

# BTI 2016 | North Korea Country Report

	scale	score	rank	trend
<b>Status Index</b>	1-10	<b>2.14</b>	# 126 of 129	
Political Transformation	1-10	2.60	# 123 of 129	➔
Economic Transformation	1-10	1.68	# 127 of 129	➔
<b>Management Index</b>	1-10	<b>1.22</b>	# 127 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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### Key Indicators

Population	M	25.0	HDI	-	GDP p.c., PPP \$	-
Pop. growth <sup>1</sup>	% p.a.	0.5	HDI rank of 187	-	Gini Index	-
Life expectancy	years	69.8	UN Education Index	-	Poverty <sup>3</sup>	% -
Urban population	%	60.7	Gender inequality <sup>2</sup>	-	Aid per capita \$	4.4

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

## Executive Summary

In the three years since April 2012, when Kim Jong-un assumed the leadership of North Korea, he has endeavored to reshape the regime and set a new policy orientation.

The process of hereditary succession which began in 2009 has also seen the regime reshaped to bolster support for the new leader Kim Jong-un. Though the power transition formally finished with the death of Kim Jong-il in December 2011 and the start of his son Kim Jong-un's rule in 2012, the reshaping process appears to still be in progress, with major changes in continuing through 2014. The key aspects of this process included: rehabilitation of central party institutions; weakening of the military's influence over politics and the economy; removal of the old guard left over from Kim Jong-il's rule through forced early retirement, natural death, abrupt promotion and demotion, and purges; redistribution of trade licenses among power agencies. The most spectacular event here was the fall of Kim Jong-un's uncle Jang Sung-taek, known as "No. 2". He was purged without warning and executed in December 2013; a large if unquantified number of high-ranking followers died with him. Kim Jong-un is still struggling to consolidate his regime through sudden demotions and promotions of high-ranking officials, especially military generals. For now, he is counting on a balance of power between the two main power figures below him, Choe Ryong-hae and Hwang Byung-seo, periodically changing the pair's relative positions within the regime.

Kim Jong-un laid out his new foreign and domestic policy on 31 March 2013, promising to develop both the economy and the country's nuclear weapon program. Kim Jong-un's North Korea wants other states to acknowledge its self-proclaimed status as a nuclear power, and it wants to strengthen its position in relation to South Korea and other countries. Pyongyang conducted its third nuclear test in February 2013 and on several occasions in 2014 threatened to implement a fourth. Pyongyang has also increased conventional military antagonism toward the South since 2009, its

missile tests peaking in 2014 when it tested 111 short- and medium-range missiles on 19 separate occasions.

North Korea's efforts to develop its economy have been focused on the "new economic management system in our style" introduced in 2012, which allows market forces more traction. And it does seem to have produced positive results. Kim Jong-un has established 19 special economic zones in different cities, although they failed to attract any foreign investment in 2013 and 2014. The price of rice and the exchange rate have remained stable since 2012/2013, though with seasonal fluctuations.

Kim Jong-un's nuclear belligerency has set North Korea even further adrift from the international community; the third nuclear test in 2013 even prompted criticism from its traditional ally China. North Korea's attempts to improve relations with South Korea and Japan in 2013 and 2014 produced no tangible results. Finally, the UN General Assembly passed a damning human rights resolution against Pyongyang in December 2014, referring its case to the International Criminal Court for investigation.

## History and Characteristics of Transformation

North Korea has experienced profound changes since the early 1990s. As a result, the Democratic People's Republic of Korea (DPRK) has become a different country in comparison to the old Stalinist society that lasted until the end of the 1980s.

Due to a sudden and drastic deterioration of the economy, and a weakening of the traditional system in the early 1990s, the regime has faced difficulties in retaining control. The market and corruption expanded rapidly. The period of famine between 1995 and 1997, known as the "Arduous March," was the most critical one for North Korean society. International humanitarian assistance began in 1995. One of a number of means of strengthening the system was the creation of the "Military-First" policy in 1995. The regime reestablished itself in 1998 when Kim Jong-il emerged from mourning following his father's death in 1994. Outwardly, it pursued a policy of accommodation with South Korea beginning in 2000, and enjoyed economic support from its southern neighbor until the end of 2007. It also pursued a policy of adjustment in support of market expansion, which peaked in 2004. Between 2005 and 2010, Pyongyang turned away from market expansion. Its harsh crackdown on market activities caused tension between the regime and society which reached a crisis point in 2010 following the November 2009 money exchange measures. Since May 2010, the regime has – whether voluntarily or involuntarily – scaled down suppression of market activities, reducing tension between the regime and society. Since inheriting power in April 2012, Kim Jong-un has continued this more lenient market policy and introduced a number of reform measures. He continues to emphasize ideological purity while increasing control of North Korea's border with China and monitoring illicit contacts with the outside world including

cell phone calls to China, trade of DVDs, books and South Korean commodities, and receipt of remittances from the South.

The ideological, economic and social operating mechanisms have transformed since the death of state founder Kim Il-sung in 1994. “Communism” and “socialism” have ceased to be officially sanctioned frames of reference; instead, the people are coerced into demonstrations of pride at living under the “world’s best bloodline of great leaders,” and in a country with the capacity for nuclear weapons and intercontinental missiles. The enforcement of self-financing for public organizations and individual officials, due to the fiscal collapse of the central administration and government since the early 1990s, has promoted their engagement with commercial activities and made regime-sponsored monopoly companies the dominant actors in the expansion of markets. The business organizations of the military, the party and the state have proliferated and prospered due to their licenses for economic monopolies and corruption (“use of public office for private gain”) in the market expansion. Reflecting the conspicuously hierarchical structure of power in the country, it has been easy for various state entities and individuals closely linked to the regime to benefit from the newly expanding market – both legally and through corruption. The self-finance principle has also made the demarcation between “plan” and “market,” and between formal and informal activities and sectors, virtually indistinguishable. It has also made the North Korean economy a sort of hybrid one.

