a core of the central planned economic system, has collapsed. The Tae'an work system, a symbol of North Korean socialism, means that the central government controls the country in return for the provision of all of raw materials and personnel expenditures to the factories across the nation. The Party Secretary within each factory has complete authority to monopolize production and the Party organization. But in the situation that raw materials and personnel expenses are not offered, the Party's authority and legitimacy are not demonstrated.

The inability to offer raw materials and personnel expenditures paralyzed parts of the combined business factories that have played a pivotal role in operating the central planned economic system. When raw materials are not sufficiently provided, the correlated production among combined factories is difficult to maintain. As a result, a new mode of seeking a survival strategy independently

has emerged after the combined business factories began to dissolve. Only those who can get raw materials independently are able to operate their factories or otherwise they have to shut down.

Since the mid-1990s it has been estimated that the operation ratios of the factories are on average 20-30 percent but that the ratios have recently worsened. According to North Korean defectors, the second economy, excluding the military supply-related one, has been halted or transformed in accordance with the self-survival strategy of forcing the factory workers to sell or cultivate the soil into farm land. This is a strategy for handling workers assigned to factories.

Among government-controlled organizations, the second economy fields such as military supply factories, shipbuilding yards, No. 129 factory (submarine factory) and food-related factories, post offices, communications offices and ports are still in operation. The rest has been independent from the central government or has come to a halt. It is said that most of the employees have been scattered to and fro, because the factories do not run.¹

The No. 61 military supply factory is the only factory running at full capacity in North Korea. There are few factories except for some of the factories under the second economy that includes Nanam Machine Factory and a submarine engine factory. Even these factories do not operate normally but some parts are still operating. As the military supply factories sometimes receive visits from Kim Jong Il, who would check and identify what the factories need regarding raw materials, Kim's visits are an impetus for the military supply factories to run at full capacity. It is said that working conditions such as attendance at the military supply factories are nearly 100 percent.

Besides this, it is said that local businesses related to the people's

¹ Testimony given by Cha, Ho-gang (manager at a trading company of the Ministry of People's Armed Force, Defected to Seoul in 2006).

economy are almost closed down. The workers who are nominally assigned to the factories are looking for other types of business. The income to cover cost of living given by the factory is not from profits acquired through operation but is the result of workers taking on extra jobs. There is no profit at all made out of factory operation per se.²

Changes in the Socialist Political Regime

The economic hardship in North Korea has influenced the political regime of socialism. As socialism is in theory a society where the working class leads, it has been long claimed that the proletariat dictatorship is possible. But the slogan of proletariat dictatorship has been replaced by the idea of “military first politics” since the death of Kim Il Sung.

It is estimated that the existing socialist political regime started to change from 1993. North Korea admitted failure of the Third Seven-Year-Economic Plan at the 21st Plenum of the Sixth Party Central Committee on December 1993. As the economic failure occurred in the wake of the collapse of the countries in Eastern Europe and the defunct Soviet Union and during the transitional period of transforming the old economy into the new market economy system in China and Vietnam, it was a big shock to the North Korean leadership along with the death of Kim Il Sung the following year only making things worse.³

Kim Jong Il himself seemed to acknowledge that socialism had collapsed internationally and failed in North Korea. In particular, Kim’s recognition over the reasons for the failure of socialism in Eastern Europe and the Soviet Union is important. Kim recognizes

² Testimony by Lee, Chol-soon (teacher, defected to Seoul in 2006).

³ Testimony by Kim, Hak (president of a trading company, defected to Seoul in 2006).

that the uprising of the workers and farmers in Eastern Europe and the Soviet Union has overthrown socialism. People say that from these experiences, Kim surely believed it was the working class that betrayed him. Kim came to believe that “I can see the results of the proletariat dictatorship and so the North Korean people will also betray me like this.” Kim realized that it would be the armed forces with the spirit of self-sacrifice and resolute safeguard that could protect him. This manifested as the military first idea without having to mention the betrayal of the working class publicly.⁴

Under such circumstances, regime stability and regime preservation became priorities for Kim Jong Il. For regime stability, North Korea began to stress the purity of its ideology. North Korean ideologues and the propaganda machines daily voiced the notion that “Our way of socialism is a sure-victory with no defeat”⁵ but this can be interpreted that Kim himself started to recognize the failure of socialism.

During this period, Kim Jong Il’s Party Convention and Plenum Committee suddenly disappeared and the Political Bureau was of no use. Since both the Party Convention and the Plenum Committee do not exist, so the Politburo has nothing to do. The Workers Party, the highest power organization, while leading the state and its people, is gradually losing its political status and social control power because of the long period of the total crisis brought about by economic hardship. The Party’s inability to control the crisis has deepened the mistrust of the people against the Party, thus weakening their loyalty.

Kim’s Secretariat is now performing what the Party’s Secretariat

⁴ Testimony by Kim, Hak (president of a trading company, defected to Seoul in 2006).

⁵ Kim Jong-il, “Our way of socialism based on the masses is a sure-victory with no defeat,” *Rodong Shinmun*, May 27, 1991.

did in the past. This is simply Kim's one man-ruled dictatorship starting from policy decision to implementation. North Korea named this military first politics but it means that the function of the Party has been halted and there is no central governing system of democracy. Judging from the fact that Lee Je-gang, the first deputy assistant of the organization department of the Party Secretariat is working in Kim's Secretariat, it has also taken over the Party's Secretariat. It is by no means socialism but rather a one-man dictatorship under the pretext of military first politics.⁶

Not only has the central Party been stopped but also cell organizations of the Party have been paralyzed. As there is no supply from the state, the Party's authority does not exist and there is no longer any incentive to become a Party member. Previously people used to follow orders from the party in order to become Party members. Now the joke in North Korea is that they are willing to sell their Party member's certificate for money.⁷

Loss of the Socialist Welfare Functions

The foundation of the North Korean socialist regime was public food distribution system to guarantee the minimum living standard of the people and the social welfare system. To North Koreans, it is safe to say that socialism was seen as the system where the state distributes food and main commodities free of charge or almost free to the masses. The public distribution system is indeed one of the primary characteristics of North Korean socialism, which includes fundamental commodities such as clothing and housing as well as food and groceries. In addition, social welfare covers the state social insurance and education, as well as medical service

⁶ Testimony by Kim, Hak.

⁷ Testimony by Cha, Ho-gang.

under the state social security system. These kinds of distribution and welfare systems alike have actually been abolished. This is a significant change to the North Korean socialist regime.

The titular distribution system had been officially abolished with adoption of the July 1 Economic Improvement Measures. According to lecture materials on the July 1 Measures, North Korea indicated that there had been lots of social freedom that it would have to address. Consequently, the pillar of social welfare, which stood for many decades, began to disappear.

