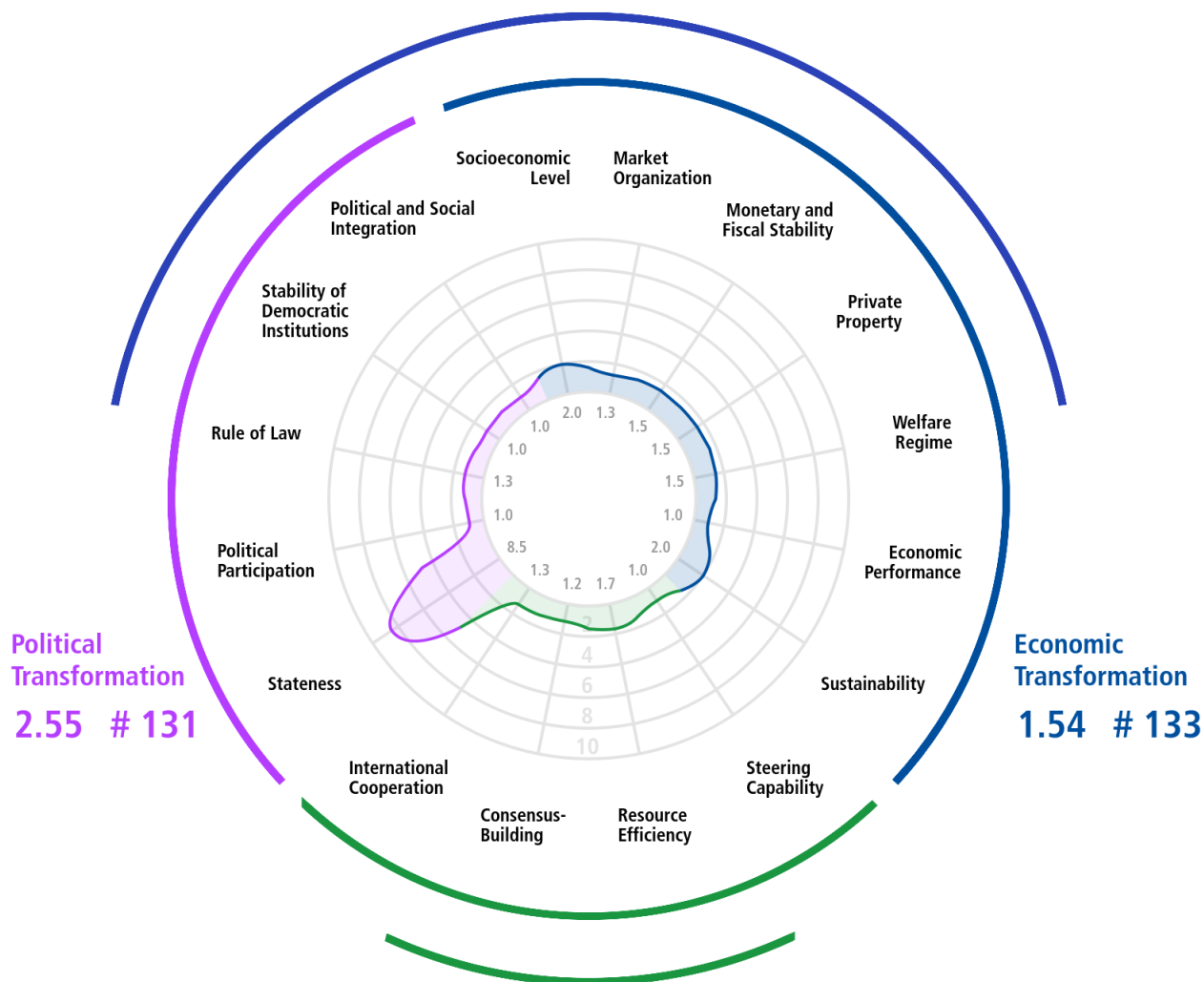


North Korea

Status Index

2.04 # 133

on 1-10 scale out of 137



Governance Index

1.22 # 135

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	25.8	HDI	-	GDP p.c., PPP \$	-
Pop. growth ¹	% p.a.	0.4	HDI rank of 189	-	Gini Index	-
Life expectancy	years	72.3	UN Education Index	-	Poverty ³	% -
Urban population	%	62.4	Gender inequality ²	-	Aid per capita \$	5.9

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Since the leadership succession in 2012, Kim Jong-un has begun to reshape the regime to his own liking. Politically, the key aspects of this process have included the rehabilitation of central party institutions, the weakening of the military's influence over politics and the economy, and the redistribution of trade licenses among power-holding agencies. Remaining members of older generations from the time of Kim Jong-il's rule, including some members of Kim Jong-un's own family, were removed through forced early retirements, abrupt promotions or demotions and purges. Kim Jong-un appears to be focusing more on practical tactics rather than relying on abstract ideology and rhetoric. In the report of the Eighth Party Congress, which was held in January 2021, "Juche ideology" and "Songun ideology" did not appear at all, while "Kim Il-sung and Kim Jong-il-ism" was mentioned only twice. In addition, unlike the Seventh Party Congress, portraits of Kim Il-sung and Kim Jong-il were not displayed on the front stage of the conference hall at the Eighth Party Congress.

Regarding foreign and security policy, Kim Jong-un has adopted a much more aggressive approach compared to his father. His blunt and brash push for nuclear weapons development has provoked strong and negative reactions from the international community, including punitive measures from the United Nations and unilateral sanctions from numerous countries under the authority of the United Nations. After the Eighth Party Congress, a major military parade was held on January 14, which revealed what appears to be North Korea's newest submarine-launched ballistic missile (SLBM), the Pukguksong-5. The parade, however, did not feature any long-range missiles.

In 2018, the country took advantage of a foreign policy opportunity to hold multiple high-level meetings and three summit meetings with South Korea, and two summit meetings with the United States. However, none of the summit meetings achieved a fruitful outcome. Since late 2019, there has been no sign that dialogue with South Korea or the United States will be resumed. In fact, the general tone of relations with South Korea has returned to the norm of hostility. On June 16, 2020,

North Korea demolished the Inter-Korean Liaison Office in Kaesong, which provided a direct communication channel between the two Koreas. As for the country's relationship with the United States, in June 2020, North Korea's foreign minister said that "the hope for improved DPRK-U.S. relations has now shifted to despair."

In terms of economic policy, Kim Jong-un has taken a permissive attitude toward market expansion since his father's death. Though the term "reform" is not used, North Korea has engaged in reformist measures. Consequently, the scale and extent of commercial businesses have expanded significantly since Kim Jong-un's rule in 2012. Meanwhile, corruption has become ever more rampant, playing a double role by supporting the expansion of commercial activities and redistributing profits to agencies loyal to the regime. As North Korea's economic difficulties worsened in the recent period due to tightened sanctions since 2016, a series of natural disasters and the coronavirus pandemic in 2020, Kim Jong-un seems to be more comfortable with admitting economic policy failures. In January 2021, at the Eighth Party Congress, Kim acknowledged that, due to the failure in the economic work, "people's living standards could not be improved remarkably."

Following the coronavirus outbreak in 2020, North Korea closed its borders at the end of January 2020. As of February 2021, North Korea officially claims to have zero coronavirus cases. Meanwhile, according to Daily NK findings, it seems that North Korea has begun developing its own coronavirus vaccine using information stolen through hacking South Korean and international pharmaceutical companies' databases.

History and Characteristics of Transformation

North Korea has undergone a profound transformation since the early 1990s. While the regime has experienced various critical episodes that have called its stability into question, it has not yet experienced a complete regime collapse. For example, North Korea has successfully managed two hereditary transitions of power – from Kim Il-sung to Kim Jong-il, and from Kim Jong-il to his son, Kim Jong-un. When the young and inexperienced Kim Jong-un succeeded Kim Jong-il, he quickly established himself as the undisputed leader of North Korea and held the Seventh Party Congress in 2016, after a 36-year hiatus, to commemorate his consolidation of power. The Eighth Party Congress, which was held five years later, demonstrated the continued stability of the Kim Jong-un regime.

Each accession of a new leader has been accompanied by a reorganization of the ruling coalition. After the 1994 changeover, Kim Jong-il gradually destroyed his father's ruling coalition and established one of his own. The pillar of Kim Jong-il's ruling coalition was the military, which enjoyed increased political and economic privileges. Beginning in 2012, the new leader, Kim Jong-un, rapidly established his own ruling coalition, starting by reducing the military's roles and privileges. In its place, he has strengthened the party's Organization and Guidance Department,

the Ministry of State Security, and the General Political Department (a party agency responsible for political surveillance of the military).

Ideologically, “communism” and “socialism” have been mentioned less frequently by the regime. Instead, people are urged to have pride in constructing a “strong and prosperous country” with nuclear-tipped intercontinental ballistic missiles, under the infallible guidance of the supreme leader. The Juche ideology (Korean socialism as formulated by Kim Il-sung) is mentioned somewhat less than under the first two Kims, and since 2012 “Kim Il-sung- and Kim Jong-il-ism” has been adopted as the regime’s leading ideology.