North Korea has survived the crisis caused by economic collapse in the 1990s, tested nuclear devices in 2006, 2009 and 2013, and successfully managed its second hereditary power transition in the early 2010s. To ensure its survival, the regime has co-opted the expanding market as a source of revenue and a means for guaranteeing privileges of groups loyal to the regime. To protect the regime from the detrimental effects of market expansion, it has exerted extreme state violence and significantly enhanced internal security organizations as well as the penal system. Today, North Korea is one of the poorest, least-developed and most isolated countries in the world, albeit one equipped with nuclear weapons, ballistic missiles and cyber-attack capacities.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

The state's monopoly on the use of force has not been challenged in North Korea since the end of the Korean War in July 1953. Though the party-state was significantly weakened in the 1990s due to economic collapse, the military has stepped in and maintained internal order, often using extreme violence, including public executions. Since the late 2000s and especially since the start of the hereditary succession process in 2009, Kim Jong-il and his son, Kim Jong-un, have tried to reestablish the party-state at the cost of the military. Since Kim Jong-un's accession to power in April 2012, the regime has not been subject to internal challenge.

Monopoly on the  
use of force  
10

For more than 1,000 years, the Korean peninsula consisted of one politically unified territory. The separate state-building in North Korea began before the Korean War in 1950. Ideologically, it was based on anti-imperialist-cum-socialist ideology and an evangelical passion for unification of the two Koreas under Pyongyang's political leadership. Later, this ideology was combined with nationalistic chauvinism, an ethos for sacrifice and thrift, and the notions of Juche (self-reliance) and organic unity between the leader, the party and the people. Since the 1960s, these concepts have served the purpose of keeping internal unity around the leader, pushing forward the construction of a military-industrial complex, and maintaining high levels of tension with South Korea, the United States and occasionally China. With the start of the "military-first policy" in 1995, the military was advanced at the cost of the party and Juche. The new party charter of 2010, favors nationalism and loyalty to the leader over socialism, the party ideology expressed in such phrases as the "strong and prosperous great state," and the description of Kim Il-Sung as the creator of the North Korean nation, the party and the military. The word "communism" has disappeared, and "socialism" is less frequently used. When Kim Jong-un officially took power in April 2012, the revised party charter defined "Kim Il-sungism and Kim Jong-ilism" as the leading ideology of the Workers' Party of Korea. State propaganda that binds the personalities of the ruling family with the state even extends to the naming of the

State identity  
10

constitution, now called the “Kim Il-sung-Kim Jong-il Constitution.” In 2012, state propaganda promoted the concept of “Kim Jong-il patriotism” and attempted to instill pride at living in a country with nuclear weapons and the capacity for a missile (called “satellite”) launch. There have been no significant changes in state identity since then.

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

North Korea, whose capital was once known as the “Jerusalem of the East,” remains one of the most anti-religious countries in the world. Besides some official pro forma religious organizations and Pyongyang church buildings for receiving foreign guests and propaganda purposes, any sign of autonomous religious activity has been greatly discouraged. In 2014, American NGO Open Doors ranked North Korea as the world’s worst country for persecution of Christians – even worse than Somalia, Iraq, Syria, and Afghanistan – for the 13th consecutive year.

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

No interference of  
religious dogmas  
10

Basic  
administration  
6

Kim Jong-un's focus in state-administration has been somewhat erratic. His greatest concern has been curbing the powers of the military and internal security agencies. His pet investment project is the beautification of Pyongyang, favoring monumental buildings and resorts over improvements to the electricity supply or increasing expenditure for education. He has also enhanced the role of the cabinet in economic administration relative to the party and the military, at least in part. North Korean education authorities increased mandatory schooling by one year in 2014 with no sign of additional financial provision. Communications continues to be a growth area, with about 3 million cell-phone users by the end of 2014. Customers are forced to buy cell phones from the regime using foreign currency.

## 2 | Political Participation

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

Free and fair elections

1

The power to govern does not originate from elections but from delegation from the supreme leader. There has never been any veto power to counter the leader's personal rule. While the powerless Supreme People's Assembly (SPA) meets once or twice a year to ratify party directives, the deliberative bodies of the central party, such as the Politburo and the Central Committee, have rarely been convened. Between 1994 and 2010, these entities were systematically neglected in favor of the personal secretariat of Kim Jong-il. During the same period, the military's role expanded. Since 2010, there have been two SPA conferences and several meetings of central party bodies including the Politburo, Central Committee, and Central Military Commission to legitimize and consolidate the hereditary transition of power and the rule of Kim Jong-un, the new leader.

Effective power to govern

1

Article 67 of the 12th revised constitution of 2013 guarantees freedom of press, publishing, assembly, demonstration, speech and association. However, the reality is that organizations exist solely as part of either the state or the party; autonomous associations are nonexistent in North Korea. The regime controls the population by forced membership in organizations, police surveillance, informant networks and (threat of) deportation to prison camps or exile to the countryside. It is worth noting, though, that there were some reports of mass gatherings in local cities in the second

Association / assembly rights

1

half of the 2000s to protest actions by local authorities, including suppression of market activities. The period of power transfer between 2009 and 2011 saw the regime attempting to consolidate its grip on society through increasing campaigns against “anti-socialist phenomena.” Kim Jong-un also promulgated “ten principles for establishing unitary leadership” in June 2013 to make his personal rule and control politically absolute.

As noted, Article 67 of the constitution guarantees freedom of speech and of the press. The reality is that mass media outlets are run by either the party or the state, and are completely controlled by the political authorities. There is no need for censorship of dissenting media, because there is no independent media to censor. Channels for independent information and horizontal communication have increased somewhat since the mid-1990s with the expansion of market activities and cell phone usage, foreign contact via smuggled DVDs, CDs and USB sticks, and access to foreign radio and television programs. In addition, while the risk of political persecution is still high, some citizens risk criticizing the regime in private circles. In the face of an unusually high level of discontent, the regime openly apologized for the first time in early 2010 for money revaluation and control measures implemented in November 2009. Yet since the beginning of 2011, Kim Jong-un has boosted the capacities of the ministries of Public Security and State Security and, with the active cooperation of Chinese authorities, tightened border control. Since the purge of Kim Jong-un’s uncle Jang Sung-taek in December 2013, border controls and suppression of distributors and recipients of information from abroad have increased.

