

State Trading Networks and Entrepreneurialism in North Korea

Modern Korean Society

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US Unilateral Actions against DPRK

- Proliferation Security Initiative (May 2003)
 - US watched North Korean shipping closely and threatened to stop and interdict North Korean ships (reaction of export of Scud missiles to Yemen—*So San* incident)
- Move against Macao banks (September 2005)
 - Banco Delta Asia assets frozen and it and other banks frightened away from doing business with North Korea (pressure during Six Party Talks)
- After that North Korea's nuclear tests (2006-2017) motivated the UN to take action
 - After first nuclear test (**2006**) Japan banned all imports from North Korea and prohibited North Korean ships from berthing in Niigata, cutting off remittances to North Korea from Japan
 - Remittances had begun to flag after KIS's death in 1994 anyway
 - By 2012 Japanese pressure against Chochongnyŏn had made them go broke and they sold their Tokyo headquarters (that had been an unofficial North Korean embassy)

Nuclear Tests and UN Sanctions

- Nuclear Tests

- 1st 10/2006, 2nd 5/2009, 3rd 2/2013, 4th 1/2016, 5th 9/2016, 6th 2017

- UN Sanctions

- 1718 (2006)—prohibited export of some military supplies and luxury goods to North Korea
- 1874 (2009)—broadened arms embargo and encouraged inspection of North Korea ships
- 2087 (1-2013)—clarified states' right to seize and destroy NK contraband (after satellite launch)
- 2094 (3/2013)—sanctions on money transfers to shut NK out of international financial system
- 2270 (3/2016)—banned export of gold, vanadium, titanium and rare earth metals, also coal and iron except for “livelihood purposes”
- 2321 (8/2017)—banned all exports of coal, iron, lead, and seafood, and prohibited increase of number of North Koreans working abroad
- 2375 (9/2017)—limited petroleum imports, banned joint ventures, textile exports, natural gas, and North Korean nationals from working abroad

Reaction of DPRK SOEs to sanctions

- Since Choch'ongnyŏn (in Japan) has declined since 2012, and Macao is no longer a convenient banking haven since 2005, North Korea is more and more dependent on China
- DPRK diplomats take a role as brokers (rather than engaging in direct smuggling) in international trading networks transferring North Korean cargoes through foreign commercial brokers
 - Exports—foreign commercial establishments pick up goods in North Korea or nearby in China for transport
 - Imports—North Koreans negotiate through international trading networks in which the ultimate destination of the cargo may not be precisely known

SOEs move out of illicit trade

- It became hard to do illicit trade on a big enough scale to make substantial and reliable profits
 - Small-scale entrepreneurs could still do this, but state companies tended to pull back after 2005
 - If the state companies could no longer control the supply chain, profits were too meagre to justify the blow back
- State companies concentrated on exporting natural resources (minerals, timber, marine products, specialized agricultural products—like matsutake mushrooms 松茸 송이버섯)

Adaptation in Weapons Export

- Stopped using state trading companies for transport, and began using international trading networks
 - Ship North Korean goods to Chinese cities where they could enter regular trading networks
 - Use Chinese brokers to consign and forward freight—arms length from North Korea, but subject to inspection in transshipment ports
 - Use North Korea branch offices of foreign companies as originator of goods
- North Korean ships hide prohibited cargo and avoid inspection ports

Adaptations in Imports

- Imports not necessarily under sanctions, and, in the case of luxuries, each country has its own definition
 - Buy goods from numerous sources through foreign brokers
 - One source could be substituted for another
 - Use Chinese resident in North Korea as agents, or companies in China as agents
 - Long-term personal ties important to prevent swindling and to allow for kickbacks
- Taiwan and Hong Kong partial replacements for Japan after 2006
 - While Taiwan has its own sanctions regimes, it is not a member of the UN or NPT
 - Taiwanese trade with China grew, but was hard to police since Beijing was not cooperating with Taiwanese authorities (because of non-recognition of Taiwanese independence)

