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**A NASCENT MIDDLE CLASS IN
NORTH KOREA**

The origins of the donju and their relationship with the state

북한의 중산층 발생

돈주의 유래 및 정부당국과 관계

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A NASCENT MIDDLE CLASS IN NORTH KOREA

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Abstract

The decline of the Stalinist economy and revitalisation of the market economy in North Korea has brought about a concomitant change in the pattern of social stratification: the relevancy of the politically determined system of *songbun* is declining, while new divisions have emerged, based on the command of economic resources. Applying Marxian and Weberian class theory, the international traders, financiers and entrepreneurs sitting at the apex of the informal market are identified as the country's proto-middle class. Collectively referred to as the *donju*, the class largely comprises historically discriminated groups, who were subsequently able to leverage their distinguishing features to profit from the market. Economic experimentation predating the famine of the mid-1990s is shown to have sown the seeds for the rapid proliferation and growth of markets, and paved the way for the commercial partnerships presently observed between the *donju* and the state. This collaboration serves a vital function in providing essential goods and services to the general population and helps to realise Kim Jong Un's commitment to economic growth – the state has effectively outsourced the pursuit of *byungjin*. Such agreements also present opportunities for the *donju* to expand the scope of their operations, otherwise hindered by the restrictive environment, and a means for Party officials to transmute their political authority into wealth. In this light, such collusion brings the two, supposedly antagonistic, strata ever closer together.

Key words

North Korea, DPRK, middle class, *donju*, marketisation, stratification, state-society relations, outsourced *byungjin*

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In this thesis, North Korean names and place names have been romanised in accordance with the McCune-Reischauer system. All other Korean words have been transliterated under the Revised Romanisation system, unless another form has entered common usage. Likewise, the ways in which Korean authors and researchers render their own names have been respected.

Korean-language sources have been referenced in Korean.

Preface

While policymakers concentrate almost exclusively on the “hard issues” surrounding North Korea, such as its nuclear weapons programme and the authoritarianism of the regime, this comes at the neglect of a nuanced appreciation of its internal structures and dynamics. Overlooking these, however, is short-sighted inasmuch as a better understanding of the country’s society offers the potential to interpret more accurately the regime’s intentions from its actions. The decisions of any government, however autocratic, are not made in a vacuum, after all. Likewise, the composition of society, the nature of the economy and state-society linkages will all have important bearings on the approaches of external parties to the North, and any meaningful policy – whether it be a coercive strategy, a model of economic cooperation, or a plan for unification – ought to take these into account.

Testament to the outside world’s failure to fully understand the internal mechanics of the North is its enduring habit of making overzealous predictions about the country’s imminent collapse. As Demick remarks, “[d]uring the 1990s, imminent collapse was the virtually unchallenged consensus.”¹ Over the last three decades the country has exhibited marked resilience – surviving the collapse of the Soviet Union, economic privation, the paralysis of its ration system, natural disasters, famine, two leadership transitions, legitimacy disasters, isolation from the international community, elite defections etc. Accordingly, the resilience of the regime has surpassed the expectations of many experts. In a sentence that surely haunts him to this day, Eberstadt wrote back in 1995 that, “there is no reason at present to expect a reign by Kim Jong Il to be either stable or long.”² Even the intelligence community is known to have placed excessive confidence in the

¹ Demick, Barbara. 2009. *Nothing To Envy: Ordinary Lives In North Korea*. New York: Spiegel & Grau. 285.

² Eberstadt, Nicholas. 1995. *Korea Approaches Reunification*. Routledge. 139.

prospect of collapse: a declassified CIA report reveals its analysts doubted in 1997 that, “North Korea could muddle through for more than five years.”³ Such speculation may have arisen from undue credence being given to rumours emanating from within the country, been coloured by wishful thinking on the part of the writers, and propagated by groupthink, but the underlying flaw is a miscalculation of the resilience of the regime.