Until now, the state's main role was to provide the people with commodities and services almost free of charge. But the state has lost the ability to offer these things and instead the role has changed to collecting high taxation through a variety of taxes. The state now functions as a tax collector, while executing market-based provision and managing the order of the market.

2. Loss of Regime Legitimacy

As discussed in the previous chapter, a significant part of North Korea's socialist economic, political and welfare systems have collapsed. This is evidence that the fundamental functions of the socialist regime did not work at all.

The masses' loyalty to socialism does not rest on the contents of ideology but on how their lives are under a socialist regime and how they judge their current situation compared to that of other people.⁸ Namely, when the economy collapses so does the masses' support for socialism. Ideology is so illusionary that it holds legitimacy only when specific material compensation is sufficiently offered. As Nicholas Abercrombie indicated, given the fact that

⁸ Erick Hobsbawm, Lee, Yong-woo, *Age of Extremes* (Seoul, Ggachi Publishing Co., 1997), p. 679.

controlling the ruled even in advanced societies is by way of material compensation from the ruling, merely manipulating ideology is not enough to compensate the masses' and thus induce their obedience.⁹

The main reason socialist ideology depends heavily upon the economy is that the socialist regime is based on the constraints of the revolutionary forerunners, not on the consensus of the masses. When socialism is run by a few select elites it is an indication of low popularity.¹⁰ Thus, the masses have been forced to believe a socialist ideology with low popularity by the vanguard party or the communist party but it needs to take a look at how the legitimacy has been damaged and collapsed in an economically failed North Korea.

Loss of Confidence over Socialist Legitimacy

As North Koreans began to recognize the realities after undergoing the so-called “Arduous March” in the 1990s, their confidence toward socialism waned. They began to believe that many more people died during the period of the Arduous March than during the Korean War. While undergoing the tragic March, North Koreans experienced two things and came to new realizations.

First, they came to realize that they should find ways to survive for themselves because the absence of food supply from the state would bring about serious consequences. They found that regardless of their age they were required to do other businesses, since factories had already stopped running and the workers were not

⁹ Nicholas Abercrombie, Stephen Hill, and Bryan Turner, *The Dominant Ideology Thesis* (London: George Allen and Unwin, 1980), p. 3.

¹⁰ Ralf Miliband, *Class Power and State Power* (New York: Verso, 1983), pp. 161~162; Leszek Kolakowski, *Main Currents of Marxism, 2-The Golden Age* (Oxford: Oxford University Press, 1978), pp. 386~396.

paid nor received any food distribution despite working regularly. North Koreans started to think that they should make money individually. They consider an extra business as the only way to survive, while believing that waiting for the state's distribution system would only lead to starvation. Moreover, they began to see the necessity of possessing a small plot of land individually and to use it for cultivation. They paid the land tax and could occupy some land. It is said that North Koreans understand capitalism through this experience.

Along with these nascent capitalist activities, the business mind suddenly started to spread in North Korea. Essentially, business means capitalism. North Koreans overwhelmingly think "socialism equals free distribution." But seeing that distribution stopped, one of the core pillars of North Korean socialism has collapsed.

Second, the business went beyond domestic transactions to a sharp increase in official trade with China and unofficial small-sized business transactions between North Korea and China. There was much clandestine trade not only between organizations but between individuals as well. Thus, the number of people watching South Korean TV dramas, programs and listening to South Korean music has sharply increased since South Korean CD/DVD players and TVs came into the North via China together with huge amounts of South Korean and Chinese CDs/DVDs through trade. They have already spread so expansively that almost everyone living around the border can see South Korean DVDs/CDs. And it is said that people in the southern part of Pyongyang and Hamhung areas are able to access South Korean broadcasting through China. It is said that some high ranking officials in the North watch South Korea's KBS news at 9 p.m. and start their daily work after seeing *Morning Wide*, a news program of aired on through the South Korean broadcasting company MBC. Besides providing outside information, these programs also impact how both officials and lay people think.

People say that the North will not return to socialism. A number of North Koreans are beginning to believe that socialism has killed a lot of people. Many North Koreans also feel that they should make money without the help of others, whatever capitalism or socialism may be. From their experiences in China en route to Seoul, North Korean defectors say the North has already become a 100 percent capitalistic country like China.¹¹

Antipathy against the North's Ruling Class and Regime

There are several reasons why North Koreans feel antipathy and animosity toward their regime. They barely eat, live in poor conditions, have no freedom, are under intense control and are treated inhumanly.

North Korean's biggest complaint is that their lives in organizations are extremely hard. They are required to spend most of their lives in a variety of organizations including Party organizations, the League of Socialist Working Youth of [North] Korea, the [North] Korean Democratic Women's Union and *in-min-ban* or the neighborhood groups. Any absence at "*saeng-hwal-chong-hwa*" or daily group self-criticism meetings, can lead to severe suffering. People must criticize and be criticized among the community, and they are worried about being both a giver and recipient of criticism. It is known that North Koreans are worried about how to live and cannot enjoy themselves for even a single day because of the incessant organizational life and *saeng-hwal-chong-hwa*. As neighborhood groups are also organized outside the factories, people should pay close attention to the chief of the local groups while being secretly monitored and inspected by the chief.¹²

¹¹ Testimony by Cha, Ho-gang.

¹² Testimony by Lee, Si-son.

Another complaint of North Koreans is that they have no freedom of movement or travel. The control is severe as they are not allowed to choose which factory to work for and furthermore even tiny errors at work could cause one to be expelled to a remote area. Like medieval serfs, farmers cannot leave the county permanently, and men in the rural areas cannot marry women in the urban areas because they must stay where they are. Another problem is that people must spend seven to ten years of their youth serving in the military. Spending one's entire youth doing nothing for almost ten years does not help the development of the North Korean regime, let alone contribute to personal progress.

There are many North Korean defectors who are sick and tired of the numerous constraints such as control, inspections and paper work. Driving a car requires numerous inspections and is impossible without submitting a pile of documents.

Juche ideology says that the master of one's fate is himself, but individual freedom is very restricted in North Korea. Even one's hairstyle is regulated and there is no freedom from A to Z. It is said that most North Koreans have not the slightest intention to reside in the North, and that only Kim Jong Il's villainous retainers will live in the North.¹³

3. The Unrest of the Cadres' Confidence Toward the Regime

The power of a socialist regime can remain stable only when those in power feel assured of the legitimacy of their authority, the superiority of the regime and the messianic enthusiasm for mission and invincibility over military power. If such strong convictions begin to weaken at the top, it is inevitable that the

¹³ Testimony by Lee, Si-son.

regime will change. As a crisis of confidence deepens, so the day of the regime's collapse gets closer. A. N. Yakovlev, a close aide to Gorbachev, pointed out in an address at the Russian Communist Party Committee in 1990 that South Korea's productivity was ten times that of North Korea and deniably, the West Germans lived far better than the East Germans.¹⁴ This recognition has made the power elites of socialism feel uneasy and led to their loss of confidence. The economic development, technological progress and increased exports from West Germany, Japan and other states in East Asia served as direct evidence.