Freedom of  
expression

1

### 3 | Rule of Law

There has been a relatively clear separation of roles and institutions, but no separation of powers in North Korea. All power is concentrated and centralized in the leader Kim Jong-un, who inherited the neo-patrimonial system from his father Kim Jong-il in 2012. The unity of power around the leader does not preclude a relatively clear separation of roles and institutional differentiation between the party, the military, the cabinet, the People’s Assembly, the judiciary and the security organizations. The leader stands above the law, delegates powers to members of the political elite, and rewards them with privileges. There is significant competition between party-state agencies for a greater share of power and privileges from the leader. Each party-state agency competes in a zero-sum game for an increased allotment of power and rent opportunities by demonstrating its loyalty to the leader and its own achievements. The competition for rent from the leader among party-state agencies increased during the transition period which began in 2009. One of its most noted beneficiaries and victims was Kim Jong-un’s uncle Jang Sung-taek, who was referred to as “No. 2” until he was suddenly purged in December 2013.

Separation of  
powers

1



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

Independent  
judiciary

1

Office abuse is systemic up and down the bureaucratic ladder. Burdened by fiscal collapse in the mid-1990s, the regime had to encourage its central and local agencies to engage in financial self-support. Party-state officials too were forced to explore mechanisms of self-support in order to survive. At both the organizational and individual level, the primary response has been to take advantage of public positions for organizational and/or private gain. Since the late 1990s, the regime has frequently sent special inspection groups to lower-ranking units to fight "anti-socialist phenomena" including excessive corruption. However, these groups have been more interested in taking bribes themselves than in stamping out corruption. Though high-level corruption has been intermittently prosecuted, this has generally been done for the purpose of political purges rather than for law-enforcement aims.

Prosecution of  
office abuse

1

During and after the transfer of power to Kim Jong-un, many high-ranking officials were purged, most of them under the pretext of corruption. Kim Jong-un has nonetheless rarely mentioned the problem of rampant corruption in the party-state administration, aside from occasional denunciation of border guards who accept bribes from North Koreans fleeing to China.

Chapter 5 of the constitution guarantees basic civil rights. The reality is that the regime ignores civil rights and carries out repression when presented with even the most insignificant political resistance from the population. Traditionally, law enforcement has been applied discriminately depending on the individual's political attribution, such as his or her membership to the party or strength of personal patronage network, and, more recently, his or her ability to provide bribes. Public executions and sudden deportations without due process persist. Also, mistreatment and torture at labor and prison camps are still widespread. Between 150,000 and 200,000 people are estimated to be detained in such camps. Moreover, freedom of movement is heavily restricted and requires official permission. In addition, the control of the border with China has significantly tightened, and those caught attempting to flee the country are usually sent to labor or prison camps. Finally, with the drastic increase of corruption since the 1990s, law enforcement has become a kind of private business both for officials and organizations involved in public and state security, as well as prosecution and judicature, which has also inhibited civil rights. With North Korea's human rights violations attracting increased attention from UN organizations in 2014, the General Assembly passed a resolution in December of that year urging the Security Council to consider sanctions against North Korea for crimes against humanity.

Civil rights

1

#### 4 | Stability of Democratic Institutions

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

Performance of democratic institutions

1

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

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

Commitment to democratic institutions

1

## 5 | Political and Social Integration

The North Korean regime is based on one-party rule by the Workers' Party of Korea, although there have been a number of "friendly" and politically meaningless parties in the past. In practice, by the 1960s the Workers' Party had lost any semblance of political function in the articulation, aggregation, and arbitration of interests, instead transforming into an instrument of personal rule. At Kim Jong-il's behest, the party also significantly increased its political and ideological control of individuals in their homes and workplaces in the mid-1970s. In the mid-1990s, however, the party was confronted with a crisis in its traditional status and function in the political system. The collapse of the planned economy in the 1990s significantly weakened the infrastructure for the party's totalitarian control over individuals. The party is no longer integral to the survival of the regime and has been neglected since the mid-1990s. The party has ceded political primacy to the military and internal security agencies. The rise of Kim Jong-un since 2009 has been accompanied by attempts to assert the supremacy of structures and rank-and-file of the central party over the military. With the beginning of Kim Jong-un's rule, the formal primacy of the party over the cabinet and the military was re-established in principle at least, with regular announcements of meetings held by the Politburo and Central Party Military Commission.

Party system  
1

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

Interest groups  
1

The intensity and effect of segmentation has increased since the 1990s, as each bureaucratic agency was required to self-finance by participating in commercial activities. The most powerful domains include the Kim family and the party, the military, the "Second Economy" (which administers weapons production), the Ministry of State Security, the Ministry of Public Security and the Presidential Security Unit. Each domain, in turn, comprises several subsidiary domains or segments. Traditionally the most powerful has been the domain of the Kim family and the party. With the enhanced role of the military during the period of the "military first" policy, the relative position of the military improved. The transition of hereditary power was accompanied by attempts to consolidate the position of the Kim family and the party at the cost of the military.

Though no survey data on support for democracy is available, it is possible to make an educated guess. With the increased contact with South Korean DVDs, CDs and commodities, smuggled through China and sold at local markets in North Korea, North Koreans in general have more knowledge about various aspects of life in the South. Though popularity and even admiration for cultural and commercial goods from the South can be observed in the North, support for the South's political and economic system is still weak and limited to a very small segment of people.

Approval of  
democracy  
n/a

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

Social capital  
1

Three social capital issues in North Korea since the 1990s should be noted. First, the overall level of surveillance by the party-state remained very high, even if an increase of activities outside the party's purview since the 1990s has reduced the role of political surveillance relative to that of internal security organizations. This impedes trust among individuals. The second factor comes with the rise of spontaneous market arrangements which suggest trust between individuals, albeit precarious and rudimentary in nature. For example, private merchants have (illegally) established a national network to exchange information on commodity prices. Similarly, private merchants organize regional transportation, parcel services, and money transfers in networks which are admittedly unstable and primitive. These market functions, which are taken for granted in most other countries, are a novelty in North Korea. The third factor is corruption, which has become rampant; North Korea is considered one of the most corrupt countries in the world. This does nothing to foster a general sense of solidarity and trust among individuals.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Poverty and inequality are extensive and structurally ingrained. There is no freedom of choice and discrimination is widespread. Positions of power and wealth are distributed according to the official political hierarchy of population groups. At the same time, North Korea's socialist legacy has left it with an education system which, in theory at least, is universal. While the education system has suffered from economic decline, it is still able to achieve basic goals such as universal literacy. As