The North Korean economy is no longer based on a planned system, but rather on a mixed model grounded in party-state dominance, rent distribution and commercially operated state firms. To ensure its survival, the regime has co-opted the expanding markets as a source of revenue and as a means of guaranteeing privileges for groups that are loyal to the regime. Corruption has become rampant and plays a double role by supporting the expansion of (illegal) commercial activities and redistributing profits to regime-friendly entities.

Internal and external security mechanisms have likewise been transformed. Traditionally, internal regime security operated more through ideology and soft coercion than police force and physical punishment, although from the very first the Kims never hesitated to use force to preserve their power. However, since the 1990s, confronted with a serious weakening of the party-state apparatus, expansion of commercial activities due to the fiscal collapse and the second hereditary leadership succession, the regime’s dependence on state violence has increased. This has been confirmed by the increased number of public executions (including high-profile officials), tightened border controls, and the enhanced role of the police force and state security organizations, although the corrupt nature of these security agencies provides an avenue for many targeted individuals to buy their way out of trouble. Regarding external security measures, the regime has continued its pursuit of nuclear weapons and ballistic missiles, and under Kim Jong-un this pursuit has accelerated. As North Korea’s nuclear capability increases, so too does countervailing pressure from the international community, including sanctions and isolation. While the North Korean party-state is very effective in the areas of political domination and military buildup, it is very weak with regard to the provision of key public goods. North Korea has become one of the poorest and most isolated countries in the world, with a grave record of human-rights violations, nuclear weapons and ballistic-missile development, and cyberattacks.

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

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. Although the party-state was weakened in the 1990s due to economic collapse, it was able to maintain internal order often by resorting to extreme violence, including public executions. In addition, the regime operates a coercive apparatus, which includes the Ministry of People's Security (MPS), the State Security Department (SSD) and the Military Security Command (MSC), which is the main tool for enforcing its oppressive monopoly on the use of force. Therefore, despite the severe economic crisis and a series of natural disasters in the 1990s, there have been no serious internal challenges. Since Kim Jong-un's accession to power in April 2012, the roles played by party organizations and various internal security organizations have expanded in order to guard against internal challenges.

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. Since then, North Korean politics can be summarized as transitions from multiple faction-coalition-rule to one-faction rule to one-man rule. Over the past seven decades or so, the leader/regime identity has become increasingly indistinguishable from state identity.

Since the inception of Kim Jong-un as the supreme leader in April 2012, the identity of the regime has again undergone a transformation. The Seventh Party Congress in May 2016, held after a 36-year hiatus, marked the end point of this realignment. The symbolic status of Kim Jong-un was made equal with those of Kim Il-sung and Kim Jong-il in the ideological pantheon of "great" leaders. The regime built Kim Jong-un's legitimacy by manufacturing an image of him as a descendent of the "Baekdu bloodline" (Mount Baekdu is regarded as a sacred place in North Korea) and promoted Kim as the authentic heir through various media platforms.

Question
Score

Monopoly on the
use of force

10



1

State identity

10



1

The Eighth Party Congress was held between January 5 and 12, 2021, and at a ceremony to award certificates to delegates to the party congress on December 30, 2020, Kim Il-sung and Kim Jong-Il were given posthumous certificates for being delegates. Meanwhile, Kim Jong-un was elected general secretary of the party, which replaced the position of eternal general secretary of the party that his father held.

According to the regime's own ideology, North Korea is a secular and atheistic society. Yet, the cult of personality surrounding political leaders and the ruling dynasty 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 a very strong influence on the organization of the public sphere, including political institutions. These tendencies include leader worship, the notion of the organic unity of the nation, and a chauvinistic emphasis on patriotism. The unique mix of Korean tradition, indigenous variations of communist ideology, as well as the extremely strong personality cult that has included the deification of the Kim family, has meant that the regime ideology itself exhibits elements of a religion-like cult. Ideological principles are hammered into the psyche of North Korean citizens through various means, including ideological indoctrination, frequent convention of mass rallies and construction of historic monuments. Since 2012, statues of Kim Jong-il were built either alongside those of Kim Il-sung or independently. Other monuments 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.

Until the late 1980s, North Korea had 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. North Korea "officially" abolished taxes in April 1974 and advertises itself as "the only country in the world that abolished the tax system." Nonetheless, it still collects revenue from its citizens in the form of non-tax payments and mandatory labor on government projects.

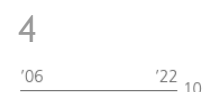
In recent decades and especially since the mid-1990s, it has become increasingly difficult for the government to generate enough revenues to provide even the most basic social welfare services. With internal and external security functions monopolizing the bulk of the state budget, other state services have 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.

No interference of religious dogmas



1

Basic administration



1

Kim Jong-un's focus since 2012 in state administration has been somewhat erratic. On the one hand, he continues to grossly fail to allocate resources or take measures for the improvement of basic civil functions of government. Instead, he prioritizes functions and expenditures related to the military buildup, political legitimation, and social control. On the other hand, he has reallocated some monopoly licenses for commercial businesses, which are the major sources of revenue for most party-state agencies, so as to benefit the cabinet at the cost of the military, although this has done little to strengthen the fiscal base of the state's civil and economic functions. In addition, due to the relatively liberal attitude toward market expansion since Kim Jong-un's inception of power, local jurisdictions have increased their fiscal capacities by collecting some of the surplus from merchants at 440 officially sanctioned markets through taxation or quasi-taxation. Moreover, officials have augmented their meager salaries by demanding bribes at countless unofficial markets and illegal business enterprises. The country's fragile health care system lacks the capacity to handle a large number of COVID-19 patients, although North Korea officially claims to have zero COVID-19 patients as of February 2021.

According to Human Rights Watch, apparently even the most basic tasks of the state can hardly be performed any more, while all but seven countries have withdrawn all of their personnel from North Korea. Access to basic state medical care no longer seems available to a considerable proportion of citizens, irrespective of how hard the pandemic strikes. Credible reports of desertions due to fatigue and hunger by the usually more reliable border troops are an especially impressive indicator of the degree to which basic needs can no longer be fulfilled.

2 | Political Participation

General elections for the Supreme People's Assembly are held every five years, most recently on March 10, 2019, but all candidates are selected and nominated by the regime. Elections are monitored and managed by the Korean Workers' Party. To guarantee 100% participation, the local police typically ascertain the whereabouts of any absentees, who are persecuted if they fail to vote. Voters gather and march together to the voting place. They are given a ballot paper with a single candidate in their district and they are expected to drop the paper in the ballot box. Since the whole process is transparent, deviant behavior poses severe risks. Elections in North Korea 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.

Free and fair elections

1

'06 '22 10

1 1

The North Korean political system can be characterized as an absolute one-man dictatorship. The power to govern does not originate from elections or communist ideology, but rather from the “great guidance capacity” of the top leader and power delegation from him. There has never been any veto power to counter the leader’s rule. There is no political or social space outside or beyond the regime’s autocratic control, with power concentrated in the hands of the political leader and his small coterie of subordinated regime elites, and exercised by party and state organizations, including the military and other agencies of state security.

Article 67 of the 14th revised constitution of 2019, like previous versions, guarantees freedom of publishing, assembly, demonstration, speech and association, as well as freedom of the press. However, the reality is that organizations exist solely as part of either the state or the party, and autonomous associations are nonexistent in North Korea. The regime controls the population through compulsory affiliation of organizations from the age of seven, extensive police surveillance, informant networks and the threat of imprisonment or exile to the countryside. There is no credible reporting of non-government ordered or controlled associative activities whatsoever, indicating the control over association and assembly rights exercised by the authorities of the state and regime during the review period.

Mass media outlets and all forms of public expression of opinion are completely controlled by the political authorities. In North Korea, there is no need for censorship of dissenting media because there are 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 media (e.g., DVDs and USB sticks), and clandestine access to South Korean radio and television programs. In response, the regime has set up regular and ad hoc bodies comprised of multiple internal security agencies to monitor and suppress the circulation and usage of foreign information (and the devices that carry them into the country). While the risk of political persecution is still high, some citizens criticize the regime in private.

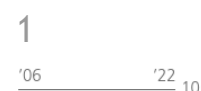
3 | Rule of Law

The basic principles of regime organization in North Korea are democratic centralism and leader supremacy. Hence, the relationship between different political institutions is monistic and the relationship between different layers of the political system is centralized. 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. Nonetheless, the leader stands above the law. He delegates powers and functions to members of the political elite and agencies, and rewards them with privileges or punishes them through purges. Therefore, there is significant competition among and

Effective power to govern



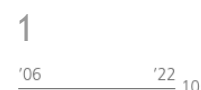
Association / assembly rights



Freedom of expression



Separation of powers



within party, state, and military organizations for a greater share of power and privileges from the leader. Each organization competes in a zero-sum game for an increased allotment of power and rent opportunities by demonstrating its loyalty and contributions to the leader.