The loss of legitimacy and the power elites' low morale may influence the military. One of the decisive factors of the Soviet Union's collapse is that part of the conservative leadership did not support the coup that wanted to return to conservatism and refused to crack down on the demonstrators when the coup occurred.

The North Korean leaders are also experiencing a loss of confidence, since they find it difficult to recover when the regime is in a crisis. They would contend that "socialism in Eastern Europe is said to have already collapsed and the socialist system in the North did as well, except that the leadership still remains in power in the North. However, even the leaders in Eastern Europe changed with the changing of the political and economic system whereas in North Korea the leadership remains the same."

The cadres in the North seem more worried about the regime being adrift than the economic crisis. Actually, they still believe the North has neither aims nor directions. They believe that the North Korean regime has already derailed itself from the socialism track, and are concerned about whether the regime can return to normal or otherwise find a new way amid the recent instability.

¹⁴ *The New York Times*, July 8, 1990, p. 4; Janos Kornai, *The Socialist System: The Political Economy of Communism* (Princeton: Princeton University Press, 1992), re-quoted in pp. 383~385.

Essentially, the Kim Jong Il regime itself has been adrift since the breakup of socialism. It is believed that the socialism in the North looked nice from the outside but is not real socialism. It is said that the ideological vacillation among the cadres is quite serious because they do not know where they are headed or what their final destination will be.

4. Poor Functions of Physical Constraints

The physical mechanisms of control are becoming poorer along with the economic hardship. Above all, the traditional way of social control is becoming weaker. A variety of traditional learning drills barely exist today. For example, there had been lectures, discussions and Q & A sessions at the various study groups but now the lecturers give out questions to make people memorize them. This has, it is said, started from around 1997-1998. People say that the mutual criticism that is part of the *saeng-hwal-chong-hwa* has been merely titular in the early 1990s. While it did not disappear officially, it is no longer a common practice.

The main reason social control is no longer effective is that the officials who are responsible for the control live together with the market system and are participants in it. The silent reason of the revolution that transformed socialism into market-oriented capitalism is bribery. People doing business offer bribes to Party officials at the factories and the control squads at the market. Bribery has become a revolutionary tool that is changing socialism into capitalism. It has become general and universal in the North that the members of official organizations work in unofficial economic sectors or live upon in them.

Even the security officials are internally oscillating and have mixed feelings because of the qualms of conscience but are externally given to money-making. The high ranking officials are no exception.

The most strikingly evident behavior mode of the ruling elites amid the economic hardship is that they tend to pursue their own economic benefits by conspiring with the anti-socialist underground economy. It is well known that the North Korean elites are widely involved in bribery. It is said that the bribery is rampant in public affairs—joining the Party, admission to college, assignment of workshops, allocation of housing, issuance of travel certificates—in every sector where the Party and the administrators have discretionary power. It is said that even train ticket sellers are prone to bribery in selling tickets and the porters do not load the luggage onto the train without bribery. There is almost nothing that happens without bribery. Under such a situation, the ruling elites with relatively high positions and authority make an earning by receiving bribes routinely. There are various types of bribery such as receiving bribes by using their authority and seeking private benefits by mobilizing their networks based on position. There is a growing sentiment among the people that bribery is so pervasive that a criminal under sentence of death can save his life with a bribe. Thus those who are punished are the people who cannot afford to pay bribes.¹⁵

It is said that the military, the party, the finance ministry and the security ministry as one “protect” the people working in the underground economy. The motivation of the change is none other than the corruption of North Korean cadres.

As discussed above, the socialist regime resilience is conspicuously receding. The planned economy and the political system of socialism are crumbling. The legitimacy of the regime has significantly dropped so that the North Koreans make fun of the governing ideology and the political slogans. As businesses have become the daily living mode for North Koreans, the legitimacy of the regime is

¹⁵ Testimony by Roh, Sook-mi (teacher, defected to Seoul in 2003).

beginning to erode.

The first reason for regime instability in North Korea is economic hardship. Secondly, it is the spread of market elements due to internal economic hardship. Third, it is the people's disappointment with socialism and high expectations toward capitalism. Fourth, it is the spread of social and psychological estrangement. The paralysis of regime functions and policy failures weaken the regime's legitimacy, which means that lesser degrees of repression by the regime on society could lead to an increase in complaints from the people.

III. The Creation of New Regime Adaptability

There is an indication that a new primitive economy is being created on the ruins of socialism. It can be assumed that a new kind of regime has evolved from the unofficial sector in the early 1990s, called the second society. A part of the unofficial sector was “brought into the open” or legalized and is excelling the official part quantitatively.¹⁶ This is one of the reasons that North Korea can retain its regime sustainability amid economic hardship.

1. The Creation of a New Mode of Production: Primitive Market Economy and Household Industry

A. The Creation of Primitive Commercialism

Businesses or commercial deals have developed from small- and medium-sized businesses in the early 1990s at the individual level

¹⁶ Suh, Jae-Jean, *Another North Korean society: A study on dualism of social structures and social consciousness* (Seoul: Nanam Publishing Co., 1995).

to projects to earn foreign exchange, while becoming large-scale, official and legal. Further, North Korea introduced the combined markets along with the July 1 Economic Improvement Measures in 2002 and encouraged self-reliance measures at factory complexes. The factory enterprises began to develop, while producing and distributing products instead of exclusively supplying the products to the central government as they did in the past.

Individual businesses began when the North Korean economy began to falter after the Soviet Union's collapse. Around 1993-94, the period when distribution had stopped, North Koreans started doing business after suffering from starvation during the tragic Arduous March. North Koreans did not trust the government and the state, and business has spread across the nation in recognition that they should earn for themselves.