There seems to be a marked propensity to cling to outdated perceptions of the country. This is sustained, in no small part, by the state’s pretense of constancy: the façade of Stalinism that it officially projects, with its veneration of the leader and its extravagant military parades, evokes a sense of familiarity, belying the fundamental changes that have taken place underneath the surface since the 1980s. Yet, the outside world often fails to look past this, resulting in a gross mischaracterisation. For instance, the country is still referred to as communist or socialist, on occasion, by Western⁴ and Korean⁵ media alike, while some academics continue to overlook the existence of a middle class.⁶ Moreover, as recently as November 2016, the Slovakian ambassador to South Korea, who also serves as his country’s envoy to the North, claimed that, “there’s practically no middle class”.⁷ Inertia in updating conceptions of the country, unmerited optimism, intentional perversion, or distortion to conform with familiar historical experiences all contribute to the making of decisions on the basis of inaccurate information,

³ “Exploring The Implications Of Alternative North Korean Endgames: Results From A Discussion Panel On Continuing Coexistence Between North And South Korea”. 1998. *The National Security Archive*. <http://nsarchive.gwu.edu/NSAEBB/NSAEBB205/Document%20No%2014.pdf>.

⁴ See, for example: “First N Korea-Russia Ferry Service Opens Despite UN Sanctions”. 2017. *BBC News*. <http://www.bbc.com/news/world-europe-39960626>.

⁵ For instance: “N. Korea Fires ‘Scud-Type’ Ballistic Missile: S. Korea”. 2017. *Yonhap News*. <http://english.yonhapnews.co.kr/news/2017/05/29/0200000000AEN20170529000653320.html>.

⁶ By way of example: Herman, Steve. 2013. “S. Korean President Issues Warning To North”. *Voice Of America*. <http://www.voanews.com/a/south-korean-president-issues-warning-to-north/1606326.html>.

⁷ “Lack Of Middle Class, Severe Isolation Make N. Korea’s Social Transition Unlikely: Slovakia Ambassador”. 2017. *Yonhap News*. <http://english.yonhapnews.co.kr/northkorea/2016/11/03/0401000000AEN20161103005000315.html>.

and thus suboptimal policy outcomes.

Indeed, there already exist historical experiences of crucial negotiations with North Korea being premised on flawed perceptions. For one, Myers suggests that the fallacious characterisation of North Korea as a communist nation fuelled hopes in the US government that disarmament talks with Pyongyang would yield the same result as they did with Moscow. Similarly, misplaced confidence in the imminent collapse of the North led the Clinton administration to support the provision of light-water reactors under the 1994 Agreed Framework, in the belief that they would never have to honour the agreement.

Equally, Obama's policy of "strategic patience" and Park Geun-hye's "Trustpolitik" were premised on assumptions of collapse in the foreseeable future, suggesting that both administrations failed to fully appreciate the stability of the country's society. In the same vein, improvements in the North Korean economy over the last half-decade have coincided with the application of incrementally more stringent sanctions. Flourishing trade across the China-North Korea border refutes the idea that these sanctions, at least in their present form and with current levels of implementation, are exerting any significant pressure.⁸ This study seeks to show that the above misunderstandings have arisen, in part, from an underestimation of the stabilising impact of the middle class and their business operations.

Furthermore, it seems prudent to examine the middle class since, in a country notorious for its economic deprivation, and in which outside parties have such contradictory interests, their mere existence has the potential to be instrumentalised for political ends across the ideological spectrum. For example, those more sympathetic to the government may frame the emergence of a middle class as

⁸ Fifield, Anna. 2015. "North Korea's Growing Economy – And America's Misconceptions About It". *The Washington Post*. http://www.washingtonpost.com/world/asia_pacific/north-koreas-growing-economy-and-americas-misconceptions-about-it/2015/03/13/b551d2d0-c1a8-11e4-a188-8e4971d37a8d_story.html.

indications of improving economic wellbeing⁹ and growing regime tolerance. Likewise, advocates of engagement will point to the middle class as evidence of the success of their initiatives, while more hawkish commentators are liable to suggest they are living proof of the insincere implementation of multilateral sanctions by China. The diversity of policy options flowing from the above (mis)interpretations demonstrates the importance of probing the true nature of the North Korean middle class, their origins and their relationship with the state. North Korea remains a relatively closed society to this day, with obvious ramifications for the availability and reliability of data. The regime remains highly guarded of its official statistics: for instance, it has not published official economic indicators since 1963¹⁰ and it is likely that these were at least partly falsified.¹¹ In addition, the sourcing of qualitative data directly is made difficult by restrictions imposed during visits. Despite these obstacles, sufficient credible information now exists to be able to assert the existence of a nascent middle class in the country and to offer a detailed description of their identities, lifestyles, origins and connections with the state. To date, research has focused more broadly on the emancipatory potential of capitalism and shifting social norms, while little attention has been expressly directed towards the individuals actualising this marketisation. Through the collation of recent scholarly literature, refugee surveys and interviews, reports from in-country informants, and media coverage, this study seeks to contribute a more comprehensive picture of this burgeoning privileged stratum.