While the powerless Supreme People’s Assembly meets once or twice a year to ratify party-state directives, the deliberative bodies of the central party, such as the Politburo and Central Committee, have rarely been convened. The party’s elected bodies were reconstituted with the Third and Fourth Party Representatives’ Conferences, and the Seventh and Eighth Party Congress in 2010, 2012, 2016 and 2021, respectively. Several meetings of central party bodies, including the Politburo, Central Committee and Central Military Commission, were also held. As in the past, these meetings have been pro forma and exerted no effective political decision-making power.

During the reign of Kim Jong-un, the Organization and Guidance Department within the central party and the Ministry of State Security seem to have gained greater dominance over other regime agencies. Accordingly, their competences and prerogatives have been expanded at the cost of those other agencies. In addition, there is also a generational shift taking place among the party, state and military elites – the older generations are being replaced by the younger generations in their 40s and 50s.

In July 2020, the authorities announced that a suspected COVID-19 case had been reported in the city of Kaesong after a re-defector swam back to North Korea from Ganghwa Island in South Korea. Following this incident, the leadership convened an emergency meeting on July 25, and shifted to a “maximum emergency system” and imposed a lockdown on the city from July 24 to August 13. The country closed its borders tightly, and even introduced a shoot-to-kill order at the borders to China and Russia. Nevertheless, North Korea officially claims to have identified zero cases of COVID-19 as of February 2021.

The judicial system in North Korea consists of the Central Court, Provincial Court, City and Country People’s Courts, and Special Courts. Special Courts consist of military courts, railroad courts and military logistics courts. Under North Korean regulations, judges are elected but the Korean Workers’ Party (KWP) exercises de facto absolute control over all institutions and organizations including judicial agencies.

Trials in North Korea are not fair. Moreover, since the 1990s, an increase in corruption can be observed. No longer able to fund the judiciary through its budget, the regime 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

Independent
judiciary

1

'06 '22 10

1 1

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. Meanwhile, North Korea operates a public trial system, which is used as a tool for political propaganda or to educate residents.

Corruption and abuse of office are systemic up and down the bureaucratic ladder, as is the exploitation of bureaucratic red tape by party-state officials. The traditional narrative of the problem has been that the supreme leader's good intentions are distorted by lower officials for their private gain. In response, 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 aim of political purges rather than for anti-corruption purposes. Likewise, at lower levels, corruption charges seem to be largely motivated by inter-organizational political competition. During and after the transfer of power to Kim Jong-un, Kim Jong-un has talked about the need to eradicate corruption among lower officials. Since then, some deterrent measures have been taken, including party inspections, public executions and the inhibition of corruption through "unbounded loyalty to the leader." In his 2019 New Year's address, Kim Jong-un said that party and government organs, and working people's organizations "should eradicate abuse of power, bureaucratism and corruption." But to judge by previous anti-corruption campaigns, Kim's words will have little long-term effect.

Chapter 5 of the constitution guarantees basic civil rights. However, in reality, the regime ignores civil rights and carries out repression when presented with even the most insignificant political resistance from the population. Public executions and sudden deportations without due process persist. In addition, mistreatment and torture at labor and prison camps are still widespread. The UN General Assembly has passed several resolutions on human rights violations in North Korea over the last 16 consecutive years (2005 – 2020).

Traditionally, law enforcement has been applied discriminately depending on the individual's political affiliations, such as his or her membership in the party or strength of personal patronage network, one's songbun (political classification of individuals), and, more recently, his or her ability to provide bribes. When it comes to discrimination based on gender, North Korea officially prevents "all forms of discrimination against women" based on the Law on the Protection and Promotion of the Rights of Women. However, discrimination based on traditional gender roles still seems to directly or indirectly constrain women in exercising their basic rights.

As in previous versions, Article 68 of the 14th revised constitution of 2019 guarantees freedom of religious belief. However, it also states that religion cannot be used to draw foreign influence into the country or damage the state order. In reality, North Korea, whose capital, Pyongyang, was once known as the "Jerusalem of the East,"

Prosecution of office abuse

2

'06 _____ '22 10



Civil rights

1

'06 _____ '22 10



remains one of the most anti-religious countries in the world. Aside from some official pro forma religious organizations, and several church buildings in Pyongyang that are used for receiving foreign guests and for propaganda purposes, any sign of autonomous religious activity has been harshly persecuted. For example, in 2020, the U.S.-based NGO Open Doors ranked North Korea as the worst country globally for the persecution of Christians – followed by Afghanistan, Somalia, Libya, Pakistan and Eritrea – for the 18th consecutive year.

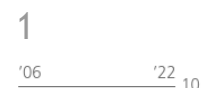
Freedom of movement is heavily restricted and requires official permission (or the payment of bribes). In particular, control of the border with China has tightened significantly since the inception of Kim Jong-un's reign in 2012 and those caught attempting to flee the country are almost always sent to labor or prison camps. In January 2020, immediately after the outbreak of COVID-19, North Korea closed its border areas with China. Since then, more soldiers have been deployed in areas bordering China and Russia, which prevents people from defecting or smuggling goods. In early September 2020, it was even reported that special military forces were dispatched with a shoot-to-kill order.

4 | Stability of Democratic Institutions

The political system of the Democratic People's Republic of Korea is a one-man 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 regime organizations on the delegation of power and allocation of privilege by the supreme leader. The party is positioned above state institutions and organizations. Every political decision is prepared and implemented under the leadership and control of the party.

There are no meaningful democratic institutions in North Korea. The current system of personal rule is essentially maintained through the policy of divide-and-rule among elites and regime organizations. These groups retain their positions through the distribution of wealth and career opportunities, a totalitarian system of surveillance and social control, ideological indoctrination, and, ultimately, brute force. There is no evidence of the existence of any debate or group within the North Korean state or regime that would advocate for the introduction of even the most modest element of liberal democracy.

Performance of democratic institutions



Commitment to democratic institutions



5 | Political and Social Integration

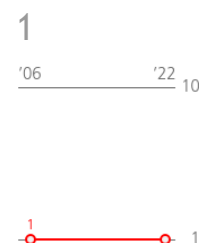
The North Korean regime is based on one-party rule by the Korean Workers' Party. In practice, by the 1960s, the party had lost any semblance of political function in the articulation, aggregation or arbitration of interests. Instead, it had transformed itself into an instrument of personal rule. In the mid-1990s, however, the party was confronted with a crisis regarding its traditional status and function in the political system. With the collapse of the planned economy, the party had lost a significant amount of control over the population. Accordingly, Kim Jong-il promoted the military over the party as the main pillar of regime survival.

The rise of Kim Jong-un since 2009 has been accompanied by attempts to weaken the dominance of the military and promote regime agencies. Non-military roles (e.g., economic business privileges) have been redistributed in favor of the party and other agencies. Among others, the Organization and Guidance Department of the central party recovered its old status as the core agency of the regime. Local party organizations have de facto replaced the top government agencies as the main implementation structures and play a dominant role in exercising government power and collecting fiscal revenues for the central government. In January 2021, party statutes have been changed to hold a party congress every five years. In fact, a party congress is a rare event in North Korea, as the Seventh Party Congress was held after 36 years in 2016. In addition, the military has been described as “the revolutionary force of the party.”

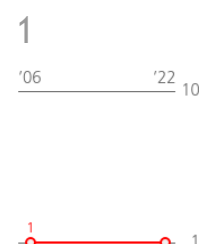
North Korea has long been extremely segmented along bureaucratic lines, regional domains and politically determined status groups. With no rule of law or guarantee of property rights, and amid rampant corruption and co-optation, members of bureaucratic and regional segments have formed self-contained cliques that manipulate the upward flow of information to defend their departmental interests and increase the allotment of resources.

The intensity and effect of segmentation have increased since the 1990s, as each bureaucratic agency has been required to finance itself 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 comprises several subsidiary domains or segments. Traditionally, the most powerful has been the Kim family and the party, although the relative position of the military improved during the period of the “military-first” (Songun) policy. However, under Kim Jong-un’s rule since 2012, it seems that the most important domains have been the Kim family, the central party’s Organization and Guidance Department, the Ministry of State Security, and the central party’s Commission of the Second Economy.

Party system



Interest groups



No survey data on support for democracy is available in North Korea. The regime has attempted to convince the population that political life in Western democracies is undesirable and even disastrous. In any case, the only way most North Koreans would know anything about such a life would be second-hand (e.g., through viewing smuggled videos). In surveys conducted by the Ministry of Unification in South Korea, two-thirds of the refugees from North Korea cited “economic difficulties” as the most important motivation in leaving their country before 2001, whereas “yearning for freedom” motivated just 10% of respondents. In the 2019 Settlement Survey of North Korean Refugees in South Korea, an annual survey conducted by the Korea Hana Foundation (North Korean Refugees Foundation), a non-profit public organization established by the Ministry of Unification, “food shortage” was identified as the most important motivation for defecting from North Korea by 23.5% of respondents. This was followed by “hated being monitored and controlled by the North Korean regime,” which was selected by 21.5%, and “to provide my family with a better living environment,” which was selected by 11.1%.