Second, the spread of business through the nation was due to the improvement of the trade management system in November, 1992. As the external conditions of the economy deteriorated in the wake of the Soviet Union's collapse, North Korea announced the "New Trade System" in order to revitalize trade, while promoting the autonomy and decentralization of the trade management system. Thus, external trade has been allowed through this and no longer via the trade body under the State External Economic Affairs Commission. Before that, trade was thoroughly subjected to the central government and was put under the control of the Ministry of Foreign Trade, the body responsible for external trade and economic business.¹⁷

Besides this, the Party, the government and the military were all permitted to trade in accordance with the measures. Gangsung General Company (military), Roksan General Company (the Ministry

¹⁷ Lee, Jang-gyu, "An analysis on the decentralization of the North Korean economic system," *Tongil Gyongje*, July, 1996 (Hyundai Economy and Society Institute, 1996), pp. 91-92.

of People's Security), Shingheong General Company (State Political Security Affairs Agency) and Seokyong General Company (the Party) were established, respectively. In particular, the measures given to the military more than any other organization as a project to earn foreign exchange were quite significant under the governing ideology of military first politics. As the number of soldiers increased and the food shortage deepened, the North instructed the military to pursue self-reliance and allowed it to earn foreign exchange. The military's project consisting of the largest portion of foreign exchange projects caused a whirlwind of commercialism in North Korea. And the military's earning of foreign exchange was granted as a special favor in the name of military first politics and so trade companies were imprudently established in military units and flourished accordingly. This reckless establishment of companies eventually led the military corps to merge the foreign exchange-earning companies under the People's Armed Forces into the Maebong Company in 1996 and later renamed it as Gangseong General Company. Gangseong General Company is the company that merged all the trade companies under the Army, the Navy and the Air Force. But Chongunsan at the Escort Headquarters, Sujeong at the Guard Headquarters and some other trade companies at the reconnaissance liaison and the Party liaison are being run independently.

Yet as they are suffering again from economic hardship since the integration, the North instructed the divisions, regiments, and battalions to hold "fisheries bases" (companies for earning foreign exchange) around 2002. Based on this, a lot of fisheries bases for earning foreign exchange such as fisheries base of OO military units were established even at the battalion levels. As the military units had the authority to run the fisheries bases, there were a lot of trade companies that employed civilians or entrusted the authority to the civilians. The military units directly ran the companies but most of the companies were run in a form of registering the seal

as a foreign exchange company on behalf of the civilians in return for receiving profits. The seal is similar to China's "Guahu."¹⁸ Civilians are given the registered seal of the military and earn the project for foreign exchange in the name of the military unit. They then hand over some of their profits to the military unit. The military is the body that issues the most seals in the country, because the military units are able to earn foreign exchange from the corps to the battalions, through running trade companies.¹⁹

The central organizations are the second largest of the foreign exchange business. Key sections in the central organizations hold companies related to foreign exchange business. There are Bonghwa General Federation (under No. 39 Office), Nakwon General Federation, Seokyoung General Federation (financial and accounting of the Central Party), Seonbong Guidance Department, and Moran Guidance Department. The Central Party is currently being run by the income these companies generate. Branch offices of the central party are nationwide. No. 39 Office trades hundreds of tons of pine mushrooms. As there are no enterprises in full operation, earning foreign exchange is the only means to finance the state.

Another factor stimulating the development of the market is the July Economic Management and Improvement Measures of 2002. The Measures aimed to give factories and enterprises autonomy so as to let them pay their workers. Since the Measures, enterprises and workers have been compelled to make money for survival in

¹⁸ Guahu was one of the factors that made local enterprises successful in spite of the Chinese government's policy of putting a curb on private enterprises. It was borrowed and used in lieu of the government so as to avoid the government's control. Private companies are disguised as public ones. All the local enterprises borrowed the Guahu seal, while offering bribes to local authorities and officials. It was kind of the collusive collaboration between power and money. The officials remained deeply dependent upon the local enterprises, but not as regulators.

¹⁹ Testimony by Cha, Ho-gang.

accordance with the principles of the market in the fields of production and distribution. The most important thing for the introduction of the measures was to adjust prices to a realistic level that was dependent upon market logic.

Therefore, the planned economy in the North is now overwhelmed by the market economy. As the private sector economy expands and encroaches upon the planned economy, the economic areas that the state cannot control are significantly growing. Although the official sector has virtually collapsed, the control organizations in North Korea are increasingly colliding with the market as the flow of money is revitalized. The control policy of the authority is in collusion with those who are controlled. As the capitalistic elements of small item production spread fast with the legalization of the market and the establishment of general markets, the behavior mode and mind set of the people is totally different now.

B. Household Industry and Small-sized Item Production System

The prevalence of business causes a lot of change in the field of production. As there are general and black markets, the supply aimed at these demands is developing into a household industry. People are said to produce and sell a variety of homemade items ranging from simple items such as noodles, bean sprouts and liquors to items made in the factories. It is said that North Koreans make candles, fluorescent tubes, incandescent bulbs, roof tiles and car window glass at home. An enterprise in Chongjin is being transformed into a household industry enterprise. Most of the state factories in the field of civilian supply in Hamhung have ceased operations and instead a domestic industry is being created. For example, Hamhung area was widely known as one of the five industry complexes in the country that produces a variety of mechanical facilities, and the workers there produce a variety of facilities

necessary for domestic business such as synthesizing towers, distillatory towers, noodle machines, and briquette machines. The workers produce the items according to their skills. It is said that the Hamhung branch office of the Academy of Sciences synthesizes some medical products such as caustic soda (laundry detergent), soaps, flavoring, dyestuffs, and aspirins and sells them. People say that the more sophisticated processing is made in a lab while the rest of production takes place at home. It was said that an adventurous researcher tried to synthesize philopon but was shot to death once this was disclosed. It is rumored that a chief of the synthesizing sector at the Hamhung Pharmaceutical Factory was shot to death in 2000.

Using their individual skills of production and administration, workers at the state-owned factories, regardless of mechanics, workers, and managers, transfer the parts of the factory machines to houses and participate in the market economy through item production.

The domestic industry where lay people sell the home-made items to the market is replacing the erstwhile socialist economy, since factories do not operate and the necessities of life are in short supply. The prevalence of the domestic industry is influencing the mode of production in the North Korean economy. The socialist mode of production is nominal and the small-sized production replacing it is now emerging. It seems that the seeds of capitalism are being planted.

Small-sized item production is also found in the enterprises. What promoted an introduction of the small-sized item production was an expansion of independent enterprises method and an introduction of the general markets since the July 1 Measures. First, the independent enterprises method was seen to the North Koreans as the strengthening of the enterprise autonomy. The autonomy given to enterprises implies that all the factories and enterprises are

required to feed their workers in a spirit of self-reliance and to operate factories under the situation that the central government is unable to distribute food and supply raw materials. The strengthened autonomy of the enterprises included in the July 1 Measures implies that under the situation where the official economy is stopped and the operation ratio of the factories is low, factories and enterprises should pay for their workers with profits earned after production. From the business perspective, this means that factories and enterprises are all encouraged to produce market-oriented items.