Question  
Score

Socioeconomic  
barriers  
2

the Report of the UN Commission of Inquiry on Human Rights in the Democratic People's Republic of Korea in 2014 points out, the major determinant of privilege in North Korea is the “songbun” system. This determines where individuals live and study, their career choices, even marriage partners. Kim family members, the descendants of anti-Japanese guerillas, and “heroes of socialist construction” constitute the three most privileged groups. Those the regime regards as politically reliable are allowed to live in Pyongyang, and are offered the opportunity of careers with regime agencies and monopoly trading companies sponsored by the regime. Meanwhile, the unreliable majority are consigned to farm work in rural areas or manual labor; the best they can hope for is to trade as subsistence merchants on local markets

The expansion of the market in the 1990s lessened the impact of the songbun system without changing it fundamentally. During the most desperate period of the 1990s, those with poor songbun served as pioneers of market activity. Though this had a positive impact on their livelihoods, their commercial activities rarely went beyond subsistence levels. Over time, though, the regime has favored merchants with better songbun for profit opportunities

Economic indicators		2005	2010	2013	2014
GDP	\$ M	-	-	-	-
GDP growth	%	-	-	-	-
Inflation (CPI)	%	-	-	-	-
Unemployment	%	4.6	4.5	4.6	-
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-	-	-	-
Public debt	% of GDP	-	-	-	-
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-

Economic indicators		2005	2010	2013	2014
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public expnd. on education	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	-	-	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

## 7 | Organization of the Market and Competition

The North Korean regime adheres to the principle of state ownership of the means of production. The regime has repeatedly vowed to stick to its socialist principles, which, like state ownership, are meant to maintain the state's regulation over almost all economic activities. However, the state's resources have weakened to the extent that the regime has been forced to allow and even encourage state firms, party-state agencies, and officials to engage in commercial (that is, corrupt and officially illegal) activities to earn off-budget revenue. The economy is riddled with corruption. Private merchants, who now number in the millions, can only make significant (illegal) investments by aligning themselves with state, party, or military agencies. The higher the potential profit opportunities, the greater the involvement of high ranking power agencies. For example, the most lucrative sources of foreign currency, including mineral exports to China, are under the direct control of the leader and the most powerful regime agencies. On the other hand, less profitable opportunities, such as subsistence retail activities, are open to something like free-market competition.

Kim Jong-il sponsored and bequeathed to Kim Jong-un a large variety of monopolies as a means of both raising revenue and maintaining loyalties through political distribution of rent opportunities. The most important of these opportunities are export and import licenses. The supreme leader monopolizes the right to assign them, distributing them to major agencies of the party, the military and the internal security services. Trading companies affiliated with these groups have monopolized the market in the production of export goods and domestic distribution of imported goods, while taking advantage of the huge gaps between domestic and international prices. Their export goods have mainly consisted of natural resources and extractive products such as minerals, timber, seafood, mushrooms and various herbs. In addition, the party-state bureaucracy intervenes extensively in the domestic economy

Market-based  
competition  
2

Anti-monopoly  
policy  
1

to restrict competitive entry and to authorize monopolies. The regime's periodic "market crackdowns" are aimed less at eliminating domestic commercial transactions than shaping the economic environment to favor regime-friendly groups and individuals, including police, prosecutors and judges. At the same time, the regime has selectively tried to purge non-regime-friendly merchants from the market. However, the regime's control over the domestic market remains tenuous thanks to widespread corruption.

North Korea maintains the principle of state monopoly of foreign trade. In reality, this prerogative is exercised solely by the supreme leader. He strictly monitors and controls foreign trade, as it is the source of the foreign currency which is indispensable for the regime's survival. Distribution of trading licenses to regime agencies is one of the most powerful means of maintaining the regime elite's dependence on the leader. In addition, the agencies and individuals engaged in foreign trade have been intensively monitored by the Ministry of State Security with regard to foreign contacts and foreign currency embezzlement. The regime periodically loosens and strengthens its control over foreign trade. During the 2000-2004 period, for example, the regime took a rather permissive attitude to market expansion and foreign trade. As a result, many unauthorized trading companies, often affiliated with various units of the military, took part in foreign trade. Since 2005, the regime has sought to restrict market expansion and recentralize foreign trade. With the succession of power to Kim Jong-un completed in April 2012, the party rank and file have advanced as the most powerful group, while the military has lost ground. This shift in power was reflected in the reduction of the military's trade licenses and the downsizing of trading companies affiliated with the military in 2012. Smuggling along the border with China has been brisk, although since 2010 Kim Jong-un has partially succeeded in strengthening border control with cooperation from China, the country's indispensable trading partner. North Korea's trading activities have been greatly constrained by sanctions imposed by the U.N. Security Council, European Union and individual countries in response to its development of weapons of mass destruction, human rights abuses and illicit activities. The sanctions cover a wide array of goods, products and services for export and import, from the procurement of arms and related materials, to the import of luxury goods and the international flow of funds and economic resources.

Liberalization of  
foreign trade

1

Banking is a state monopoly in North Korea. As with other socialist planned economies, the major role of the banks is to monitor and account for the economic activities of state firms and agencies. As well as the Korean Central Bank, the country has trade banks affiliated with the party, the military and cabinet institutions. Because all activities which attract foreign currency were strictly monitored and controlled by the leader, the trade banks of the regime agencies also served as his personal fund management system. Kim Jong-il, for instance, loaned foreign currency from his "revolutionary fund" to certain state companies for domestic processing of imported

Banking system

1

goods, while endowing them with special privileges, such as import bans on comparable products, which ensure repayment.

The state banking system has been virtually useless in mobilizing domestic and foreign money within North Korea for investment in production. State banks accept personal deposits but generally do not return them, which ensures most people avoid banks altogether. Consequently, money issued by the central bank does not flow back into the state banking system, starving the state of cash. This problem became especially serious with the expansion of market-based activity in the 1990s. The state has periodically resorted to radical measures such as monetary reform to force the population to surrender its money. The last such activity was the “money exchange measure” of November 2009, which caused hyper-inflation of 20,000-30,000% between 2010 and 2011 and prompted many to reject the won in favor of the Chinese yuan, US dollar or other foreign currencies. As a substitute for the state banking system, informal and illegal private banking facilities have gradually developed in parallel with the market expansion since the mid-1990s.