This is a slight change from the 2018 survey in which “seeking freedom” was identified as the most important motivation and “food shortage” was the second.

The regime has long promoted fragmentation of social groups and atomization of individuals through totalitarian control over society. This 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.”

The overall level of surveillance by the party-state remains very high, even if the increase in activities outside the party’s purview since the 1990s has somewhat reduced the effectiveness of political surveillance. This surveillance system impedes trust among individuals. For instance, the *inminban* system (neighborhood watch units), in which 20 to 40 families in the same neighborhood form an *inminban* and each of them shares the duty of monitoring fellow members, prevents the building of trust among individuals. Meanwhile, the rise of spontaneous market arrangements encourages trust between individuals, albeit a trust that is precarious and rudimentary in nature. For example, private merchants have (illegally) established a national network to exchange information regarding commodity prices. Similarly, even though these services are unstable and primitive, private merchants organize regional transportation, parcel services and money transfers in networks, thanks to the popularity of cell phones. These market functions, which are taken for granted in most countries, are a novelty in North Korea.

Approval of
democracy

n/a

'06 _____ '22 10

n/a _____ 1

Social capital

1

'06 _____ '22 10

1 _____ 1

II. Economic Transformation

6 | Level of Socioeconomic Development

North Korea is one of only a few countries in the world for which the World Bank, UNDP and other international organizations do not publish conventional data on human development, gender inequality, poverty, and income inequality. Nevertheless, it can be assumed that poverty and inequality are extensive and structurally ingrained by two political factors: first, the rigid political classification of individuals through the caste-like “songbun” system and second, the regime’s political control of individuals’ participation in profitable opportunities.

First, although Article 65 of the constitution stipulates, “citizens enjoy equal rights in all spheres of state and public activity,” in reality, individuals are classified by the songbun system. An individual is given a place in the system through the overall assessment of the person’s presumed degree of loyalty to the regime and family background. The songbun system is considered to be one of the most important factors in determining individuals’ housing, education, employment and general opportunities.

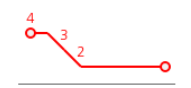
Second, with the expansion of the market since the early 1990s, the regime has favored ruling agencies and loyal individuals in the distribution of profitable opportunities, with this calculus driven by the recipients’ importance for regime maintenance. On the one hand, new opportunities outside the direct purview of the party-state have ameliorated the rigidity of the “songbun” system through the expansion of market activities. On the other hand, the regime’s politically motivated distribution of business licenses in favor of individuals loyal to the regime has in a sense preserved the “songbun” system in another form. In the end, the tighter the connection one has with the regime, the better chance one will have to access powerful or profitable opportunities. Since the de facto marketization, an income gap is becoming more visible, for instance, in terms of access to various food stuffs and housing. In addition, a regional divide between Pyongyang and the border areas has intensified.

Question
Score

Socioeconomic
barriers

2

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Economic indicators		2017	2018	2019	2020
GDP	\$ M	-	-	-	-
GDP growth	%	-	-	-	-
Inflation (CPI)	%	-	-	-	-
Unemployment	%	2.7	2.7	2.6	2.8
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-	-	-	-
Public debt	% of GDP	-	-	-	-
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	-	-	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Since the introduction of a “management responsibility system for socialist firms” on May 30, 2014, North Korea’s economic system can be characterized as a state-controlled mixed economy based on commercially operated state firms. There are at least three sectors, not counting military industries: official markets allowed and managed by the state; relatively large private businesses, which operate under the guise of state businesses; and unofficial market activities, such as “grasshopper markets,” which are sustained by giving bribes to local officials. With this system, the state’s direct planned management of state firms was abrogated and the autonomy of state firms has increased. Nevertheless, even without direct intervention, the state’s vast authority with regard to the management of the national economy and state firms remains overwhelming. For instance, the state maintains the right to appoint managers in every firm. The state also has a monopoly on banking functions. In addition, it holds the licensing authority for almost every significant commercial activity, prohibits private firms and employment, and retains the capacity for arbitrary political intervention in the economy.

The benefit of the de facto market mechanism is acknowledged by the state, but private entrepreneurs are not. Even though private investment has become widespread, it can only be acknowledged under the official guise of shared participation in state firms or commercial subsidiaries of state agencies. Moreover, this type of private investment remains illegal and highly corrupt. Though the size and extent of commercial businesses have gradually expanded, with such entities now found in almost all economic sectors including mining, transportation and real estate, severe constraints in terms of market-based competition remain. The award and possession of business licenses are basically decided by the top leader, and such allocations frequently fall prey to interest competition between regime agencies. In addition, all commercial activities remain informal, as they have not yet been integrated into the official economic system. Free market entry and competition have been most robust among merchants selling small daily necessities in local markets.

Following the coronavirus pandemic and the devastating flood in 2020, North Korea finds itself yet again in a difficult economic situation. However, there are no signs of market-oriented reform and Kim Jong-un ordered the party to approach economic management from a strictly political perspective in his speech at the Eighth Party Congress in January 2021.

Market
organization

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In North Korea, the leader monopolizes the most important opportunities, such as export and import licenses, as well as other domestic business licenses. The leader also has a monopoly on the right to assign and distribute them to major agencies of the party, the military and internal security agencies. Trading companies affiliated with these groups are given monopoly licenses for export and/or import for certain goods, which enable them to take advantage of 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.

Regime agencies also take part in monopolized businesses through their commercial subsidiaries, including commercial distribution networks for imported goods, amusement parks and privileged restaurants. In addition, the party-state bureaucracy intervenes extensively in the domestic economy to lower the threat posed by new entrants, and to favor regime-sponsored monopolies. Through such sponsoring of regulated monopolies and overwhelming political intervention, the regime can strongly influence the emerging structure of commercial economic activities, as well as the agents participating in them. The rampant corruption does not harm the regime's capacity to direct the development of the market economy nor the regime's survival, because the chain of corruption ultimately favors the more powerful.

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 most important source of the foreign currency, which is indispensable for the regime's survival. In addition, distributing trade licenses to regime agencies is one of the most powerful means of maintaining the regime elite's dependence on the leader. However, trade licenses are frequently resold or passed from stronger agencies to weaker ones, even though it is illegal to do so. 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 and redistributes licenses among regime agencies.

Since the inauguration of Kim Jong-un in April 2012, the military's share of trade licenses has been reduced in favor of the cabinet and his personal court. Smuggling activities along the border of North Korea and China remain very active, and although the amount of smuggling has been observed to be significant, it has not been counted in trade statistics on North Korea by the (South) Korea Trade Association, United Nations and the IMF. Meanwhile, North Korea's trading activities have been greatly constrained by sanctions imposed by UN Security Council resolutions. The sanctions usually 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.

Competition policy



Liberalization of foreign trade



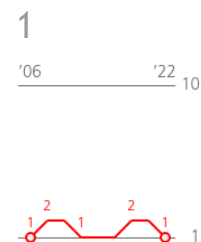
Since the outbreak of the coronavirus pandemic, the country has faced a difficult economic situation. Regarding foreign trade, China normally accounts for almost 95% of trade. However, according to a NK Pro article, as a result of the border closure, Chinese grain exports to North Korea dropped by 90% between January and February 2020, though North Korean exports to China have slowly risen since June.

Banking is a state monopoly in North Korea. Besides the central bank, the Foreign Trade Bank (for foreign exchange) and other functional and joint-venture banks directed by the cabinet, the country has trade banks affiliated with the party and military institutions. As every activity that produces foreign currency is strictly monitored and controlled by the regime leader, trade banks operated by regime agencies also serve as his personal fund-management system. However, with the successive adoption of UN Security Council resolutions and other bilateral sanctions, financial relations with foreign countries have been made practically impossible.

The state banking system has been virtually useless in mobilizing domestic and foreign money within North Korea for productive investment. State banks accept personal deposits but most North Koreans avoid banks. This is because it is difficult to withdraw deposits at one's convenience and because the prevalence of illegal economic activities mean that people are reluctant to disclose their incomes. Since the catastrophic confiscatory denomination measures in November 2009, foreign currencies including the U.S. dollar and Chinese yuan have substantially replaced the North Korean won even for small daily transactions. With the imposition of sanctions, the regime has actually used this laissez-faire policy of dollarization as an opportunity to compensate for the lack of foreign currency.

The expansion of market activities since the early 1990s has produced cash-rich merchants, mostly consisting of trade agents and wives of party officials, as well as Japanese-Korean and Chinese-Korean residents in North Korea. The usual functions of commercial banks have been fulfilled by these so-called private bankers. They supply investment money not only to private businesspeople, but also to official state firms for production, distribution, construction, export, and import. In addition, they operate private financial services for lending, transfer, and the exchange of both domestic and foreign currency.