⁹ For example, a leading German newspaper ran a story in May 2017 about recent economic growth in North Korea under the headline, “A Rising Tide Lifts All Boats”. (Welter, Patrick. 2017. “Die Steigende Flut Hebt Alle Boote”. *Frankfurter Allgemeine Zeitung*. <http://www.faz.net/aktuell/politik/ausland/nordkoreas-wirtschaft-erholt-sich-dank-seichtem-uebergang-zur-marktwirtschaft-14995756.html>.)

¹⁰ Park, Phillip H. 2016. *Rebuilding North Korea's Economy: Politics And Policy*. Kyungnam University Press. 13.

¹¹ This obfuscation is motivated, in part, by anxieties over security: Kim Jong Il has been quoted conveying as such: “[w]e must create an environment as if surrounded by fog so our enemies cannot see us directly and clearly.” (Oh, Kongdan, and Ralph C. Hassig. 2000. *North Korea Through The Looking Glass*. Brookings Institution Press. 97.)

1. Sociological background to class

1.1 What is class?

Social class refers to the hierarchical arrangement of individuals in a given society, typically according to their social, economic and educational status. By virtue of such social stratification, actors differentially possess resources and face constraints, which influences their behaviours.¹² Owing to variations across time, cultures and the academic conceptualisations of its meaning, precisely defining class and delineating the boundaries between classes can be problematic. However, the most significant and widely applicable contributions to this field of sociological literature were made by Marx and Weber.

Marx's name enjoys an inextricable association with the notion of class. However, while class analysis was central to his work, he neglected to present a systematic elaboration of his own conception of class. In the one text in which he seems to promise a formal definition, his question, "what constitutes a class?" is followed by only two short paragraphs before Engels appends, "here the manuscript breaks off."¹³

According to Marx, a class is a group sharing common economic interests, as determined exclusively by their relationship to factors of production, i.e. one's "objective place in the network of ownership relations."¹⁴ The proletariat do not own the means of production, but rather sell their labour for a subsistence wage, while the bourgeoisie invest in the means of production and, as a consequence, are able to capture as profit the surplus value created by workers. Thus, their relations are inherently exploitative and self-reinforcing as the earnings of the proletariat fail to reflect the real value of the product of their labour, which permits the further accumulation of capital by the bourgeoisie. As Marx wrote, "[the] labourer alone is

¹² Breen, Richard, and David Rottman. 1995. "Class Analysis And Class Theory". *Sociology* 29 (3): 453-473.

¹³ Wright, Erik Olin. 1985. *Classes*. London: Verso. 6.

¹⁴ Cohen, G. A. 1978. *Karl Marx's Theory Of History: A Defence*. Oxford: Clarendon Press. 76.

productive, who produce surplus-value for the capitalist, and thus works for the self-expansion of capital.”¹⁵ Furthermore, according to Marxist thought, the competitive nature of capitalism naturally leads to the concentration of capital among fewer and fewer owners, exacerbating the structural polarisation and resulting in the proletarianisation of the remainder of society. In Marx’s words: “[s]ociety as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other: bourgeoisie and proletariat.”¹⁶ Classes subsequently become political in nature when individuals occupying the same strata become aware of their commonality and engage in collective action over joint struggles. This development of “class consciousness” reflects the shift from a constitutive “class *by itself*” (“*eine Klasse an Sich*”) to a politically motivated “class *for itself*” (“*eine Klasse für Sich*”). Marx argued that the antagonism between these two diametrically opposed classes would necessarily result in “class conflict”. In this way, the contradictory interests of the two classes charge society with an inbuilt mechanism for radical change. However, in militating against the proletariat-led revolution, Marx contended that capital begets political power, and the bourgeoisie exploit this to shape political institutions to reflect their interests and protect their position.¹⁷

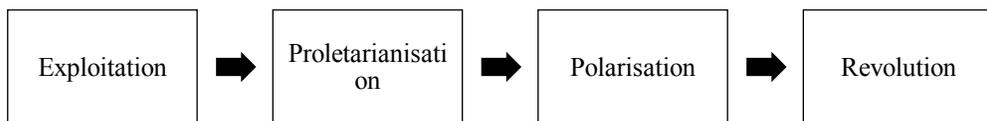


Fig. 1: Marx outlined a predetermined path along which antagonistic class relations propel society.