## 8 | Currency and Price Stability

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

Though the de facto replacement of the won by foreign currencies as a means of exchange and value has not significantly changed, the North Korean government has succeeded in stabilizing and even reducing the foreign exchange rate and domestic prices in 2013 and 2014. This is no small achievement for North Korea and can be explained largely by the reduction of government spending due to the end of large-scale construction work carried out between 2009 and 2012 to mark the transition of power to Kim Jong-un. Additional factors may include the stabilization of international food prices and good harvests in the years 2013 and 2014.

With the collapse of the planned economy in the 1990s, North Korea’s fiscal system also fell into disarray. The regime has suffered a drastic reduction of revenue and has allowed agencies to pursue fiscal independence through their own financial activities. Though the regime has adapted its tax system to the increase in economic activities outside the official planned economy by introducing fees for the right to trade in the local market places, it was not enough to compensate for revenue losses. The cabinet, party, military, and security agencies have advanced as the major domains of fiscal self-sufficiency with off-budget revenue from privileged commercial activities. While the cabinet was unable to restore its revenue base, Kim Jong-il made separate

Anti-inflation /  
forex policy  
2

Macrostability  
1



deals with these powerful agencies, soliciting payoffs in exchange for trading licenses. While the cabinet drastically reduced public services, the leader turned his payoffs into monumental buildings and weapons for mass destruction, despite lasting economic stagnation. The problem of overspending by regime agencies worsened during the power transition between 2009 and 2012. Although Kim Jong-un's accession to power in April 2012 put a brake on spending, the other problems of the fiscal system remain.

## 9 | Private Property

Under the principle of state ownership of means of production, any private property beyond daily consumer goods is still officially banned in North Korea. However, the spread of commercial activities and rampant corruption mean the real picture is more complex. Some individuals have accumulated private wealth in the past 20 years of market expansion and taken part in joint ventures with state agencies as private investors, arrangements which are widespread if officially illegal. In essence, everything can be sold privately in North Korea, including real estate, production equipment and materials, party membership, government positions, university places and trading licenses. These instances of private ownership and transaction are not guaranteed by the law, rather they are against the law. This means the regime can act against private ownership whenever it chooses. For example, charges against most of the high-ranking officials purged recently, including Jang Sung-taek, included illegal possession of large amounts of foreign currency. The regime's disregard for the property rights of its people was demonstrated through the money exchange measures in November 2009, which essentially confiscated private wealth kept in the form of domestic currency and caused unusually high levels of social discontent. Most Chinese and South Korean private investments in North Korea have failed and failures can typically be traced back to the country's disregard of both the property rights of foreign investors and the enforcement of contracts.

The rate of commercial activity has risen dramatically since the mid-1990s, although private business remains illegal. The main participants fall into one of two categories: first, the local subsidiaries of trading companies run by either major party agencies, the military or the security services; and second, subsistence-level merchants or household businesses. The first category combines public and private actors. The major public agencies have hired private entrepreneurs as their commercial agents, giving them the status of public officials. While members of the second category can be classified as private businesses, they are illegal and must maintain good relations with agents of the party-state in order to protect their business from discretionary intervention. There have been attempts by North Korea to induce private investments from South Korea and China for joint venture. However, the North Korean partners, usually affiliated with trading companies of the party or the military, have been

Property rights

1

Private enterprise

1

notorious for unreliability. North Korea also hosted South Korean private firms in the Kaesung industrial complex and Keumgang tourist zone, both in North Korean territory, through monopoly contracts between Kim Jong-il and South Korean chaebols. The two projects have suffered from the whims of varying political needs of the North Korean leaders. The Keumgang tourist zone was closed in 2008 and the Kaesung complex for five months in 2013.

## 10 | Welfare Regime

On paper at least, the state guaranteed comprehensive social security until the end of the 1980s. Since the early 1990s, the state has lacked the capacity and perhaps even the will to meet the population's basic human needs, while family and village structures crumbled under the burden of enduring famine. The consequences of the "Arduous March," as the famine was officially termed, can be reconstructed on the basis of changing patterns of mortality. Life expectancy, which had been higher than South Korea's for most of the Cold War years, peaked in 1989 (70.5 years), declined dramatically until 1998 (64.4) and has only partly recovered as of 2011 (68.7), according to World Bank statistics. Government-funded social safety nets have been virtually nonexistent since the early 1990s, although minimal assistance is provided to residents of the capital. International humanitarian assistance, which began in 1995, can only partially compensate for systemic state failure. Aid fatigue and the regime's lack of cooperation with international partners led to a gradual decline in assistance levels in the second half of the 2000s. As the state sector crumbled in the wake of economic collapse, women were dismissed from state employment in 2002 and instead allowed to engage in commercial activities in markets, while men were required to report to their places of work every day, even if they had nothing to do (although they were able to temporarily "buy out" their work contracts). Since then, the income raised by female family members in commercial activities (mostly selling goods in local markets) maintains families, preventing a repeat of the widespread starvation of the mid-1990s. The family also functions as a safety net for the men who return, often malnourished, from military service, which typically lasts more than 10 years. Since the early 1990s, some North Koreans – especially those living within reach of the Chinese border – have travelled illegally to China in search of food or short-term employment. Some continue to South Korea to apply for citizenship. Since the early 2000s, North Korean refugees in South Korea, who numbered around 25,000 in 2014, have sent money to relatives in North Korea. According to one estimate, remittances from the South amounted to \$10 million in 2013.

Social safety nets  
2

There are two major barriers to opportunity in North Korea. The first is deep-rooted gender inequality. The enduring patriarchal tradition puts women at a disadvantage, although opportunities for basic education and economic activities are roughly equal for men and women. When women were dismissed en masse from the state sector and allowed to participate in commercial activities in the early 2000s, their enhanced economic status within the family led to an increase in domestic disputes.