Second, the July 1 Measures had the positive impact of promoting production in terms of enterprises or individuals in that it created the general markets to secure industrial products.²⁰ With the introduction of general markets, came the expansion of an individual's side job and the home industry. This is because a stable market was secured since the general markets were introduced.

Due to the change of policy and the demands from the people, small-sized item production system has fast developed and is replacing the sectors of the planned economy. As the *Chosun Sinbo*, a pro-North Korean newspaper based in Japan,²¹ announced, it is said that, "In the past the North was able to secure all the fuels and materials necessary for production at factories and enterprises in a form of 'no-cash distribution' according to national planning but all the units were compelled to proceed with extended re-production at their disposal with cash since the July 1 Measures. It is said that the state-owned enterprises could raise necessary funds at the market from 2003. The North Korean policy states that 'factories and enterprises are permitted to use 30 percent as production

²⁰ Yang, Moon-soo, "Combined markets in the North," *A study on modern North Korea and inter-Korean relations* (A collection of theses at an academic conference by the North Korean Research Association, September 19, 2004), p. 264.

²¹ *The Chosun Sinbo*, December 22, 2003.

maintenance that does not need to be paid to the state in making products necessary for the people in the process of producing basic products. The amount of the products to be sold at the market should not exceed the designated 30 percent. In order to sell more products they should increase production. To factories and enterprises, the over-achievement of state planning is a precondition for raising the sales amount sold at the market.’ In this regard, the *Chosun Sinbo* estimated that ‘Citizens in Pyongyang are endlessly exploring the methodology of our own different from the capitalism.’”

2. The Formation of a New Economy Management System: Segmentation Economy and Crony Economy

Segmentation Economy

The development of primitive commercialism, household industry and small-sized item production is causing a wind of change in the system of North Korean economic management. A new self-reliance system began to arise from the ruins where the existing planned economy had collapsed and stopped running. The new economy is called the segmentation economy in that it is managed separately from the planned economy and each local economy is not connected to the other and is managed independently from the centre. The segmentation economy is the self-reliant and primitive market economy, which is far away from the control of the state under the banner of self-reliance.

It is now difficult to see the North Korean economy as the planned economy of socialism integrated. The necessary condition for socialism is nationalization and its sufficient condition is state planning. North Korea’s economy is nationalized but no longer planned. North Korea has a segmentation economy which is being autonomously run by small-sized economic units, not the economic

system planned by the state. There is the military economy, the Party economy and the special organizations' economies, and the remainder is the economy segmented in accordance with areas, units and households. The segmentation economy is an economic system of the black market, household industry, small-item production and primitive self-sufficiency.

As the financial resources of the central government dried up due to economic hardship, areas, enterprises and households have newly emerged as subjects of economic management, respectively. This is different from the past socialist economy in that various subjects of the economy were mingled and are neither mutually complemented nor interconnected.

The North Korean economy has gradually evolved into a segmentation economy starting from the 1980s. It was since 1994 that the economy started to show the definitive characteristics of the segmentation economy. Since the failure of the Third Seven-Year-Economic Plan in 1993 and the death of Kim Il Sung, the economy has been out of the hands of the state its powerful authorities. Taking advantage of their power, local authorities, for survival only, are creating the self-reliance system in each unit in terms of self-help. The formation of the segmentation economy was made as the state was unable to distribute necessities during the Arduous March only to transform into the self-reliance policy in accordance with each unit and individual. Now that the state could not afford to distribute freely, the policy became, "People should live as best as they can and should not demand help from the state nor complain."²²

Around this time, the North also allowed each unit to experience economic independence so as to impose the responsibilities of survival on local factory enterprises and individuals from the state.

²² Testimony by Kim, Hak.

To this end, the North once permitted elections for the managers of the factory enterprises. This meant that people should resolve the matters of both production and expanded reproduction for themselves, instead of expecting distribution from the state. Accordingly, they are to independently import raw materials so as to run the factories at full capacity and to barter. Namely, they should run the factories as wise as possible, while feeding the workers. These instructions were included into the July 1 Measures. It can be said that from this time, the economy begun to shift from a planned economy to a market one. All factories were converted into independent survival systems or independent management systems adjusted for the introduction of foreign capital, collaboration, contractual and equity joint venture through China, bonded processing and processing on commission, respectively.

Farm villages plant mulberry trees to raise cocoons and create profit business models, and fishing villages catch fish to export to China. They earn foreign exchange by exporting to foreign countries what they are required to deliver to the state. Truly, each unit was more creative in its efforts than in the past, essentially because managers and the Party Secretariat were given the responsibilities from the state.

The North does not call this system the abolition of the planned economy, nor the market economy. Instead, they call this a new economic management policy or a policy seeking for pragmatism or a pragmatic economic policy. But the essence of this is that the local and factory enterprises have become independent from the central government.

The self-reliance-based segmentation economy is one of the reasons that there is no resistance against the central government amid the economic hardship. This is because the North Korean people do not need to complain to the central government, unless they are dependent on the central government.

However, the biggest problem of the segmentation economy is that it has no expanded production for the future. As people are given to making money in the unofficial sectors such as home industry and business, the younger generation has no time to prepare for the future in the fields of science/technology and social science. The North recently recognized this and held the “conference of the intelligentsia of the North Korea Workers’ Party,” on November 30, 2007, calling upon young people “to play the role as forerunners and to make an effort to establish an economically strong state in every field of science, agriculture, social science, literature, education, public health, and physical exercise.”

Crony Economy

The segmentation economy is developing into a crony economy. The crony economy, called group-by-group economy or individual economy by the North Koreans themselves, is a small sized self-reliant economy. There are many forms of the crony economy but regional cronyism is most important. People tend to live group by group in each region. For instance, even a manager in a *Ri*, the lowest administrative unit, should work with the village because there is no distribution system. The manager should fit in with his townsmen. The manager is likely to forgive them even though they utter a word mistakenly, unless they are reactionaries. The manager reports to a higher level office in the event that something happens. Even the superior authorities ignore this unless there is something serious raised, because they do not want to fall into trouble.

Cadres in the local governments always deliberate on how to live among the military units. A chief of the people’s committee, a chief of the military’s defense and a chief of the military’s security discuss with each other and ponder how the military can live

independently. They think they can deceive the superior authorities if they all cooperate. For instance, a certain military unit cultivates new land but does not report this to the higher authorities, and instead, distributes the grain output among the military units concerned. In the event that someone defects, the person is usually reported as missing unless the case becomes a bigger issue. Leaflets are, if found, not reported but ignored, as if nothing happened in their units. This is simply because an inspection team comes down to investigate, when it is reported that there are some troubles. They would send a package of gifts to the higher authorities on national holidays, while treating them well. At the same time, they express to the higher offices that they feel hardship, while finding ways to live in the local areas. This is, in general, the survival mode of the middle high ranking officers.