¹⁵ Marx, Karl. 1867. *Capital, Volume I*.

¹⁶ Marx, Karl, and Friedrich Engels. 1967. *The Communist Manifesto*. Penguin Books.

¹⁷ *Ibid.*

In the Marxist tradition, class is a near-universal phenomenon. Wherever and however human labour has been socially organised to yield value, inequality has come about through a division of labour between a productive exploited class and a non-productive exploiting class. Historically, this dynamic was realised through legal coercion: slaves were the legal property of their masters, and serfs rendered their bonded labour to feudal lords. The distinguishing novelty of the capitalist environment, therefore, was that its subjects were legally equal and formally free.¹⁸ Weber defined class as an aggregate of persons with a “shared typical probability of procuring goods, gaining a position in life, and finding inner satisfaction”. He noted that classes arise from the growing bureaucratisation of modern society and the rationalisation of capitalist production, implying their distinctions are most pronounced in market situations. Writing elsewhere, he expanded:

“We may speak of a ‘class’ when (1) a number of people have in common a specific causal component of their life chances, insofar as (2) this component is represented exclusively by economic interests in the possession of goods and opportunities for income, and (3) is represented under the conditions of the commodity or labour markets.”¹⁹

Construed as such, class situation effectively amounts to market position.²⁰

Importantly, Weber’s definition here allows for a multivariable determination of class relations; he does not call for the bifurcation of the entirety of society on the basis of a single criterion. He recognises a broader range of assets that can generate returns on the market, including the ownership of land and buildings, as well as occupational resources, e.g. skills and experience that are highly regarded by the market, thereby allowing workers to command greater reimbursement for their labour.

¹⁸ Milner, Andrew. 1999. *Class*. SAGE. 19.

¹⁹ Weber, Max. 1961. *From Max Weber: Essays In Sociology*. Routledge & Kegan Paul.

²⁰ Milner, 66.

His work approached class from an angle of power relations. As part of his “three-component theory”, he delineated three determinants of social stratification, through each of which power might be derived and exercised.²¹ Class power pertains to the asymmetric command of economic and material resources, status power to deference on the basis of rank or esteem, and political power to the achievement of goals by organised groups in the face of opposition. However, Weber intended these as ideal types only, acknowledging that in reality, wealth, prestige and influence will not be found neatly contained within one dimension only; rather, they will spill across these theoretical boundaries and interact. Indeed, it is likely that power in one domain will be leveraged by actors to expand their interest in another. However, since these distinct sources can be distinguished, it follows that they are not necessarily coincident. That is, the stratum enjoying the greatest class power, by virtue of its economic endowment, may not refer to the cluster of individuals with the greatest political power. Likewise, the richest individuals cannot definitively be said to constitute the political elite.

Weber’s sociology was rooted in methodological individualism, so while he recognised the utility of collective concepts like “social class”, he adhered to the belief that this was simply shorthand for an aggregate of individuals. Unlike Marx’s treatment of class as a real structuring entity, Weber considered class to be merely a convenient heuristic for the discussion of societal actors and their actions. Accordingly, classes are pure abstractions for Weber until embodied by constituent members demonstrating a subjective awareness of their identity and behaving in accordance with class lines.²² He argued that the transition from social class to

²¹ Weber, Max. 1922. *Economy And Society*. Berkeley: University of California Press. 302.