Equal opportunity  
2

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

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

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

## 11 | Economic Performance

The Bank of (South) Korea estimates that the North Korean economy contracted by 34.9% between 1990 and 1998, and grew by 22.9 % between 1999 and 2013. Recently North Korea has achieved three consecutive years of positive growth: 0.8% in 2011, 1.3% in 2012, 1.1% in 2013. Despite this growth and eyewitness reports of improvement, the economic situation is still essentially stagnant. The military-industrial complex remains the dominant sector of the economy and monopolizes the bulk of country’s resources and workforce, while North Korea’s nuclear program has increased tensions with neighboring countries in recent years. In contrast to Kim Jong-il’s massive investment in heavy industry, chemicals, housing construction and hydroelectric dams in the last few years of his rule, production investment has remained minimal under Kim Jong-un, who has instead lavished money on amusement parks, showcase ski resorts, and political monuments. While Kim Jong-il’s investment drive and poor policies triggered hyper-inflation, Kim Jong-un has so

Output strength  
2

far been successful in stabilizing prices and exchange rates. Although industry has been operating at 20% to 30% of its former capacity since the second half of the 1990s, officially there is no unemployment. All male workers are still required to report to their places of work every day, although some of them pay bribes to leave and take up employment in the burgeoning informal sector. The total trade volume amounted to about \$8.48 billion in 2013, with China accounting for 77.19% and South Korea 13.39%. Total exports amounted to \$3.83 billion, more than half of which was made up of minerals and coal. North Korea has failed to achieve a trade surplus since 1990, and the trade deficit has fluctuated around the \$1 billion-mark since 2005, amounting to \$0.8 billion in 2013. The country suffered from a chronic food deficit of between 1 million and 1.2 million tons throughout the second half of the 2000s. According to FAO/WFP, the deficit has narrowed somewhat since 2010, falling to 739,000 tons in 2012, 507,000 tons in 2013 and finally just 40,000 tons in 2014. State budget figures issued by the government are extremely unreliable. There is no reliable system of tax collection with individual party-state agencies and the general population constantly called upon to donate whatever they can, including money, labor and local resources.

## 12 | Sustainability

North Korea has pursued resource-intensive industrial growth, failing to take environmental concerns into account. Due to shortages of arable land, hillsides have been cultivated. Shortages of firewood have led scrub and small trees to be cut down. The situation has been significantly aggravated since the mid-1990s. Confronted with starvation, the population cultivated all seemingly arable land, with private plots reaching the tops of mountains. The environmental consequences have been disastrous, as the rain has washed out the fertile soil from the depleted mountains and polluted the rivers. Natural resources including timber and seafood have been excessively exploited to meet short-term goals of increasing exports. Even industrial waste has been imported in exchange for foreign currency. At the same time, the very low level of industrial activity, about 20% to 30% of capacity, may have mitigated environmental problems somewhat. Neither the small number of environmentally ambitious projects launched by foreign NGOs and aid agencies, nor the few solar-powered street lamps along one prominent street in Pyongyang change the overall dismal picture in any significant way. The environmental devastation, especially since the early 1990s, has contributed to North Korea being named as the 7th most affected country in the world by extreme weather events in the period of 1992 to 2011, according to the Long-Term Climate Risk Index published by German Watch in 2013 (North Korea has been omitted from subsequent reports).

Environmental  
policy

1

With the onset of economic hardship in the early 1990s, North Korea's education system virtually collapsed with the exception of a few model schools in Pyongyang. Facing the threat of starvation, teachers and students left to scavenge for food or to participate in commercial activities. Conditions improved somewhat in the 2000s, although schools must still support themselves; though nominally free of charge, they levy donations and mobilize students to provide free labor under a variety of pretexts. Due to a lack of state support, teachers have been virtually paid privately by parents in exchange for various forms of favoritism. The regime has also announced it would extend the period of compulsory education from 11 to 12 years in 2012, though without offering any reforms or increased investment in the education sector. The establishment of "Number One" schools in large cities to educate students who show promise in the sciences is an exception to the dismal state of education in North Korea.

North Korean authorities usually emphasize the importance of scientific R&D investments. Since 2010, North Korea has vowed to develop a "knowledge-based economy" and to achieve "breakthroughs in high technologies." The results can only be guessed from their ability to produce weapons of mass destruction. The regime experimented with its second nuclear device in 2009 and a third in 2013, demonstrated its capacity for industrial-level production of enriched uranium in 2010, and successfully put a satellite into orbit in 2012. Kim Jong-un personally rewarded the scientists involved with new apartments in 2013. Promotion of science and technology was pushed as the top national priority in Kim Jong-un's new year's address on 1 January 2014.

There have also been some progress in the field of information technology. North Korea has intermittently hacked South Korean servers since 2009 and the December 2014 cyber-attack against the American company, Sony Pictures Entertainment, was traced to North Korea by the FBI and NSA.

Education policy /  
R&D  
3

# Transformation Management

## I. Level of Difficulty

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

Structural  
constraints

7

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

North Korea's historical trajectory has shown no trace of civil society development. North Korea's population has successively experienced periods of feudal domination, Japanese colonial rule and idiosyncratic communist totalitarianism. While there have been some positive changes since the early 1990s, none of these have yet provided fertile ground for autonomous social groups. One of those changes is the regime's fiscal deterioration, which has weakened its Stalinist methods of societal penetration and control. Market expansion has also encouraged horizontal economic connections, while North Koreans' contact with the outside world increased with the beginning of international humanitarian assistance in 1995, and again with the expansion of North-

Civil society  
traditions

10

South exchange in the 2000s. Finally, South Korean and other international human rights NGOs have stepped up efforts to influence the North Korean people's attitude toward the regime since the second half of the 2000s. However, these developments have also helped the regime tighten certain methods of control over society. In sum, the regime has been forced to balance loosened social control to increase productivity and tighter control to ensure regime survival. The regime has so far been successful in navigating between the two while relying on social controls to prevent the emergence of civil society.

