

NORTH KOREA IN THE GLOBAL ECONOMY

Modern Korean Society

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TYPICAL NARRATIVES ABOUT NORTH KOREA

- Dangerous rogue state
 - Developing nuclear weapons and missiles that threaten their neighbors
 - Sells weapons to other rogue states (Iran and Syria)
 - Sells illicit drugs in Japan and elsewhere
- Totalitarian state with no regard for the welfare of its people
 - 600-800,000 died in the 1994-8 famine
- Autarkic, politically isolated regime
 - Under United Nations sanctions regime
 - Has diplomatic relations with few countries

JUSTIN HASTINGS' TAKE

- North Korea clearly trades a lot around the world
 - Import luxury goods for elites (cognac, Cuban cigars)
 - Sells weapons, and imports weapons components
- In fact, North Korea “sustains itself in large part by international trade and integration into the global economy” p 3 and the *ability* to sustain this trade in spite of a comprehensive international sanctions regime is of interest
- Not only North Korean state, Kim family, or even North Korean elites, but also private North Korean citizens engage in international trade

POLITICAL CONTEXT

- **Kim Il Song** ruled North Korea from 1948 until his death in 1994
- **Kim Jong Il** (eldest son by first wife)
 - Secretly appointed successor in 1974 by KWP Central Committee
 - Public announced as successor in 6th Party Congress (1980)—no more Party Congresses until after his death in 2011
 - When Kim Il Song died in 1994 Kim Il Song's body was placed in state in the Kumsusan Palace, calendar changed to chuch'e (1912 year 1), April 15th declared "Sun Days" 태양절
 - 1998 Constitution made Kim Il Song "Eternal President" and Kim Jong Il was known as KWP General Secretary (Ch'ong pisŏ)
- **Kim Jung Un** (second son by third consort)
 - Name successor during 3rd Party Delegates Conference in 2010
 - After Kim Jong Il died in 2011 Jong Il became "Eternal General Secretary," 조선로동당 영원한 총비서 and Kim Jung Un became First Secretary (당제일비서), and took all the other titles within 6 months (now he is Party Chairman 당위원장)
 - 2016 7th Party Congress (first since 1980)

HOW DOES NORTH KOREA SURVIVE?

- Propped up by China that sends fuel and food aid, and supports North Korea diplomatically?
 - China increasingly annoyed by North Korea, but still willing to prop it up
 - Skillful North Korean brinksmanship exacted concessions from partners who didn't want its collapse (China, Russia, South Korea) but since 2006 such aid has come in dribs and drabs
- No longer a centrally commanded autarkic economy?
 - With collapse of the Soviet Union in 1991 a more flexible economy has emerged

THREE THREADS

- Collapse of formal, command economy with the end of Soviet aid in 1991, and fragmentation of economy into formal and informal sectors (or state, military, court, illicit, and informal)
- “marketization from below” (Hazel Smith) or “informal domestic economy” (Justin Hastings) as a coping mechanism to deal with the collapse of the formal economy, and the PDS (public distribution system)
- North Korea trade, both licit and illicit, with the outside world is based on free markets (and mostly through, but not necessarily with, China)

HASTINGS MAIN POINTS

- Overall social, economically, and politically North Korea is a disaster (by our standards)
- Yet North Korean trade networks have been surprisingly effective despite the collapse of the rest of the North Korean economy p7
 - North Korea has been able to adapt to roadblocks put into place by sanctions to raise income and acquire goods to support the people involved in the networks
- Trade benefits North Korea (regardless of amount of trade in relation to economy)
 - For average North Koreans, trade can sometimes allow acquisition of lifestyles the state cannot provide
 - For the state, trade networks provide benefits and economic opportunities that allows the state to pay off elites for their support

HOW DOES TRADE SURVIVE?

- Ruthless pragmatism (Hastings p8) and adaptability
- Sources of entrepreneurial pragmatism?
 - From the 1970s diplomats posted abroad forced to provide for themselves and the regime by any means necessary
 - Hybrid trade networks mix private agency and state resources to provide goods for the private market through cooptation of state actors
 - State-owned companies have become hybrid entities through subcontracting
 - State officials have used their positions to engage in private income generation

ECONOMIC ACTORS IN NORTH KOREA

- Trading companies of the central state
 - Military, party, and cabinet, and (Party) offices 38 and 39
 - Export raw materials, weapons, and mundane good, and import luxury goods, consumer items, and components for weapons—all to support the top echelons of society
 - State-own enterprises (SOEs) with trade licensing
 - Party, state, and military organizational units often have subordinated trading corporations that can be quite entrepreneurial
 - Export resources, build partnerships with foreign investors, or establish enterprises outside North Korea
 - Rent out for private actors the legal ability to engage in foreign trade
- Private traders who operate in informal marketplaces
- Hybrid traders—state officials who use their position to go into business for themselves (cf. Milovan Dilas, “The New Class”—they don’t “own” but they have command over things in ownership-like ways)