²² This opinion is echoed by the writings of E. P. Thompson. In *The Making of the English Working Class*, he eschewed the notion of class as a structure or category altogether. He wrote, “class is defined by men as they live their own history, and, in the end, this is its only definition.” Viewed this way, consciousness is integral to class itself. Class becomes not a schema for the organisation of society, but rather than action that is really performed. Indeed, Thompson wrote that class is something that “happens”. (Thompson, E. P. 1963. *The Making Of The English Working Class*. Penguin)

effective social actor rests on the fulfilment of four conditions: “a capacity to concentrate on rival class opponents over issues in which the immediate conflict of interest is vital; a common class status shared by large masses of people; the technical possibility of coming together physically; and a leadership directed towards readily attainable goals.”²³

In contrast with the Marxist commitment to inevitable proletariat class consciousness, and the resulting uprising against the bourgeoisie, Weber allowed for the possibility that class consciousness either transpires, or does not. If a class does politically self-organise, the way in which this unfolds cannot be generalised, and will be conditioned by the particular circumstances. For Weber, class was clearly a function of *economic* interest, but *class* interest remained ambiguous.²⁴ The transmission between class identity and class action is not so straightforward as for Marx: there is no preordained interest around which a class will coalesce, no fixed arrangement of societal allies and adversaries, and no predesignated target against which grievances will be directed.

Class membership		Class awareness
Marxian “class <i>by</i> itself”		Marxian “class <i>for</i> itself”
Weberian “component” of power		Weberian “social actor”
Objectively existing	<i>Marxian class consciousness (inevitable)</i>	Subjectively self-identifying
Source of stratification		Source of social relations
Determined structurally	<i>Weberian class transformation (context-dependent)</i>	Agency
Purely constitutive		Politico-ideological

Fig. 2: The differences between class membership and class awareness. According to Marx, the transition between the two is realised through class consciousness, which is inevitable. On the other hand, Weber entertained the notion that the transformation of a class into an effective social actor may never happen.

²³ Weber, Max. 2012. *The Theory Of Social And Economic Organization*. Martino Fine Books. 427-428.

²⁴ Weber, *From Max Weber: Essays In Sociology*, 183.

In summary, both Marx and Weber shared a belief in the role of capitalism in disclosing class relations. However, for Weber, the market was an essential precondition, while Marx considered it only the modern incarnation of mankind's innate tendency to exploit the labour of others. For Marx, the antagonistic relationship between the two competing groups was the crux of class, but for Weber the term simply served as a label for the sake of expedience. Finally, Marx claimed that class-based insurrection was ineluctable, even specifying the objects and subjects, the motivation and the eventual outcome. Weber, on the other hand, adopted a more relaxed approach, allowing for the possibility that class awareness may not materialise; however, if it did, little could be said beforehand of the way in which it would manifest itself. However, there was an area of commonality in stressing the need to draw a distinction between class as a structural placeholder within a social hierarchy, and the subjective self-identification by individuals as belonging to said group.

1.2 Defining a middle class

By definition, “middle class” is a relative term, and in its modern rendition it implies a financial capacity in between that of the working class and the upper class. Its precise form is, thus, necessarily society-dependent. However, an essential characteristic that transcends particular contexts is the possession of a reasonable sum of discretionary income – the “one-third rule” has loosely been proposed as the proportion that should remain for purposeful spending.²⁵

Nevertheless, “middle class” has significance far beyond its objective description as an income category; it suggests a set of norms, beliefs and attitudes, and evokes an associated lifestyle. In addition, the status is typically associated with the completion of tertiary education and a professional or business occupation.

In terms of theoretical background, the original Marxist model is one of polarised duality, dividing society on the basis of the ownership and non-ownership of the means of production. Nevertheless, Marx himself conceded that not everybody in capitalist societies belongs to one of the two principal classes.²⁶ He recognised that, in some contexts, classes could be subdivided into “class fractions” but maintained that, over time, the mechanisms of capitalism would clarify the stratification pattern towards one approximating the proletariat-bourgeoisie dichotomy.²⁷

Orthodox thought has considered the middle class to be of only peripheral importance in class relations. It is regarded as either a vestige of earlier historical periods, or simply a transitory phenomenon, with its members inevitably destined to sink down to join the proletariat. However, considering their persistence, and growth in both number and prominence in modern-day capitalist societies – indeed, at the expense of the working class – their treatment as a mere residual has become increasingly unconvincing. Marxist theorists have made attempts at

²⁵ Lin, See-Yan. 2015. *The Global Economy In Turbulent Times*. John Wiley & Sons. 572.

²⁶ Saunders, Peter. 1990. *Social Class and Stratification*. Routledge.