While there is presumably considerable potential for internal conflict, the regime's suppression of the population, the supreme leader's control of the regime and the tight character of the small ruling coalition have to date prevented the emergence of an open conflict between the regime leadership and elites, between different groups within society or the outbreak of mass revolts. The 2009 – 2011 period was a test for the regime, with North Korea confronted by a dual domestic crisis. The first crisis accompanied the transition of power from Kim Jong-il to Kim Jong-un, and was confined to the elite. The reordering of the ruling establishment around the new leader intensified tension among the elite and major state agencies. The most spectacular event in this upheaval was the purge of Jang Sung-taek and his followers in late 2013, with fallout affecting high-ranking officials into 2014. The other crisis was the increase in tension between the regime and society which coincided with this transition period. The start of Kim Jong-un's rule has had a paradoxical effect here. Its pro-market policy has helped smooth relations between the regime and the population, offset by increased control over international phone calls, foreign media and South Korean commodities. Two events in December 2014 prompted the regime to increase its vigilance. One was the UN resolution which urged the Security Council to refer North Korea's human rights abuses to the International Criminal Court. The other was the release of the film "The Interview" by Sony Pictures Entertainment, in which Kim Jong-un was caricatured.

Conflict intensity

3

## II. Management Performance

### 14 | Steering Capability

Question  
Score

The North Korean regime has shown a remarkable capacity for maintaining its core strategic priorities over extended periods of time. However, these policies are not designed with the intention of initiating transformation toward democracy and market economy.

Prioritization  
1

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

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

Aside from the policies required for regime survival, the regime's policies for promoting economic reforms and the people's welfare have never succeeded. This remains true under Kim Jong-un's rule.

Implementation  
1

In March 2013, the leader promulgated the "byungjin" policy of simultaneous development of economic and nuclear capacities. In the past, North Korea has established similar programs of dual development: heavy industry and defense, light industry and agriculture. The record shows that heavy industry and defense have always been implemented at the cost of light industry and agriculture.

Over the past three years, we have seen that Kim Jong-un's real intention is to prioritize the nuclear weapons component of the byungjin policy. Kim Jong-un has exhibited good intentions and introduced several reform measures on the economic side, but as is always the case in North Korea, he was never serious about putting them into practice. Doing this would require Kim Jong-un to first of all reduce



military expenditure and improve relations with neighboring countries, especially South Korea, and with the United States. North Korea would need to re-launch nuclear disarmament efforts and reduce military tension with the South. Only then will North Korea have to access capital, technology and foreign markets, and economic resources for domestic reform and investment. Under the heavy burden of military spending and economic sanctions imposed in response to the country's weapons of mass destruction, any measures for industrial and agricultural reform or for attracting foreign investment are destined to fail.

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

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

## 15 | Resource Efficiency

When considering the use of administrative personnel, two factors must be taken into account. First, North Korean society is based on the "songbun" system, by which an individual's opportunities in life are largely determined by his or her presumed level of loyalty to the regime. This means that all appointments and promotions are essentially politically pre-determined. Second, according to Transparency International, North Korea has been the second most corrupt country in the world since it was included in the Corruption Perceptions Index in 2011. Public appointments and promotions are up for sale and party-state positions which promise higher income from bribes are more expensive. Overall, positions in the administration of public security and the judiciary are preferred to other public sector occupations, due to the potential income from bribes.

Policy learning

1

Efficient use of assets

1

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

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

Policy  
coordination  
3

Corruption is rampant in North Korea. Corruption within the bureaucracy has been used by the regime as a systemic device to extract rents from the populace while simultaneously securing loyalty and revenues for the regime. State officials are paid below subsistence-level wages, leading them to corruption in order to make ends meet. Anti-corruption campaigns have been carried out not in order to reduce corruption, but for the purposes of enhancing political discipline and regaining control. The supreme leader and higher-level officials capture a greater part of illicit revenue through threats to either redistribute the rent-seeking opportunities or through threats to dismiss disloyal lower officials on the pretext of corruption. In

Anti-corruption  
policy  
2

addition, authorities maintain an extensive surveillance capacity and constantly send special teams on inspection tours, allegedly to punish “anti-socialist phenomena.” Rampant corruption does not mean that the authority of the supreme leader and the regime has broken down.

## 16 | Consensus-Building

There is no strategic consensus on democracy in North Korea. It can only be assumed that many North Koreans, including some members of the elite, use the technique of “doublethink.” That is, they have to maintain and express absolute loyalty to the regime to survive politically and physically, while constantly transgressing official policies and privately wishing for more efficient and humane arrangements. In reality, in North Korea there is no voluntary civic consensus on goals whatsoever, though on the surface absolute unanimity is the rule of the country. Enthusiastic support for both the leader and national goals remain the façade of the system and are demonstrated and choreographed in enthusiastic public remarks, as well as in diverse cultural forms.

Consensus on goals

1

The regime has been always ready to take advantage of commercial activities, but this has not meant that it would be willing to accept a Western-style competitive market economy. Powerful regime organizations have long taken advantage of their political privilege to earn off-budget revenue. The precursor was none other than Kim Jong-il and his “Office 39” in the mid-1970s. Participation in lucrative commercial activities is still the prerogative of regime-friendly groups. The problem for the regime, however, is that fiscal collapse has meant that these groups have been granted ever-wider scope for maneuver. In fact, every segment of North Korean society engages in market activities, indicating that there is ubiquitous competition for personal enrichment – despite the regime’s persistent criticism of such “capitalistic” behavior and insistence on the superiority of organic collectivism. The regime’s survival cannot be guaranteed without taking advantage of market mechanisms. In this respect, it seems that Kim Jong-un is more active than his father, Kim Jong-il. Though commercial activities have constantly been expanding, they have been closely monitored and controlled in favor of the regime.

There are no political actors advocating for democratization who are able to counter or co-opt anti-democratic powers. The completion of the second hereditary succession from Kim Jong-il to Kim Jong-un in April 2012 once again confirmed the elite’s tacit consensus for the continuation of the status quo. Though there was a reorganization of the regime through selective purges, rebalancing of power-relations among regime agencies, and generational changes, the political character of the regime remains basically unchanged.

Anti-democratic actors

1

North Korea has always been a segmented society. The regime has consciously expanded this segmentation, making use of it in order to maintain the dictatorship. As well as internal security measures, the regime has used the principle of “divide and rule” in its quest for political stabilization. The population has been classified into several groups based on political loyalty. The regime itself is segmented along vertical bureaucratic lines, with horizontal communication difficult. Wide gaps in opportunity and welfare have been artificially maintained between Pyongyang and the rest of the country, and more broadly between urban and rural areas. Recently, wide gaps between rich and poor have emerged, with the state making no effort to stop them from widening further.