Likewise, the economy at local organizations and units is self-reliant economic activities in accordance with unplanned collectives, units, regions and households. The Party, the security departments, the defense departments and the masses establish their own self-reliant system in every province and unit, while living together. With less control by the central government, they establish a self-but-closed-reliance system in the old feudal economy. The chairman of the planned committee urges them to come into the committee but no one is willing to do it.²³

3. The Formation of New View of Values

The view of values is a matter of what people think is important. From the viewpoint of an individual North Korean, class origin and ideology were very important in the past in order to live better.

²³ For more in detail and further research, see “Regional self-reliance system in North Korea,” written by Kim, Byong-ro.

These were the standards of social selection. People with good family origin and ideology become Party members, and they are given the right to become cadres when they become Party members. But now people consider it more important to be rich than to have a good class origin or become a Party member. People believe that money could make them a Party member or a factory manager.²⁴

The standard for the view of values and the yardstick of loyalty has changed. The standard for loyalty is not ideology but money. The rich are those who are technically guilty of misconduct but they are considered to be loyalists if they donate a lot of money to the state. Kim Jong Il is said to have instructed to view them as so.²⁵

The recognition of placing a high value on money leads to a deep trust toward business. People realize that they cannot lead a life with living expenses only and thus they should make money by doing business. The North Koreans think that the North is no longer a socialist country and has already transformed into capitalism, and so they should have money. The masses have come to realize that as the state supplies nothing, they themselves must earn money, as they could starve to death if they only trust in the state. Regarding the state, people always say, “Can’t trust it.” People feel that they would starve to death if they were to trust the country just as they did during the period of the Arduous March. The fact that numerous people starved to death during the Arduous March fundamentally changed the mindset of North Koreans.

The behavior mode of commercial transactions was the one of the most important changes of behavior that the money-oriented view of values caused. The mutual aid of the socialist community and the collective communal life were the most crucial behavior

²⁴ Testimony by Lee, Si-son.

²⁵ Testimony by Lee, Chol-soon.

modes but under the money-centered situation, people began to recognize that they were not able to spend their time without receiving money. Eventually, there has been nothing for free. People began to calculate the cost and the price in every activity. In the past everything was for free but now there is nothing for free. Riding in a car was possible for free in a personal relationship in the past but the current structure does not allow people to move forward without money. There is hardly any opportunity to ride in a car for free, and people usually pay a fee for the ride. There is already a taxi—related business for transporting people in North Korea. The car used in the taxi business is called a “service car.” It is said that there are service car stops, and that people’s mindset is becoming more like that of capitalists because they do not want to wait long for a car.²⁶

It is safe to say that a so-called “pragmatic socialism” is cropping up in North Korea where an individual’s commercial profits are most highly valued. People’s views of values and attitudes alike have changed into market-based ideas where they move according to money. Now North Koreans are not what they were. They used to be politically mobilized without compensation but are now given to business after experiencing a taste of it since they suffered from the Arduous March. It is said that people are not interested in whether it is capitalism or socialism. It is said that people in the lower classes changed a lot in terms of ideology. Still, the government is apparently not aware of this. Regardless of politics and whether it is capitalism or socialism, people believe firmly that they need money.²⁷

²⁶ Testimony by Lee, Si-son.

²⁷ Testimony by Cha, Ho-gang.

4. The Formation of a New Order: Second Society's Order

The changes in the mode of production such as the primitive market economy, prevalence of household industry and new economic management system such as the segmentation economy and the crony economy have caused changes in the views of value and behavior mode among the North Koreans. It has also led to a new formation of social order. While a new economic system is being made in the wake of the collapse of the socialist regime and planned economy, a new social order corresponding to the new economic system is being formed as well. Granted that the socialist society is the official or first society, the newly formed second society is similar to that of the past Eastern European socialism.

The second society means a strategy of making a new society which is separate from the first society, since an attack on the first society is both a reckless and dangerous act. The *Parallel Polis*, a book published by Vaclav Benda of the Czech Republic, says that civic movements form another parallel society outside the existing regime. "The parallel society" means living outside the official society. The aim is to develop a second society that the authorities cannot influence through independent publishing and reading the *Samizdat*, or underground publishing, buying things on the second economy such as black markets, studying through unofficial channels such as night study and supporting the churches.²⁸ Such activities are not meant as full-scale attacks on the state but rather a way to form another second society free from the intervention of the state. There is also the aim to spread a new form of value, norm, and culture through the second society. It

²⁸ H. Goreden Skilling, *Samizdat and Independent Society in Central and Eastern Europe* (Columbus: Ohio State University Press, 1989).

seeks the intellectual and moral transformation of the masses' mentality in a gradual manner, not in a radical and hostile one.²⁹ New evolutionism, anti-politics, parallel society and alternative society are other expressions used to refer to the second society.

Even in North Korea, the second society has to co-exist with the first society. There are no open protests against the first society because the challenge against the first society is severely punished, but even so, North Koreans are addicted to the economic activities of the second society. Even the leading cadres pay lip service to "Hail to the Great Leader," while still busying themselves making money in the second society.

The cadres and common people alike have become addicted to businesses and personal profits after establishing an alibi to cover their activities in order not to be punished by the authorities. They say in their own terms, "Each has his way of living." People make their livelihood at self-regulating types of businesses according to their own choice.

In terms of understanding the notion of "Each has his way of living," people are all given to business and money-making outside the official sphere. As there is neither distribution nor income in the official areas, common people or the cadres seek ways to live in the unofficial areas. Now that the state has no way to make money and is becoming poor, individuals must think of ways to live in order not to starve to death. As they are sure to be punished if they criticize or protest against the state, they look for ways to lead life that avoid punishment. Survival is now dependent upon individual initiative. It is only Kim Jong Il and his close aides that can survive without changing their actions. This clearly contrasts with the past when people behaved collectively.

²⁹ Marcia Weigle and Jim Butterfield, "Civil Society in Reforming Communist Regimes : The Logic of Emergency," *Comparative Politics* (October 1992), p. 4.

In this regard, the expression, “Each has his way of living” is a good indication that a second society is being created outside the official system. Everyone tries to find his/her way to survive. They move only for economic benefits, with little regard for socialism—regardless of whether the state distributes or not. People are busy making money clandestinely instead of performing official affairs for the central government.