²⁷ Milner.

reconciliation by subsuming the middle class, together with capitalists, into the nebulous category of the bourgeoisie, or by permitting additional groups, although this arguably marks a departure from the critical essence of Marxism.²⁸ As Saunders remarks, “either people own the means of production, or they do not. Attempts to build a middle class into this schema will inevitably end up fudging the theory.”²⁹

While under classical Marxism the number of possible classes is logically restricted to two, the Weberian model, by contrast, imposes no such limit. In fact, Weber’s equation of class with market position allows, in theory, for an infinite number of classes, corresponding to an infinite number of income levels. Empirically, however, he identified the existence of four major classes: the working class, the middle class, the privileged class and the intelligentsia. Ultimately, Weber’s approach seems best suited to analysing the realities of modern-day capitalism.³⁰

To conclude, with relevance to the study at hand, Weber held that a class pertains to a stratum of like individuals within a population, sharing certain economic characteristics. By extension, individuals within a class will share similar professional credentials or functions in the market, and be in possession of comparable assets or attributes, beyond their labour, that are appreciated by market

²⁸ For instance, the American Marxist, Erik Olin Wright has suggested that many individuals fall between the gaps into so-called “contradictory class locations”. In this framework, he allowed for intermediate classes, with opposing interests within a given mode of production. Managers, for example, are simultaneously exploited by capitalists, while exercising control over workers. He also acknowledged the diverse array of modes of production within societies, such that real class structures, “will be characterised by complex patterns of intersecting exploitation relations”. The accommodation of capital, skill and organisational assets resulted in a composite 12-class model. (Wright, Erik Olin. 1985. *Classes*. Verso.) However, such expanded taxonomies put forward by neo-Marxist thinkers represent empirical adjustments to reflect the specific realities of contemporary capitalist societies, and therefore application to the North Korean setting may not be appropriate.

²⁹ Saunders.

³⁰ Nevertheless, the two schools of thought should not be seen as directly in competition with each other; Edgell suggests that both can be used in parallel, where appropriate, in the study of contemporary class systems. (Edgell, Stephen. 1993. *Class: Key Concept In Sociology*. Routledge. 15.)

forces. Notably, too, while wealth, prestige and influence were envisioned as technically independent parameters, individuals will be able to mobilise their resources from one domain to further their interests in another.

Market position confers corresponding “life chances”,³¹ and thus groups united by the market stand to experience common gains or losses in response to any societal changes. Accordingly, they will be united by similar incomes and consumption patterns, lifestyles, behaviours, norms and preferences.

Whether their members of the class ever self-identify as a member of the class depends entirely on the context, i.e. whether the collective was sufficiently large in number, the ability to concentrate on inter-class complaints, the option of assembly, and an organised and effective leadership. It cannot be said with certainty that class action will materialise, and its direction of political orientation and alignments in coalition building cannot be specified in general terms.

³¹ Giddens’ definition of “life chances” is complementary to that of Weber: “the chances an individual has for sharing in the socially created economic or cultural ‘goods’ that typically exist in any given society.” (Giddens, Anthony. 1973. *The Class Structure Of The Advanced Societies*. 130-131.)

2. The middle class in North Korea

2.1 Recognising a middle class in North Korea

Refugees and in-country sources report that there have always been universally recognised indicators of affluence in North Korea. For example, as a dietary staple, the type of rice a household consumes is a good indicator of wealth. The poor can expect only simple corn or rice; the middle class eat “5:5 rice” or “7:3 rice”, terms denoting the relative proportions of white rice and corn kernels mixed together;³² while a special type of rice is reserved for Party officials.³³ Through the 1960s to 1980s, when life was largely contained within state-controlled channels, the size and frequency of allocated rations – itself a proxy for favourability in the regime’s eyes – served as a marker of class.³⁴

Another indication of wealth is the ownership of a collectively agreed upon “seven contraptions” (“칠기”), whose definition is fluid with time but in the early 2000s comprised a television, a refrigerator, a washing machine, an electric fan, a sewing machine, a videotape recorder and a camera.³⁵ Refrigerators, in particular, are impractical in North Korea due to the unreliability of the electricity supply, and so generally amount to little more than status symbols. “A fridge is an important sign of business success in the North Korea of 2011,” Lankov writes.³⁶ Alternatively, the possession of a “set of 5 and 5” – five specific electrical goods and furniture – may mark an individual as well-off.³⁷ The choice of heating fuel, too, reflects

³² “Conversations From North Korea – Economy”. 2015. *New Focus International*.
<http://newfocusintl.com/conversations-from-north-korea-economy>.