Cleavage /  
conflict  
management  
2

There is no civic participation in the process of governing or decision-making. Instead, the leadership presumes to act on behalf of the people. There are no autonomous civil organizations. In general, deliberative units of the state, such as the People’s Assembly, the Central Committee and the Party Congress, are powerless.

Civil society  
participation  
1

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

Reconciliation  
1

## 17 | International Cooperation

International assistance has never been a part of North Korea’s development strategy, but rather accepted selectively and sporadically to strengthen the regime, which dominates negotiations. The regime has allowed an inflow of international assistance in the form of knowledge transfer, capacity building and other cooperative undertakings only insofar as they have not endangered the regime’s existence. The terms for delivering food and other goods for humanitarian purposes have also always been strongly and politically contentious issues between North Korea and international donors.

Effective use of  
support  
1

Even with implementation of monitoring on international standards, there has always been a strong suspicion that aid was being diverted to the military and the regime. Even though it has a history of engagement with international assistance organizations stretching back to 1995, North Korea’s level of cooperation has

remained at the most elementary level, focused on intermittent emergency humanitarian assistance and small-scale experiments in developmental aid.

The above also applies, in the main, to Chinese aid. The difference is that Chinese aid has mostly been given directly to the North Korean regime to ensure its survival. Consequently, there has been less contention over delivery conditions between the two countries. North Korea is as intolerant of China's attempts to link aid to policy changes than it is for any other country.

Due to the difficulty in maintaining this partnership, as well as North Korea's security provocations, the level of foreign aid declined significantly during the second half of the 2000s. According to OCAH and WFP, international assistance to North Korea amounted to \$51 million in 2014 (70% of which came in the form of food), which was a reduction by 18 percentage points in comparison to 2013.

Relations between the North Korean regime and the international community have always been characterized by mistrust. The regime fears that increased contact with the outside world will undermine its own internal security. It has persistently tried to limit and manipulate engagement with the international community to its own benefit. However, other countries have largely refused to accept North Korea's demands, which have contradicted international norms and principles of engagement. During times of relative amity, the regime and the international community have been able to forge compromises. However, these brief thaws typically deteriorate due to security disputes. Mistrust between North Korea and neighboring countries increased between 2009 and 2012 after the breakdown of the six-party talks in late 2008 and North Korea's subsequent military provocations. There have been several incidents that have further affected North Korea's credibility among its neighbors. While North Korea denies the charge, South Korea believes that the corvette CheonAn was sunk by a North Korean torpedo in March 2010. North Korea's sudden disclosure of its weapons-grade uranium enrichment facilities in Yongbyon in November 2010 contradicted its previous denials. In addition, the "Leap Day Deal" with the United State on 29 February 2012 was broken in less than two months by North Korea's missile launch experiment on 13 April 2012. Finally, several cyber-attacks on South Korean banks and public agencies in 2009 and 2010, and a further attack on Sony Pictures Entertainment in 2014, have been traced back to North Korea, which – again – denies the charges.

Credibility

1

North Korea's relations with neighboring countries have been strained. Poor relations are mainly due to three factors, namely North Korea's development of weapons of mass destruction, its persistent rejection of internal reform and opening, and its paranoia over its own internal security. Whenever there were signs of changes with regard to these three factors, there were periods of thaw and increased cooperation with outside actors. Such periods occurred in the early 1990s and in the first half of 2000s and in 2007. Regrettably, the last thaw did not last long and a new frost has set

Regional cooperation

1

in. As a result, North Korea has been an isolated island amid centers of economic growth, and has served to obstruct economic integration between South Korea, China and Japan.

While North Korea's relations with South Korea and Japan have remained stagnant or regressive, it has upgraded its links with China. China's rapidly growing demand for raw materials and North Korea's desperate need for foreign currency have stimulated trade between the two countries. However, the third nuclear test in February 2013 strained relations between North Korea and China. To offset deteriorating political relations with its closest ally, North Korea made attempts at rapprochement with Japan and Russia in 2014, but to little effect.

## Strategic Outlook

As it enters 2015, Pyongyang is faced with numerous challenges. Though most of them are familiar, new issues have emerged in international relations, maintenance of political stability, and foreign currency revenue.

As has often been the case with emergent nuclear powers, North Korea has become bolder in its diplomacy and security policy since 2009, the year of the second nuclear test and preparations for hereditary transfer of power. With increased aggression and a self-confidence prompted by its possession of nuclear weapons, North Korea has pursued revision of regional relations to guarantee its permanent survival. However, this has only served to make North Korea and Kim Jong-un more isolated than ever. Even its closest ally China has been edging away since 2013. There is little prospect of a change to these circumstances in the foreseeable future.

In the domestic sphere, additional challenges to the regime's future came in 2014. The UN General Assembly's blunt human rights resolution against North Korea in December 2014 and the Sony film "The Interview" only served to increase the regime's paranoia about the "hostile and subversive intentions" of the outside world. The regime will likely become much more suspicious of cultural liberalization and outside contact. The increased paranoia may reduce the regime's flexibility as it attempts to update the dictatorship for enhanced economic efficiency and sheer survival.

On the economic front, the challenges are no less grave. A rapid increase in exports of minerals and coal to China ensured the North Korean economy was able to finance the transfer of power beginning in 2009 and withstand the drastic reduction of the trade surplus with the South, which attempted to ban trade between the two Koreas. In the meantime, international prices for minerals halved between 2010 and 2014. North Korea has to find new sources of foreign currency to ensure the survival of the regime. In 2014, North Korea attempted to increase exports of bonded processing goods and workers, promote tourism, establish special economic zones and attract foreign investment. The problem is that as long as North Korea persists with its nuclear program and stokes tension with neighboring countries, these new attempts to earn foreign currency will yield no tangible results.

In 2015, Pyongyang has two options. One is to carry out the fourth nuclear test as it threatened several times in 2014, in response to international protests against its human rights violations and nuclear program. The other is to persist with "soft" diplomacy, by re-launching relations with neighboring countries in light of its new status as a nuclear state, while continuing to endure international isolation and intermittently stoking security tensions. So far, in 2015, North Korea has pursued the latter option.