North Korean Overseas Office Locations

- Representatives
 - Hong Kong, Macau, Shanghai, Beijing, Shenyang, Singapore, Indonesia
- North Korean companies “General Trading Companies”
 - Don’t produce themselves, but specialize in import/export
 - Much goes through a series of shell companies (and may be under sanctions), with bribes at the border
- Many transactions are cash transactions
 - Other transactions go through trusted peoples’ accounts

Abortive Retrenchment of 2005-9

- August 2005
 - Restrictions on private markets, discouragement of cross-border trade, attempt to revive the PDS (despite inadequate supplies)
- November 2005—DPRK told World Food Program it no longer needed food aid
- 2007—Only women over 50 allowed to sell in private markets
- 2008—Restrictions on what foreign goods could be sold in markets
- 2009—Currency re-demonination
 - New currency lopped off 2 “0”s, suddenly required changing within a week, and conversion of limited to \$30
 - Caused “Yuanization” (dollarization) of the economy as DPRK currency collapsed
 - Widespread unrest led to reversal of policy and execution of its architect Pak Nam-gi

After Kim Jong Un's succession in 2011

- Purges
 - Ri Yong-ho, Jang Sŏng-thaek—in both cases perhaps linked to foreign trading rights that Kim Jong Un wanted to take back (>Hastings p102)
- Chinese traders doing business with North Korea noticed few changes
- June 28, 2012 Measures—Field Responsibility System (Chŏnp'ŏ tamdangje 田圃)
 - Work subteams of 4-5 people (families?) rather than 15-20, but still under work team supervisor
 - State/production team split 40/60 rather than (70/30)—2013-4 were good production years for North Korea by 2015
 - "Kitchen gardens" (전포=채소밭) up to 3 hectares (de facto decollectivization?)

New Situation—predatory state?

- Ordinary people participate in entrepreneurialism to make ends meet
- SOE's need to make money to pay kickbacks (in lieu of taxes) to the state
 - Some taxes go directly to the Kims (3%), some to the state
- Middle management
 - Rent seeking (i.e. charging for licenses, seeking kickbacks for favors)
 - Entrepreneurialism
- Result—a mutually reinforcing ladder of patron-client relations (Hasting p 106)
 - Small fry trade in North Korean wŏn, big fish trade in hard currencies

Everybody Needs Supplementary Income

- Official salaries provided by SOE's are at the official (not black market) value of the wŏn
- Nominally civil servants get \$1-6000 a month, but in black market terms this is more like \$1.50 to \$10.00
- Thus, every family has to have a side income
 - Buying and selling
 - Offering a service
 - Accepting bribes
 - Appropriating state property

Pseudo-State Enterprises (Hybrid Enterprises)

- >Andrei Lankov *JEAS* 17-51-67 (2017), also Tudor, *North Korean Confidential* pp34-9
- Emerged in DPRK after the famine as “marketization from below” continued
- Foreign Trade Companies
 - Established by state-owned enterprises for foreign trade purposes
 - An entrepreneur with expertise and access to capital is appointed manager of a FTC “division” (kiji) and pays a commission to the central office— independent in all but name, and engages in foreign trade

Other Kinds of Hybrid Enterprises

- Directly Registered Company
 - Entrepreneur strikes deal with administration to pay a fixed sum of money (plus bribes) to be registered as a state company, but the company in fact is managed privately
- Entrepreneur takes over a state factory
 - Entrepreneur pays (say 20%) of turnover to use idle (state-owned) factory and equipment to manufacture a product
 - De jure the entrepreneur is state employee, but de facto the entrepreneur provides capital, expertise, and hires and fires personnel
- These are sometimes called August 3 enterprises
 - the August 3rd [1984] Consumer Goods Production Movement directed local officials to use surplus labor and materials to produce consumer goods outside the plan

Where do Entrepreneurs Come from?