Banking system



8 | Monetary and fiscal stability

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

After the redenomination measure in November 2009, in which KPW 100 under the old system were replaced by KPW 1 under the new measure, North Korea experienced a period of hyperinflation between early 2010 and late 2012. According to Daily NK reports, the exchange rate with the U.S. dollar skyrocketed from below KPW 1,000 to about KPW 9,000, and the price for a kilogram of rice rose from about KPW 500 to above KPW 6,500. During this period, dollarization rapidly accelerated, replacing the North Korean won with the Chinese yuan or the U.S. dollar.

Since early 2013, both the exchange rate and price of rice have shown a downward stabilization. For seven years, the Kim Jong-un regime maintained the stability of the won and low inflation. The exchange rate with the U.S. dollar has always remained around KPW 8,000. However, since late October 2020, a sudden sharp rise in the value of the won was observed. The analysis from Daily NK indicates that as of January 2021 in Pyongyang, the exchange rate was KPW 6,100 per U.S. dollar and the price of one kilogram of rice was KPW 3,500. It seems odd for the won to suddenly rise in value considering United Nations sanctions and the closing of the borders due to COVID-19. Outside Pyongyang watchers have speculated on possible reasons for this. First, this might be due to the North Korean authorities' efforts to finally crack down on the use of foreign currencies. Second, this could be related to the Eighth Party Congress held in January 2021 and preparations for the launch of the new five-year plan.

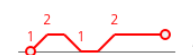
With the collapse of the planned economy in the 1990s, North Korea's fiscal system also fell into disarray. The regime has suffered a drastic reduction in revenue and allowed agencies to pursue fiscal independence. The cabinet, party, military, and security agencies have advanced as the major domains of fiscal self-sufficiency with off-budget revenue from privileged commercial activities. The government drastically reduced public services but accelerated the construction of monumental buildings and development of weapons of mass destruction. This practice has not changed even with the power transition from Kim Jong-il to Kim Jong-un. In addition, the fees collected from granting permits for commercial activities at official marketplaces have contributed to fiscal stabilization at least at the local government level.

In April 2018, at the Third Plenary Meeting of the Seventh Worker's Party of the Korea Central Committee, Kim Jong-un declared the Byungjin policy (i.e., the parallel development of the economy and weapons of mass destruction) victorious,

Monetary stability

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Fiscal stability

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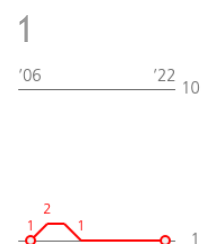
and officially ended the policy by saying that the country's nuclear and missile program had advanced to the point that they did not need further tests. He then announced a new strategic line of "socialist economic construction," which could be seen as a shift in national focus toward economic development. During the Eighth Party Congress, which was held between January 5 and 12, 2021, Kim Jong-un defined the North Korean economy as "independent, planned and people-oriented." In addition, he emphasized self-reliance and self-sufficiency as still being the fundamental pillars of the new five-year plan. North Korea is facing a number of challenges due to tightened sanctions since 2016, a series of natural disasters and the coronavirus pandemic of 2020. Therefore, it seems to be that the Kim regime has decided to once again search for solutions domestically by promoting "our-style socialism."

9 | Private Property

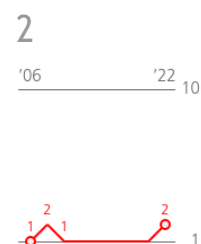
Based on the basic framework of the socialist economic system, any private property beyond daily consumer goods is still officially banned in North Korea. However, the spread of commercial activities and rampant corruption mean that the real picture is more complex. Some individuals have accumulated 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 now widespread but still 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. In particular, the trading of homes has become a common phenomenon in recent years. Although the privatization of housing is not allowed, the trade in existing houses or even the trade in new apartments under construction takes place quite openly. These kinds of private ownership and transaction are not guaranteed by the law, as they are officially illegal. This means that the regime can act against private ownership whenever it chooses to and occasionally does so. Since there are no guarantees regarding the legal enforcement of private contracts, disputes have frequently escalated to physical fights among individuals and agencies. Internal security and inspection organizations have often taken advantage of this illegal nature to extract bribes.

Since the mid-1970s, when Kim Jong-il started operating Bureau 39, doing commercial business has been a prerogative of the regime's agencies. However, with the expansion of the market economy since the 1990s, the number of individuals participating in commercial business has exploded. Some commercially talented among them have become cash-rich "money masters," so-called donju. In reality, they have become one of the main pillars of the North Korean economy, though their existence and activities remain illegal. Therefore, businesspeople are required to maintain good relations with agents of the party-state in order to protect their businesses and stay out of trouble. In the case of larger investors, their individual

Property rights



Private enterprise

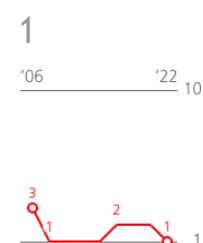


participation has been realized in the form of de facto joint ventures with party-state agencies. That is, they are hired by the latter as public employees to contribute investment and business talent, while the organizations provide business licenses, labor, facilities and political protection. Smaller investors and businesses operate as independent entrepreneurs and must pay their own bribes to state officials. In sum, the extent and scale of both joint ventures and private businesses have rapidly expanded under the laissez-faire policies of Kim Jong-un. The government has given management rights to state-owned enterprises and collective farms, therefore, giving managers greater discretionary powers. Under this new system, production units were also allowed to keep more of their produce.

10 | Welfare Regime

Government-funded social safety nets have been virtually nonexistent since the early 1990s, although minimal assistance is provided to some party officials who live in the capital Pyongyang. As the state sector crumbled in the wake of economic collapse, women were officially 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. The family also functions as a safety net, for example, for the malnourished men who return from military service, which typically lasts 10 years. Since the early 1990s, some North Koreans – especially those living within reach of the Chinese border – have traveled illegally to China in search of food or short-term employment, and many more have traveled illegally. Some continue their journey to South Korea and apply for citizenship. As of September 2020, there are around 33,700 North Korean refugees in South Korea and they send money to relatives in North Korea, although the North Korean police are making this illegal infusion of cash increasingly difficult. These remittances are spent mainly on families’ living costs and in some cases as seed money for the creation of private businesses. According to a 2020 survey conducted by the Database Center for North Korean Human Rights (NKDB) and NK Social Research, one out of four North Koreans in South Korea (26.6%) responded that they had sent money to their family in North Korea in 2020. Based on this analysis, it can be predicted that remittances did not completely stop despite the border closure, although middlemen and corrupt officials who permit this illegal activity typically take more than 40% of the money.

Social safety nets



There are two major barriers to opportunity in North Korea – regardless of what the North Korean constitution declares. The first is deep-rooted gender inequality. On the positive side, opportunities for a basic primary and secondary education, and for lower-rung economic employment are roughly equal for men and women. On the negative side, the enduring patriarchal tradition still puts women at a disadvantage. Women are rarely represented in top management positions within the government, party, and firms. Female employment is concentrated in lower pay sectors, where “female” characteristics are thought to be appropriate (e.g., nursing and teaching, and assembly-line work). The state officially dismissed women en masse in 2002 due to economic collapse and allowed them to participate in commercial activities while continuing the employment of men. This meant that women were in a better position to earn money to sustain the family (if indeed they chose to marry), while their husbands and sons in state employment brought little home. This “discrimination” faced by women in fact turned into an advantage. Due to their economic power as breadwinners, many women now have a stronger voice at home and in local communities, but this enhanced economic role has also created stress within families.

The second barrier is the 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 who were deemed “socialist heroes,” are rated more highly in the North Korean political hierarchy and automatically guaranteed better political opportunities, regardless of merit. They are permitted to live in Pyongyang and have much better chances for higher education, party membership, and desirable government, party and military careers than the majority of the population. The favoring of cities over rural regions, restrictions on movement into cities and assignment to better jobs controlled by the party-state are all heavily influenced by the songbun system.

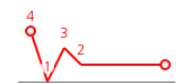
Additionally, the spread of corruption favors the politically powerful and those with the right political connections. The school system, though still nominally free, has been maintained solely through contributions from students and parents since the mid-1990s, resulting in a new type of discrimination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

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

Equal opportunity

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11 | Economic Performance

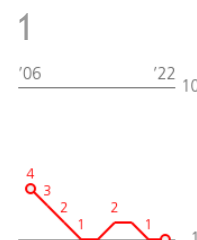
State budget figures issued by the government are extremely unreliable. There is no reliable system of tax collection. Revenue collection for the party-state has remained fragmented. Outside of the state's official tax collection, the leader and individual party-state agencies have engaged in their own independent and predatory collection of revenue from the population and from commercial activities. Officially, there is no unemployment in North Korea. All male workers are still required to report to their places of work every day, although some pay bribes to leave and take up employment in the burgeoning informal sector.