³³ “A Special Kind Of Rice For DPRK Workers’ Party Officials”. 2013. *New Focus International*.
<http://newfocusintl.com/special-kind-of-rice>.

³⁴ Jang, Jin-sung. 2015. *Dear Leader: My Escape From North Korea*. Atria / 37 INK. 44.

³⁵ Lankov, Andrei. 2007. *North Of The DMZ: Essays On Daily Life In North Korea*. McFarland & Co. 109.

³⁶ Lankov, Andrei. 2013. “Low-Profile Capitalism: The Emergence Of The New Merchant/Entrepreneurial Class In Post-Famine North Korea”. In *North Korea In Transition: Politics, Economy, And Society*, 190. Rowman & Littlefield Publishers.

³⁷ “What Makes You Middle-Class In North Korea”. 2013. *New Focus International*.
<http://newfocusintl.com/what-is-the-basis-of-class-in-north-korea>.

stratification, with the poorer opting for coal over firewood, even though the latter is cleaner and more convenient; the price difference is minimal, yet significant for the poorest members of society.³⁸ A dedicated electricity supply is possible for the rich: in the provinces they may bribe government organs or military units to secure a connection to more reliable grids intended for industrial or military use,³⁹ while in Pyongyang citizens install small solar panels on their balconies.⁴⁰ There is also a linguistic phenomenon in how one expresses the value of a good: the elite converse in terms of dollars, the middle class in Chinese yuan, and the poor by the equivalent weight of corn.⁴¹ However, some refugees maintain that in an environment in which food scarcities have been routine and devastating, being “middle class” may simply entail enjoying food security.⁴² Thus, wealth disparities, along with ill-defined criteria for social classification, have always been present in the country. However, to date, efforts to pinpoint a “middle class” have lacked consistency, complicated by diffuse definitions, variation between analysts in the use of the term and the relatively fast pace of change in the country’s socioeconomic conditions.

³⁸ “Heating Fuel Choice Reflects Economic Stratification”. 2015. *DailyNK*. <http://www.dailynk.com/english/read.php?cataId=nk00100&num=13616>.

³⁹ Lankov, Andrei. 2013. “Nouveau Riche In Pyongyang”. *The Korea Times*. http://www.koreatimes.co.kr/www/news/opinion/2013/06/304_137572.html.

⁴⁰ “Creeping Capitalism: How North Korea Is Changing”. 2015. *BBC News*. <http://www.bbc.com/news/world-asia-34479606>.

⁴¹ “How Much Does It Cost?”. 2015. *New Focus International*. <http://newfocusintl.com/how-much-does-it-cost>.

⁴² 박영자. 2017. “체제변동기 북한의 계층·세대·지역 균열- 행위자 모형에 기반한 상황과 구조”. *한국정치학회보* 46 (5): 184.

Source	Year	Class	Size	Characteristics
Korea Institute for National Unification ⁴³	2007	Middle	5 million – 7.5 million	Average monthly income of 200,000 – 500,000 won
Abrahamian ⁴⁴	2009	Merchant	150,000 – 500,000	
Park Yeong-ja ⁴⁵	2012	Upper middle	2.5 million	Assets of \$10,000 – \$30,000
Dong Yong-seung ⁴⁶	2013	Professional merchant / entrepreneur	500,000 – 1 million	
South Korean intelligence official ⁴⁷	2014	Non-Party elite	240,000	Assets of \$50,000 – \$100,000
Toloraya ⁴⁸	2016	Middle and elite	1 million	
Jung Sang Don ⁴⁹	2017	Emerging capitalist	1.25 million	Considered to be part of the “high class”, sited between the “privileged” (0.1% of the population) and the “middle class” (20%)

Fig. 3: A sample of different estimates of the size and distinguishing attributes assigned to the “middle class” and mercantile classes in the North Korea literature.

⁴³ Korea Institute for National Unification. 2012. *Basic Reading On Korean Unification*. 179.