Second, the expression also means that North Koreans are drifting away from socialism. Those who do business at the markets are involved in non-socialist behavior and those who control the non-socialist behavior are more interested in receiving bribes under the cloak of the control. Both the regulators and the regulated are living according to their own way. From the perspective of the regulators, they get the chance to receive bribes if they spot unlawful activities. It is said that money talks in the North except when it comes to anti-state activities. About 95-98 percent of the defense members are, people say, severely tainted by bribery. With regard to those who are punished, the expression such as, “It was because they did not use expensive medicine. They should have used the medicine” is often heard. North Koreans often use the term “expensive medicine” to mean “giving a bribe.” To this end, the regulators and the regulated alike are living up to their expectations. But very few maintain strong loyalty toward the state, because people have their way of living. This is a new mode of integration in the North Korean regime. Some people see North Korea as being stable but actually it is quite unstable. There are very few who support Kim Jong Il, chiefly because the Kim Jong Il regime is extremely unstable.³⁰

Third, the idea of, “Each has his way of living” has another meaning concerning individual patterns of behavior. It is not the

³⁰ Testimony by Lee, chol-soon.

planning of the state or obedience to the order of the state for the planning but rather it is self-regulated choice and behavior that is free from the system and the state. As the Juche ideology says, people have their way of living when they feel they are the master of their own destiny.

Irreversible Change

North Korea's recent social control policies seem to be made in order that high ranking regulators will be given bribes through the policies. It is a form of conspiracy between the law-breakers and the law-makers. Inevitably, the deviation and control come together, as people want mutual benefits through the law-breaking rather than cracking down on the law-breakers. North Koreans have said that there are numerous people attempting to extort money from those who use the trains by making a variety of control mechanisms, because the number of train-users is increasing over time. As it was rumored that a train security guard became rich, every regulation agency started to get involved in train-related affairs. It is said that train users are to be checked and inspected by the train security guard, the train inspection squad, the train station security team, and the 711 patrol squad.

It is also reported that the train security squad checks the passengers' tickets and their luggage at the train station, and people should offer money to get the tickets because train tickets are very difficult to obtain. All passengers should be checked for their pass and luggage inside the train. There is a rumor that the train inspection squad was made on account of their making a livelihood, since the existing train security guard made much money. Moreover, the passengers are also required to check the pass and the luggage again at the station security squad after they get off the train. There is the 711 patrol squad in every county, where the passengers are

also inspected by the squad. Train passengers are triple or quadruple checked. It is said that people, if lucky, can be checked one time or otherwise several times during the train travel. Officials ask questions such as, “Why do you do business?” “Why is your luggage so big?” “Why do you sell this?”³¹ The reason for the double, triple, and quadruple checks is, it is rumored, because the cadres also need a means to earn a livelihood. The regulators receive bribes by checking the businessmen.

Under this situation where business and market elements are prevalent, it is difficult to remove the elements of non-socialism—albeit the upper authorities order it. In terms of this, the change of production mode such as the primitive market economy and household industry and the change to new economic management systems such as the segment economy and the crony economy, and the creation of a new social order will likely continue and be irreversible.

In summary, the North Korean regime’s resilience significantly receded but its adaptability is quite remarkable and thus the problem of starvation was overcome. The increase in adaptability can lead to regime resilience. Unless an increase of adaptability leads to some contingency, the sustainability will likely increase.

³¹ Testimony by Kang, Hae-in (a philosophy lecturer over 20 years in Northern Ham province, defected to Seoul in June, 2004).

IV. Variables of Contingencies and Regime Sustainability

This chapter focuses on analyzing the possibility of contingencies (regime destruction) which is the third element related to regime sustainability. In the case of contingencies, the regime sustainability accordingly ends. This chapter analyzes the possibility of contingencies in North Korea and how new changes in the situation such as the nuclear issue and the improvement of U.S.-North Korea relations will impact the Korean peninsula.

1. Low Possibility of Contingencies

As discussed above, we can assume there is a low possibility of contingencies in North Korea. Although economic hardship has long persisted up to the recent days and thus animosity and resistance against the Kim Jong Il regime have spread, this has some restraints to further contingencies. Both physical restraint and the spread of market elements are important factors. As the self-reliant system in each household is established, it appears that

at least the status quo of survival will be retained.

Another restraint element is the expectation toward the settlement of the nuclear issue and diplomatic normalization between Pyongyang and Washington. A series of changes in international relations such as the settlement of the nuclear issue, diplomatic normalization and inter-Korean summits give the North Koreans new expectations, while lowering the possibility of contingencies. That is to say, there seems to be a growing sentiment among the North Koreans that they need to wait more.

2. Possibility of Contingencies through Reform and Openness

There is little possibility that the contingencies leading to the collapse of the North Korean regime will happen within a short period of time. Although there is the possibility of a soft landing with improved relations with the United States and Japan, there is also a possibility of seeing Tocqueville's paradox (the paradox of reform and openness). According to the historical dialectic (a dialectical history), Tocqueville's paradox is inevitable. Historical experience shows that revolutions were often ignited by reform.

According to Tocqueville, revolutions do not necessarily occur at the worst time. The most dangerous moment of the troubled regime is when people attempt to reform it. In the case of reforming an autocratic regime, the fundamental danger is in itself psychological and there are two reasons. The masses do not feel terrorized by the autocracy on the one hand and on the other, the legitimacy of the regime is lost. If living standards are improved, there is a decrease of suppression, and an extension of liberty is achieved, the expectations of the people that have suffered are raised and this leads to more radical demands in the long run. It is said that even a small change could bring about the sudden collapse of the

regime. The French sociologist Tocqueville called this phenomenon “Tocqueville’s Paradox.”³² This is because a tiny amount of change from above can spark demands from the masses. The North Korean leadership is worried that if reforms are attempted under a situation of crisis, the regime might lose its legitimacy and there could be a people’s uprising, which could lead to a revolutionary situation that the leadership cannot accept. It is a general phenomenon from the perspective of historical development for the North Korean people to demand improvement after realizing the suppressed, undemocratic and dehumanized governing nature of the regime, if reform and openness are advanced.

There was no people’s revolt in China even during the Great Leap Forward where several thousands starved to death. But the Tiananmen Square protests occurred in 1989, ten years after reform and openness were well under way. The conditions for collective action became different. As information and communications spread and were active, people began to think over the future and to struggle beyond the simple matter of “how to eat and live.”

In the case of the North, there is likely to be an aftermath following reform and openness. North Korea may undergo more serious aftermaths in that it has retained the regime with both a closed and deformed ideology.