According to statistics by the Bank of (South) Korea, in 2017, North Korea experienced a contraction in GDP of 3.5% and again of 4.1% in 2018, which was the greatest contraction since 1997 (-6.5%). The active nuclear and missile testing in 2016 and 2017 produced a forceful response in the form of increased sanctions by the international community, which possibly played a significant part in the economic slide. In 2019, however, a positive growth rate of 0.4% was estimated. Stringent COVID-19 border controls on the part of both China and North Korea have reportedly strangled trade since early 2020.

In terms of specific industries, growth rates in the mining (-11% in 2017, -17.8% in 2018 and -0.7% in 2019) and manufacturing (-6.9% in 2017, -9.1% in 2018 and -1.1% in 2019) sectors have decreased sharply. The growth rates in electricity, gas and water supply, which showed positive growth of 5.7% in 2018, turned negative in 2019 (-4.2%). Meanwhile, the construction (from -4.4% in 2018 to 2.9% in 2019), and agriculture, forestry and fisheries (from -1.8% in 2018 to 1.4% in 2019) sectors showed positive growth in 2019.

Total external trade volumes amounted to about \$5.55 billion in 2017 (a 15% reduction in comparison to \$6.53 billion in 2016) and about \$2.84 billion in 2018 (a 48.8% reduction from 2017), the lowest volume since 2011. In 2019, \$3.24 billion was estimated, which was a 14.1% increase compared to 2018. China continues to account for almost 95% of this trade. Total exports amounted to \$1.77 billion in 2017 (a 37.2% decrease compared to the year before) and a shocking 86.3% decrease of \$242 million in 2018, then a 14.4% increase of \$277 million in 2019. North Korea has failed to achieve a trade surplus since 1990, and the trade deficit fluctuated around the \$1 billion mark between 2005 and 2017, when it increased to \$2 billion. In 2019, the trade deficit amounted to \$2.7 billion, the highest such volume since 1990.

Output strength



12 | Sustainability

North Korea has pursued resource-intensive industrial growth, failing to take environmental concerns into account. 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 rain has washed out the fertile soil from the depleted mountains, polluting and silting up 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.

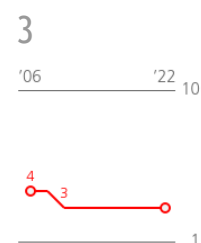
Environmental degradation and lack of coping capacity have made North Korea critically vulnerable to various natural disasters, especially flooding. Kim Jong-un acknowledged the serious environmental degradation with declarations in 2012 of the Policy for National Territory Management and the 10 Year Plan for Reforestation. However, these policies have not been supported by realistic measures to resolve the regime's failure to supply enough food and fuel to the population, the root causes of deforestation. Since 2012, there have been efforts to intensify mass mobilization for tree planting. This is usually forced upon local populations and accompanied by abrupt bans on the cultivation of private plots on mountain hillsides. In 2017, following Kim Jong-un's order, Kim Il-sung University in Pyongyang announced the opening of the new Forest Science Department, focusing on reforestation and afforestation. In the Eighth Party Congress held in January 2021, afforestation was mentioned with great emphasis. In addition, North Korea claimed to have about one million hectares of land reforested. However, only a summarized version of the party congress report was published, so precise details are unknown.

With the onset of economic hardship in the early 1990s, North Korea's education and research system virtually collapsed apart from a few model schools in Pyongyang and institutions for developing weapons of mass destruction. Facing the threat of starvation, teachers, students and researchers left to scavenge for food or to participate in commercial activities. Conditions improved somewhat in the 2000s, although schools are still required to support themselves; though nominally free of charge, they levy donations and mobilize students to provide free labor under a variety of pretexts. Due to this lack of state support, teachers have effectively been paid privately by parents in exchange for various forms of favoritism. In 2012, the regime extended the period of compulsory education from 11 to 12 years. In addition, technology and English lessons now take up more hours in the school curricula. Since 1984, starting from Pyongyang, "Number One" schools have been established in large cities to educate students who show promise in science and technology.

Environmental policy



Education policy / R&D



One major objective of North Korea's education system is to cultivate subjects who are obedient to the leader and committed to the preservation of the socialist system. This is achieved through the emphasis on the study of political ideology, such as the revolutionary activities of Kim Il-sung and Kim Jong-il, mobilization for political events and propaganda, and mandatory military training. Since 2012, the school curricula and textbooks were modified to add the political ideology of Kim Jong-un.

North Korean authorities seem keen to intensify scientific R&D investments in areas considered to be of high importance for national defense. In particular, with the start of his reign in 2012, Kim Jong-un boosted attention and investments in the technical advancement of the asymmetric military capacities of the country. There has also been some progress in the field of information technology. North Korea has intermittently hacked South Korean and other countries' servers since 2009 for disruptive purposes and for financial gain. According to a Daily NK article from January 22, 2021, North Korean authorities created a new hacking organization called Bureau 325 in order to steal information on COVID-19 and vaccine development technology. It appears that North Korea has launched a series of cyberattacks against South Korean and international pharmaceutical companies since the fourth quarter of 2020.

Governance

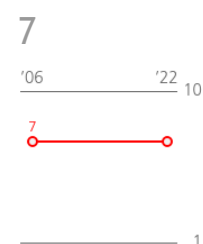
I. Level of Difficulty

The ongoing economic crisis in North Korea has been caused not by the country's natural constraints, 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 the 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.

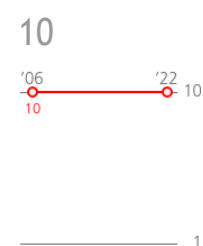
Constraints on the initiation of development are seemingly infinite, but many are the result of deliberate political behavior rather than of unfavorable geography, demography, culture, weather, or other "structural" conditions. State-related and administrative constraints include state capture by an autocratic leader and his loyalists, overgrown political and security institutions, rampant corruption and weak institutions, and persistent underinvestment in the state's capacity for the 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 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. In addition, North Koreans' contact with the outside world increased with the beginning of international humanitarian assistance in 1995. Communications between defectors and their families, taking place through a host of electronic devices, but primarily cell

Structural
constraints



Civil society
traditions



phones via China, also enable external relations with the outside world. 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, the regime has tightened countermeasures in tandem with these developments, strengthening internal security organizations, enforcing an atmosphere of fear and mistrust, increasing the frequency of punishments for contacts with foreign cultural influences, and revitalizing border controls. In sum, the regime has been forced to strike a balance, loosening its social controls somewhat so as to increase productivity, while tightening other controls in order to ensure regime survival. The regime has so far been successful in navigating between the two poles while relying on various social control methods to prevent the emergence of civil society.

While there is presumably considerable potential for internal conflict, the regime has to date successfully prevented any meaningful open conflict from emerging. Such conflicts mainly exist along two dimensions: between regime and society, and between the top leader and other elites. The existence of these internal pressures is confirmed by the regime's brutal suppression of the population and the supreme leader's tight control of regime agencies and the small ruling coalition.

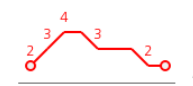
Regarding the first dimension, between regime and society, North Korea usually resorts to brutal repression to prevent outbursts of open conflict. Since the inception of Kim Jong-un's rule in 2012, his pro-market policies have somewhat eased tensions between the regime and the population. However, whenever needed, the regime returns to repressive measures to constrain the public.

With regard to the other dimension, between the top leader and other elites, Kim Jong-un has resorted to traditional measures for preventing an outburst of open conflict. Like his predecessors, he has resorted to purges and public executions of members of the high-ranking elites, though he has pursued these policies with more forcefulness, intentionally provoking intense fears among the elites. The most striking event in recent years was the assassination of Kim Jong-nam, Kim Jong-un's half-brother, at Kuala Lumpur International Airport in Malaysia in February 2017. He died after being attacked by two women with VX nerve agent. Although the North Korean government strongly denied any involvement, it is widely speculated that the assassination was ordered by Kim Jong-un.

Conflict intensity

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II. Governance Performance

14 | Steering Capability

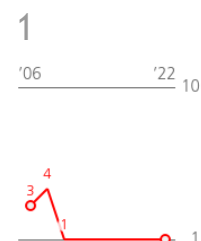
The North Korean regime has shown a remarkable capacity for maintaining its core strategic priorities over extended periods of time. However, these policies are not designed with the intention of initiating transformation toward democracy and market economy. Following his rise to power, Kim Jong-un seemed to take some positive steps in this direction by introducing economic reform measures and showing more toleration than his father for market-based activities. After Kim Jong-un took over the leadership from his father, he announced the so-called Byungjin policy in 2013. This was predicated on a dual focus: developing the economy and developing weapons of mass destruction, at the same time. In April 2018, he declared that the Byungjin policy had been successful and was thus being brought to an end, announcing the “socialist economic construction” policy in its place. However, such measures proved to be comparatively superficial, and resulted in no meaningful change in overall regime policy.