- Sŏngbun (social background) important to rise up the party ladder, or for professional education, but not relevant for businessmen
- Pay 8.3 money (p'alsam chagŭm) to be released from one's work assignment
- Acquire capital through small-scale market activity
 - Smuggle goods from Chinese border
 - Have a booth at a general market (used to cost \$100)
 - Have relatives abroad who can stake you hard currency
 - There are regular networks for smuggling money into North Korea
- \$5000 is enough to start a pseudo-state enterprise
 - It is legal for “state-owned firms” to trade with each other

Importance of Chinese Border Trade

- China is North Korea's most important trade partner since 2002 (before 2002 Japan was more important) on order of \$100 million a year
 - Coal most important DPRK export, and rice import
- 2012—130,000 North Koreans legally visited China (Tudor 32)
- Chinese can temporarily cross the border to trade
- “Overseas Chinese” in P'yŏngyang and other cities can travel freely
- Many North Koreans work overseas (and remit some of their salaries to the state)
 - China, Russia, Poland common destinations

Economic Geography of Entrepreneurialism

- Foreign trading licenses concentrated in P'yŏngyang (and to a lesser extent on the Chinese and Russian border)
- Large-scale SOEs in P'yŏngyang maintain business networks in Beijing and even Russia and Southeast Asia
- Smaller-scale enterprises operate on the Chinese border and project into Shenyang, Dandong, Hunch'un, and Yanji
- SEZs
 - Hwanggŭmp'yŏng-Wihwa and Kaesŏng use North Korean labor to process for export
 - Najin-Sŏnbong building private-hybrid networks

North Korea Special Economic Zones

황금평-위화도



라선경제특구



개성 공단



Wihwa Island and Sonbong



Kaesŏng Industrial Zone



Drug Trafficking

- Between 2004 and 2007 the state withdrew from direct drug trafficking, and this was replaced by hybrid/private entrepreneurs
- Status of drug factories not certain, but some evidence of “movement up the food chain” (to higher valued added activities)
- Smuggling by small-scale entrepreneurs across the Chinese border from which they are shipped throughout China and the world

North Korean Restaurants Abroad

- Only labor and money cross borders
 - Much food can be sourced locally, though some may come from North Korea
- Cater largely to overseas Koreans
 - Waitresses sing, dance, and play instruments (trained in North Korea)
 - Waitresses given room and board, but are not paid until they return to DPRK
- Types of Korean restaurants in China
 - Owned by South Koreans who serve (south) Korean food
 - Owned directly by North Korean enterprises (Office 39?)
 - Joint ventures between North Koreans and local business partners
 - Chinese-owned with North Korean staff

North Korean Restaurant Siem Riep 9-4-2005



China Border Trade Crucial

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Consequences I

- New class of “money lords”—tonju—who don’t depend upon sŏngbun or position in the party nomenklatura for their livelihood
 - In P’yŏngyang and other places they engage in conspicuous consumption
 - Go out to fancy restaurants
 - Wear fashionable clothes, flash watches, smart phones, imported cars
 - Live in good apartments (for which there is a market)
- Incentives for central and local officials are different
 - Local officials want steady income, smooth functioning, and a healthy local economy, so allowing PSEs (for a fee) is in their interest
 - High central officials are less dependent on bribes and more ideologically committed, so they are more likely to crack down
 - Over time large-scale entrepreneurs are subject to arrest and execution

Consequences (2)

- Travel to China under Kim Jong Un has been liberalized
 - Used to be only the old who could visit China because Kim Jong Il was afraid the middle aged would defect
 - Now North Korean exports labor to China
 - North Koreans go there to work and earn money to send back home
 - Buy goods in China
 - Come back to North Korea to trade
- Used to be that travel to Yanji and Dandong about the same
 - Now Dandong has overseas North Korean communities and gets almost all the travel (because of good connections to the rest of China)

Consequences (3)

- North Korean economy growing despite international sanctions
- North Korean government not broke because they can skim taxes off the growing market economy

Covid 19

- North Korea closed its borders in January 2020 to avoid contamination by Covid
 - Reduced trade with China has caused food shortages and has seriously affected the economy
 - North Korea has so-far refused offers of Sinovac vaccine
- WHO started shipping COVID 19 supplies to North Korea in October 2021
 - Emergency health kits and medicine, but not vaccines
 - North Korea may be wary of monitoring requirements of international health NGOs