3. Paradox of Reform and Openness

According to the historical dialectic (a dialectical history), Tocqueville’s paradox is inevitable. Social confusion caused by the conflict between conservatives and liberals, polarization, the inflow of information in the wake of reform and openness will likely bring

³² Minxin Pei, *From Reform to Revolution: The Demise of Communism in China and the Soviet Union* (Cambridge: Harvard University, 1994), p. 45.

the Kim Jong Il regime to an end over the long run. Kim Jong Il stepping down from his position means regime change. There is likely to be a third power or a collective leadership system rather than power succession to Kim's son. The regime will be a new one. This is the dialectic of history. It is natural that changes in the socialist regime will be accelerated when the regime changes. Yet the collapse of the DPRK is not an all out state collapse. The North is able to make a soft-landing even after the regime changes. In terms of economy, however, the North will more heavily depend upon the South, which will develop into a kind of inter-Korean economic community on the peninsula over time. The community is likely to be an advanced European Community-like federation rather than the unified regime between the East and West Germany.

V. Comprehensive Evaluations of Regime Sustainability

In the preceding chapters, we looked at the resilience of the socialist regime, regime adaptability and the possibility of contingencies, respectively. First, it was revealed that North Korea's socialist regime resilience has significantly weakened. It changed so much that the regime is unable to revert back to its past status simply because the economic and political functions of the socialist regime have almost been paralyzed. The alternative business system which was a core policy to the central planned economy and the complexes all collapsed, and the market is replacing the planned economy except for military supply sectors. The legitimacy of socialism is beginning to falter and people are fed up with Kim Jong Il, social-control organizations, repressive political system, cadres' power, corruption and routine bribery. The most important element for retaining the North Korean regime is the capability to carry out strong physical restraint. In particular, the North is using severe means of restraint against political revolt. But deviation in the economic sector and non-socialistic behavior have changed so much

that no one is able to control it totally, since it is taking place largely through conspiracy and collaboration between regulators and the common people. The physical constraints have become greatly weakened in the field of economy.

Second, regime adaptability has significantly increased. Even though regime resilience collapsed we need to consider that a new alternative system has been newly made in the course of the transformation of the collapse of the socialist regime. The economic system of socialism already broke down but the elements of the market called the second economy or the second society have increased with vigorous economic activity in unofficial sectors that are characterized by self-reliance and pragmatic socialism.³³ Realizing that there is nothing for free, an individual has established his/her own salvation. And a new economic system has been formed, including household industries aimed at the combined markets in accordance with households and factory enterprises. These activities are crawling up through the crevices of the planned economy. The phenomenon of deviation which was once called the second society has now become “legalized” and emerged as the mainstream economy.

In the official sectors, the principal organizations of the state such as the party organizations, the People’s Armed Forces, and the military units have set up trade companies and managed them, while establishing branch offices in local areas. The branch offices are putting down roots in the black markets and the market economy by employing people or lending their companies’ seals.

Therefore, the North Koreans have created the unofficial economy or the second economy to a degree that they do not depend upon the state. In turn, the state, although it interferes, does not repress

³³ Suh, Jae-jean, *Another North Korean society: A study on dualism of social structures and social consciousness* (Seoul: Nanam Publishing Co., 1995).

it. The consequence of this is that the North does not collapse but can retain its regime, in spite of economic hardship. The second economy where the cadres at the official sectors are parasitic is feeding the official sectors, transforming itself into the mainstream economy.

Still, even the young generation is addicted to money-making so that education is not being carried out in a normal way and investment in the future is not made sufficiently. This thus causes some problems where reproduction on an enlarged scale is very uncertain.

Third, the possibility of contingencies has decreased. The North Koreans have overcome massive starvation and are helping themselves along with regime adaptability. This makes the masses give up the expectations from the state and the leader, while driving them into the corner of the market economy. After all, it shows that the possibility of contingencies tends to lower over time. In particular, the favorable atmosphere of the U.S.-North Korea relationship since the February 13 agreement and the inter-Korean summit in 2007 are enough to arouse high expectations in the North Koreans and function as a mechanism to prevent them from protesting against the regime at the risk of their lives.

Thus, it is safe to say that given the rise of regime adaptability and the lack of contingencies, the North's regime sustainability is advancing toward the status quo in the short term despite the loss of regime resilience.

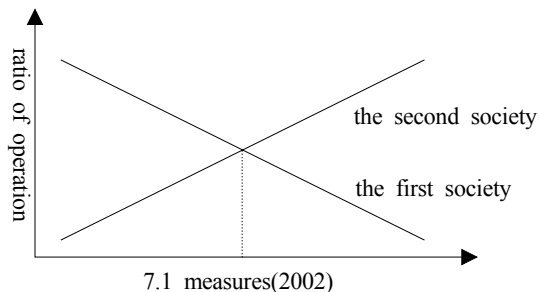
VI. Conclusions

It has been shown that the North Korean regime maintains the status quo of regime sustainability due to the creation of new regime adaptability, despite the loss of regime resilience. Physical constraints may be one reason but the more important reason is a new primitive market economy is feeding the masses and replacing socialism. North Korea is continually laboring its regime in places where the inefficient socialist regime is replaced by a new productive system. It is a curious phenomenon of “Bad luck often brings good luck.” This is one of the reasons that the North is able to retain its regime amid economic difficulties.

Comparing this phenomenon to that of the socialist countries in Eastern Europe, it can be interpreted that the second society or parallel society is fully underway in the North. The second society is an alternative society to lead a life in a new society different from the first society, in that any attacks against the first society are foolhardy and extremely risky. Although it is a form of minimal survival, the North Koreans consider that the absence of intervention

or repression from the state is the only hope, while heaving a sigh of relief rather than having a situation like the unfortunate period of the Arduous March that caused numerous people to starve to death. Under the second society, people—whether they are the cadres or not—are addicted to money-making after formulizing alibis in order not to get punished by the authorities. In the North Korean people’s terms, they are “living their way.” Like under the planned economy, people work to engage themselves in such things as household industry or businesses according to self-regulated choice in autonomous types of business. The relationship between the declining first society and the newly forming second society in the North is depicted in the graph below.

[Table 1] The relationship between the first society and the second society



In this regard, the regime will highly likely transform itself so that the state will gradually legalize the second society over time from below rather than risking collapse by the sudden revolt of the masses. North Korea’s regime sustainability will be strengthened if the North can take advantage of this trend. Plus, a soft landing of the regime could be possible. If the nuclear issue is settled and North Korea’s diplomatic normalization with the U.S. and Japan are achieved, the regime’s sustainability will be more likely.

If it is difficult to expect a sudden contingency in the North and the possibility of North Korea's soft landing is quite high, it is reasonable to seek policies to help promote the North's reform and openness. This will further the change of the North over the long run. Namely, it is highly likely that the elements of capitalism will spread through the country, willingly or not, as it participates in the global regime of capitalism in order to overcome economic difficulties. If the security uneasiness of the regime is resolved, the contingencies are lowered and regime adaptability is high. The possibility is high that the regime's change will be accelerated after all.