In January 2021, at the Eighth Party Congress, which was held five years after the Seventh Party Congress, a new five-year economic plan was introduced. Among other things, the metal and chemical industries were identified as the key elements of the five-year economic development plan, though the seriousness of these official announcements is questionable.

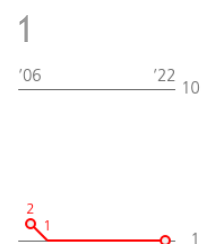
Aside from the policies required for regime survival, the regime’s policies for promoting economic reforms and the people’s welfare have never been pursued with real sincerity or determination. In North Korea, priorities and policy implementation are organized strictly hierarchically. Paramount priorities include the maintenance of the top leader’s political status and extravagant living practices. These must be implemented without hesitation, and without any regard to expenditure concerns. Their implementation is guaranteed by the leader’s personal court and the party, the two most powerful institutions beyond the top leader himself. The inherent corruption in the government facilitates the implementation of these political decisions since they also favor the surrounding leadership. The next most important priorities are related to arming the regime so that it can defend itself against internal and external challenges. The implementation of this goal is guaranteed by the party-dominated weapons-production sector and by the military itself, under the top leader’s careful direction. The regime’s most neglected priorities include the management of the civilian economy and the public infrastructure. Implementation of these priorities is carried out by the cabinet, a comparatively weak institution in terms of power, prestige and resources.

Question
Score

Prioritization



Implementation



This power dynamic has remained valid under Kim Jong-un. He indeed promised to relieve hunger during his inaugural address, talked frequently about “love for people” and introduced some economic reform measures. Nonetheless, he has never mentioned contradictions or a need to revise the top regime priorities of maintaining the top leader’s god-like prestige and accelerating the country’s military buildup.

Outside Pyongyang observers sometimes assume that North Korea’s increased contact with the outside world will lead to policy changes. In fact, there has been extensive contact by way of learning delegations, North Korean diplomats and trade agents abroad, students in foreign universities (including in the United States), and workers and travelers in China, Russia and other countries, as well as in the form of foreign visitors to North Korea (including Western economics professors at Pyongyang University of Science and Technology, PUST). Therefore, one can safely assume that economic experts in North Korea have long since accumulated sufficient basic knowledge of the theory and practice of successful reform in China and Vietnam. However, there have been no visible attempts by the government to apply such learned theory and practice to real life. This is because the main focus of policy implementation is to maintain the status of the supreme leader and to keep the regime stable.

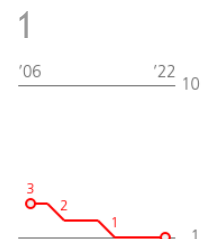
Nevertheless, there are signs that North Korea has learned from policy failures such as the 2009 currency reform, which led to a much more permissive attitude toward market forces. There have, however, been structural limits to this learning. Whenever it contradicts the need for internal stabilization and resource mobilization for political legitimation and military buildup, the learning has been ignored. This has been the norm rather than the exception.

15 | Resource Efficiency

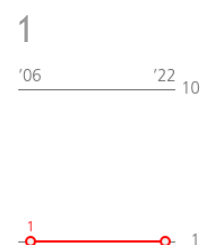
When considering the use of administrative personnel, two factors must be taken into account. First, North Korean society is based on the “songbun” system, by which an individual’s opportunities in life are largely determined by his or her family background and presumed level of loyalty to the regime. This means that all appointments and promotions are essentially politically pre-determined. Second, North Korea is one of the most corrupted countries in the world. Public appointments and promotions are up for sale and party-state positions that promise higher income from bribes are more expensive. Positions in the administration of public security and the judiciary are particularly preferred to other public sector occupations, due to the potential income from bribes.

In addition, in terms of the fiscal system, 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

Policy learning



Efficient use of assets



revenue independently. The leader stands at the top of the fiscal pyramid. Powerful regime agencies, such as the party, the military and other security organizations, have monopolized the most lucrative revenue sources. Therefore, the cabinet, which is tasked with supplying public services, has to content itself with minimal revenues from a highly inefficient tax system.

However, in view of the fact that the goal of the Kim regime is to stay in power and protect itself militarily, it can be said that the regime has managed resources efficiently for the purpose of elite cooptation, controlling the North Korean population, and sustaining loyalty both at the elite and popular levels.

The North Korean regime has been characterized by bureaucratic segmentation with a very low level of horizontal communication. Kim Jong-un, like his predecessors, serves as the sole coordinator of government, party and military organizations. Behind the façade of this “macro” segmentation, “micro” segmentations have long existed within each bureaucratic unit. Nevertheless, decision-making power is concentrated on Kim Jong-un. Major bureaucratic units typically make policy proposals directly to Kim and receive approval from him independently. In reality, there has been no effective national economic policy, but rather an aggregate of independent economic undertakings by bureaucratic agencies aimed at self-support. These agencies compete with each other to increase rent opportunities by demonstrating loyalty and value to the leader. 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’s assumption of power.

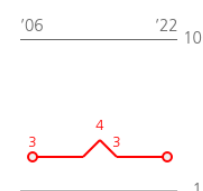
Corruption is rampant in North Korea. Corruption within the bureaucracy has been used by the regime as a systemic device to extract rents from the populace while simultaneously securing loyalty and revenues for the regime. State officials are paid below subsistence-level wages, leading them to corruption 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 opportunities or through threats to dismiss disloyal lower officials on the pretext of corruption. In 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. On the contrary, since the beginning of Kim Jong-un’s reign in 2012, corruption has been used as a pretext to purge many high-ranking officials.

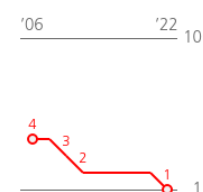
Policy coordination

3



Anti-corruption policy

1



Meanwhile, at the Eighth Party Congress held in January 2021, Kim Jong-un said, “abuse of power, bureaucracy, irregularities and corruption are what the Party must most strictly guard against” and that party organizations should “carry on an uncompromising struggle” against them.

16 | Consensus-Building

There is no strategic consensus on democracy in North Korea. Privately, North Koreans, including some members of the elite, might hold political views different from those publicly expressed but there is no way to tell for sure. Expressing the slightest degree of doubt or criticism, or a lack of absolute or enthusiastic support for the regime and its leader is extremely dangerous. Even mid-level to senior cadres have to be extremely careful in order to survive politically and physically, while constantly transgressing official policies and (perhaps) privately wishing for more efficient and humane arrangements. The most recent example among elites is ex-Minister Tae Young-ho, whose main task over more than 10 years at the North Korean embassy in London was to defend the superiority of the North Korean system. After he defected to Seoul in 2016 with his family, he became an ardent and systematic critic of the North Korean system.

There is no strategic consensus oriented toward developing Western-style market economy in North Korea. However, especially since Kim Jong-un’s rise to power in 2012, there seems to be a growing awareness that people’s lives would improve with a market economy. The problem for the regime has been that its push for earning foreign currency revenue through commercial activities has lowered ideological taboos on capitalism. Most North Koreans now realize that a market economy will make them richer and that socialism is dead. It is, however, a completely different story to openly express such opinions.

There are no political actors advocating for democratization. Consequently, there are none who are able to counter or co-opt anti-democratic powers. However, continuing marketization at the grassroots may be seen as a threat to the regime’s autocratic system. In this regard, almost everyone is counteracting anti-democratic powers in their own small way.

Consensus on goals

2

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Anti-democratic actors

1

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North Korea has always been a segmented society. The regime has consciously expanded this segmentation, making use of it in order to maintain its dictatorship. Along with 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 being 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. Brute force and extensive surveillance mechanisms have been used to integrate the deeply segmented and atomized society.

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 North Korea. Elections and political meetings are regularly held, but without any participatory purposes in the political process. People are urged to participate in elections, mass rallies, and meetings at job sites and residences to express their enthusiastic and unending support for the regime. In general, the ostensibly deliberative units of the state and party (e.g., the People’s Assembly, Central Committee, and Party Congress) are powerless.

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 and five such camps have been identified as still being operational. According to North Korean defectors’ testimonies, public executions are still conducted in North Korea, with key onlookers forced to witness them. There have also been numerous cases of purges, extrajudicial arrest, torture, confinement and deportation. History is constantly rewritten in order to justify the Kim family’s status; this entails blaming others for injustices and mobilizing the masses against internal – and especially external – political enemies.

There has been no reconciliation between North Korea and other nations. The official media harshly denounce the Japanese and Americans for committing egregious historical crimes against Koreans. There seemed to be a shift in this regard when – for the first time in history – the acting leaders of North Korea and the United States conducted a summit meeting in Singapore in June 2018 and once again in Hanoi in February 2019, though the two parties ultimately failed to reach an agreement.