ADAPTIVE STRATEGIES

- Change locations
- Switch goods they trade
- Changing how networks are controlled and coordinated, with whom they interact, and the manner in which connections with the outside world are established and maintained
- State associated assets can work through diplomatic posts and state trading company branches, but these also attract foreign attention
- Private trade and hybrid networks are most creative in establishing ties with the global economy, and are hard for foreigners to trace

WHAT TO LOOK FOR

- Not “is it state-owned” or “nonstate” (formal classifications), but how they actually operate
- Much activity is technically illegal even within North Korea
 - Thus, the ability to operate in gray areas with political protection is important
- Licit and illicit trade are flexible categories
 - North Korea rejects the parameters of the WTO anyway (“money laundering” for example is dependent on UN prohibitions of certain activity)
 - What is illicit for North Korea (because of sanctions), may be licit for other countries in other contexts
- North Korean international traders learn to be comfortable with legal ambiguity, informality, semi-formalized corruption and capriciousness in trade—because that’s the way it works *within* North Korea as well

CUBAN COMPARISON

- Cuban “Special Period” from 1990-1995 when Soviet Aid stopped
 - Agricultural productivity dropped, transportation almost came to a halt
 - Turned to organic agriculture, converted sugar fields to fruit and vegetables, opened up to tourism, got help from Chavez’s Venezuela
- North Korea “Arduous March” (1994-1998)
 - Climate prevented change to tropical agriculture and tourism
 - Black and gray markets always operated within the system to ease bottlenecks and shortages
 - Citizens acquired goods outside the formal state economy through markets
- Similar to Hungary with private and hybrid actors, but because there have been few formal reforms, statistics don’t reflect reality that well

DPRK TRADE SIZE & DEVELOPMENT

- U\$ 9 billion (approximately 40% trade dependency)
 - US 27%, China 38%, UK 61%, Netherlands 158%, Singapore 400%
- 1991-2004
 - Breakdown of old command economy, development of informal markets for survival (marketization from below),
- 2005-8 tried to reinstate the old system (but failed)
- From 2006 first nuclear test increasingly tight international sanctions
- After 2008—development of hybrid trade networks both within and outside of North Korea

TOP-DOWN COPING MECHANISMS

- From 1970s foreign diplomatic posts required to be self-sufficient and provide foreign exchange to the central government
- From 1990s made all enterprises function as state profit centers
 - 1994-2006 North Korea faced few economic sanctions and could operate freely in international markets
 - 1998-2008 South Korean sunshine policy gave aid to and trade with North Korea
- Diplomatic networks had trade offices and diplomatic immunity, and could use state assets for transportation

TRADE NETWORKS

- North Korea began producing heroin, methamphetamines, and counterfeit cigarettes
 - Domestic production protected so that it could be sold abroad, and North Korean shipping used
- Used diplomatic outposts and state trading companies to do business abroad
 - Yun Hojin in Vienna ambassador to IAEA made contacts with European suppliers for North Korea's weapons program
- Contacts with ethnic Koreans
 - Japan—pro-P'yongyang Choch'ongnyŏn, contacts with Yakuza, and Mangyŏngbong that sailed between Niigata and Ch'ŏngjin
 - Koreans in China (Chosŏnjok), exchange drugs on the high seas with Taiwanese and South Korean gangs
- Brokerage services linked two non-Korean buyers, and made money without straining North Korean transportation networks
- Barter trade with Pakistan—missile parts from North Korea for Pakistani nuclear technology (transported in both North Korean and Pakistani planes)

BOTTOM-UP COPING MECHANISMS

- During the famine travel restrictions were loosened and people began to trade so that by 1997 the internal passport system was non-functional
 - By 1996 crossing the border to China was treated as a minor offense so long as one did not contact South Korean Christians
- July 1 Economic Management Improvement Measures (2002)
 - Legalized privately run but publicly owned service industries, allowed subcontracting state-run business to private managers
 - Decline but not disappearance of state coercion against markets
 - Gendering of trading
 - Guards at checkpoints and trains became bribable

MARKETIZATION FROM BELOW

- Pre-Arduous March farmers markets
 - Originally walled and guarded, couldn't sell grain, or manufactured products but could sell home gardening and handicrafts, but by the 1990s were selling consumer goods and second-hand household items
- People first sold goods they had on hand
- Then some people developed household handicraft industries like sewing and baking
- Then cross into China to forage, find relatives, bring back short goods
- Used cars smuggled from Japan, and out-of-date consumer goods from China (say VCRs when Chinese were switching to DVD)
- 2002 tried to systematize these coping mechanisms and legalized the sale of manufactured goods in 2003
- Both people smuggling and goods smuggling to and from China
- The more successful ones became wholesalers

HYBRID TRADE NETWORKS

- Those with travel permission could become middlemen wholesalers
 - Chinese North Koreans who could freely travel to China
 - State officials with foreign currency-earning licenses
 - Korean Japanese, or those with relatives in China
- Bureaucrats' "creative corruption"
- Entrepreneurs with capital and connections could set up joint ventures with state enterprises
 - Legally the manager would be an employee but in actuality an entrepreneur