Following South Korean President Moon Jae-in’s inauguration in 2017, the relationship between the two Koreas thawed for a brief period. In 2018, several cultural exchanges and high-level delegation meetings, and three summits between North and South Korea were organized. In addition, family reunions between North and South Koreans, which had been suspended for almost three years due to the hostile relationship between two countries, resumed in August 2018. However, from 2019, the relationship worsened again and, in June 2020, North Korea demolished the Inter-Korean Liaison Office in Kaesong.

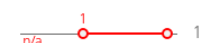
Cleavage /
conflict
management



Civil society
participation



Reconciliation



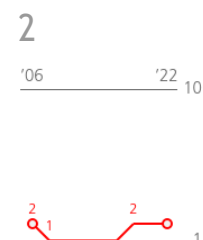
17 | International Cooperation

The regime has allowed an inflow of international assistance in the form of knowledge transfer, capacity-building and other cooperative undertakings but only insofar as these measures have not endangered the regime's existence. The terms for delivering food and other goods for humanitarian purposes have always been a source of political tension between North Korea and international donors, as there has always been a strong suspicion among international donors that aid was being diverted to the military and the regime. North Korea's level of cooperation has remained at the most elementary level, focused on intermittent emergency humanitarian assistance and small-scale experiments in development 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. Along with China's political support in the international arena, this aid is a necessary part of North Korea's long-term strategy. This is not necessarily a development strategy, but rather a survival strategy.

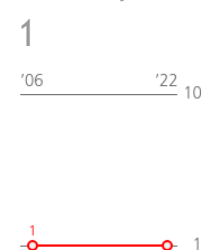
Following the outbreak of the COVID-19 pandemic, in mid-January 2020, a health ministry official said the country was working with the World Health Organization (WHO) to prevent potential coronavirus outbreak. In addition, North Korea also requested UNICEF's support for medical supplies and protective equipment. At the end of January 2020, North Korea closed its borders and isolated itself further from the international community. Nevertheless, some bilateral foreign aid seems to have been given. In July 2020, the Swiss Federal Department of Foreign Affairs (FDFA) said disinfection kits were delivered across the Sino-North Korea border. The country claims to have zero coronavirus cases and has not revealed its situation to the outside world. Meanwhile, according to Daily NK findings in January 2021, it seems that North Korea has begun developing its own coronavirus vaccine at the Biological Industry Research Center of Kim Il-Sung University, using information stolen through hacking activities.

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 contravened international norms and principles of engagement. The mistrust between North Korea and neighboring countries has increased since the mid-2000s particularly on security-related matters due to North Korea's refusal to denuclearize, its accelerated development of nuclear weapons and ballistic missiles, and its military and political provocations directed against South Korea. With some reluctance, China has consistently agreed with the implementation of increased sanctions against the regime each time North Korea has carried out nuclear or long-range missile tests.

Effective use of support



Credibility



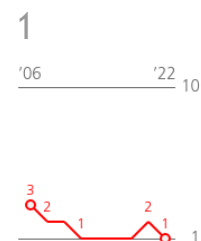
With regard to the relationship with the United States, the two countries held top-level summit meetings in Singapore in June 2018 and in Hanoi in February 2019. However, these meetings did not result to any fruitful outcomes. In June 2020, North Korea's foreign minister released a statement, stating that "the hope for improved DPRK-U.S. relations has now been shifted to despair" and efforts to improve diplomatic relations with the United States had ceased.

During the Inter-Korean Summit in April 2018, the leaders of North and South Korea jointly adopted the Panmunjom Declaration for Peace, Prosperity and Unification of the Korean Peninsula. According to the declaration, the leaders of the two Koreas agreed to eliminate military tension and to establish a permanent peace on the Korean peninsula. However, the situation turned upside down not long after. On June 16, 2020, North Korea demolished the Inter-Korean Liaison Office in Kaesong. Three days before the demolition, Kim Yo-jong, the younger sister of Kim Jong-un, released a statement that heavily criticized the South Korean government's failure to crack down on North Korean defectors and NGOs in South Korea using balloons to send anti-North Korean regime leaflets across the border. Kim also said in the statement that the "useless" Inter-Korean Liaison Office would be completely destroyed in the near future.

North Korea's relations with neighboring countries have been strained. Poor relations are mainly due to three factors: North Korea's development of weapons of mass destruction, its persistent rejection of internal reforms, and the regime's paranoia over its own internal security. Its frequent nuclear-weapon and missile tests have isolated North Korea even further within the international community and has subjected the regime to a variety of multilateral and bilateral sanctions. However, occasional signs of change with regard to these three factors have emerged, leading to short periods of thaw and minimal cooperation with outside actors.

Following South Korean President Moon Jae-in's inauguration in 2017, the relationship between the two Koreas seemed to have defrosted for a brief period. In particular, in 2018, there were several occasions of cultural exchanges, high-level delegation meetings, and three summits between North and South Korea. However, the relationship took a turn for the worse yet again from 2019. In October 2019, Kim Jong-un visited the Mount Kumgang Tourist Region and criticized the facilities for being not only "extremely backward in terms of architecture" but also "shabby" since they were not properly maintained. Kim ordered "all the unpleasant-looking facilities of the south side" to be removed in cooperation with the South Korean authorities and new modern facilities to be constructed in "our own way." In addition, in June 2020, North Korea demolished the Inter-Korean Liaison Office in Kaesong. Korean Central News Agency, the state news agency of North Korea, announced that this was done in retaliation to Seoul's inability to prevent North Korean defectors from flying anti-North Korean regime leaflets over the border.

Regional cooperation



North Korea's links with China remain stable and have even strengthened. The leaders of the two countries held a series of summits in 2018 and 2019. China's rapidly growing demand for raw materials and North Korea's desperate need for foreign currency have stimulated trade between the two countries. With regard to the relationship with the United States, Kim Jong-un of North Korea and Donald Trump of the United States held the first top-level summit meeting between the two countries in Singapore on June 12, 2018. The two leaders met again on February 27 and 28, 2019, in Hanoi, Vietnam but failed to reach an agreement. Since late 2019, there has been no sign that dialogue between the two countries will resume. In June 2020, two years after the Singapore summit, North Korea's foreign minister, Ri Son Gwon, released a statement, stating that "the hope for improved DPRK-U.S. relations has now shifted to despair," and that "even a slim ray of optimism for peace and prosperity on the Korean peninsula has faded away into a dark nightmare."

Strategic Outlook

North Korea faces several serious challenges, not the least of which are tighter international sanctions and the coronavirus pandemic.

In recent years, the role of the party has been further strengthened. In January 2021, party statutes were changed in order to hold a party congress every five years. Meanwhile, the military's role has been emphasized as "the revolutionary force of the party," echoing Kim Jong-il's designation of it as the "pillar and main force of the revolution."

At the Eighth Party Congress held in January 2021, Kim Jong-un was elected as general secretary of the party, replacing his father's position as the "eternal general secretary" of the party. This can be interpreted as the beginning of the deification process of Kim Jong-un, putting him on the same level as Kim Il-sung and Kim Jong-il. Therefore, it can be inferred that Kim Jong-un has no intention of reducing his leadership role or sharing power.

The country's nuclear and ballistic-missile development has resulted in increasingly strict international sanctions in recent years. These sanctions were designed to pressure North Korea to return to denuclearization talks and eventually abandon its nuclear weapons. However, the Eighth Party Congress boasted of North Korea's success in building a nuclear force. Kim Jong-un pledged to further strengthen the country's military capacities by developing new systems, such as "ultra-modern tactical nuclear weapons" and a nuclear-powered submarine.

Although North Korea officially claims not to have even one case of COVID-19, various sources report that this is not true. According to one article from *Rimjingang*, a magazine written by reporters within North Korea, Kim Jong-un even admitted that the country has "not been able to block the entry of the coronavirus," despite taking strong measures. The NK Pro COVID-19 Tracker estimated that more than 26,000 samples and more than 13,000 persons have been tested as of January 2021. Due to the extremely secretive nature of the regime, the outside world may never know the real coronavirus situation in North Korea. However, it is clear that the country's fragile health care system lacks the capacity to handle a large number of COVID-19 patients should they appear.

Even if the state of perpetual international tension was somewhat alleviated in 2018 through talks with South Korea and the United States, the mood of reconciliation was quickly replaced with North Korea's traditional hostility. The essential nature of the North Korean political system has not changed, and Kim continues to be challenged as he attempts to protect and preserve his regime in the face of multiple national crises.

The 2021 budget report from the Supreme People's Assembly, held on January 17, 2021, is not very optimistic nor, as usual, is it very plausible. The projected growth numbers are only 0.9%, which is the lowest projected official rate since the mid-1990s. This shows that the Kim regime realizes that it faces persistent and serious difficulties. Based on the report from the Eighth Party Congress, it can be expected that North Korea will opt for closer economic cooperation with China. However, it remains unclear whether this economic hardship will push North Korea to open talks again with South Korea and the United States. In particular, as the new Biden administration begins in the United States in 2021, Kim Jong-un might adopt a wait-and-see approach before he makes his next move.