⁴⁴ Abrahamian, Andray. 2011. “North Korea’s 2009 Currency Reform In The Context Of National Narrative”. *North Korean Review* 7 (1): 70.

⁴⁵ 박영자. 2017. “체제변동기 북한의 계층·세대·지역 균열- 행위자 모형에 기반한 상황과 구조”. *한국정치학회보* 46 (5): 182-183.

⁴⁶ Dong, Yong-seung. 2013. “The Rise Of North Korea’s Merchant Class”. *SERI Quarterly*, 67-68.

⁴⁷ “Pyongyang Booms At The Expense Of The Rest Of N.Korea”. 2014. *Chosun Ilbo*. http://english.chosun.com/site/data/html_dir/2014/03/20/2014032001737.html.

⁴⁸ Toloraya, Georgy. 2016. “Preparing For Korean Unification?”. *38 North*. <http://38north.org/2016/06/gtoloraya060916>.

⁴⁹ Jung, Sang Don. 2017. “Kim Jong Un Regime’s Social Control Policy: Continuities And Changes”. *The Korean Journal Of Defense Analysis* 29 (1): 13-14.

Clearly, there exist such discrepancies in the estimates of size and inconsistencies in the characteristics of these “middle classes” that they cannot possibly be referring to the same cluster of individuals. How, then, can a class be defined so as to be replicable? Chen describes two traditions in the conceptualisation of a class: the “subjective approach” and the “objective approach”.⁵⁰ The subjective approach draws on the Marxist and Weberian notions of class awareness, in that it is the psychological affiliation with a given class, based on one’s self-perception, that confers membership to that class. In the absence of refugee survey data for this purpose of this study, however, such methodology was unfeasible. This choice is also defensible in that such class attachment “requires most of the population to have at least a basic understanding of the middle class, an understanding that can take a long time to develop.”⁵¹ In this light, it is more appropriate in settings where the economic system is stable and the social hierarchy well established. In contrast, the objective approach calls for the use of empirically derived socioeconomic indices as determinants of class. However, sufficient income data is unavailable for North Korea and, even if it were reported, significant gaps between nominal and actual figures would be expected. In the words of Jeong, “[t]here is a very large possibility that even the North Korean government cannot accurately know the income of its people.”⁵² Moreover, under socialism, state wages may not accurately reflect socioeconomic status, as the Party elite may enjoy a standard of living well beyond their salary through government privilege, and enjoy access to perks simply unavailable to other members of society.⁵³

⁵⁰ Chen, Jie. 2014. *A Middle Class Without Democracy: Economic Growth And The Prospects For Democratization In China*. Oxford University Press. 30-33.

⁵¹ Ibid.

⁵² 정은미. 2015. “북한 중간계층의 결정요인과 특성”. *통일과평화* 7 (2): 74-109.

⁵³ It is for this reason that this study classifies the *donju* as the *middle* class of North Korea. While their incomes can be inordinately large in comparison to the rural peasantry, and their quality of living may rival that of Party officials, they are still political outsiders. Indeed, as explained later, an overrepresented group among the *donju*, the *hwagyo*, are barred from Party membership. Given the Party’s continued centrality, the term “elite” has been reserved for the highest-ranking Party members

Therefore, occupation, as a more easily determined variable, and one with a tighter association to market position, presents the best option for the identification of a class. Furthermore, professions constitute clear and well defined categories, facilitating operationalisation.

In this light, it becomes possible to formally recognise the proto-middle class that has surfaced in North Korea. By and large, this burgeoning middle class can be identified as the country's new generation of private entrepreneurs, namely the *donju* (“돈주”, derived from “钱主”), an expression variably translated as either “masters of money”, “money owners” or “money holders”. South Korean scholars have also referred to them as “red capitalists”⁵⁴ or “North Korean-style capitalists”.⁵⁵ Having accumulated wealth through the market, they have abandoned their state jobs to pursue private interests full-time. Even though their business activities remain in technical violation of the country's laws, these are rarely enforced in practice, providing the *donju* have secured sufficient political protection. In this way, collusion with the authorities is permissive, as well as a source of new commercial opportunities in its own right.⁵⁶

While their incomes can be inordinately large in comparison to the rural peasantry, and their quality of living may rival that of Party officials, they are still political outsiders. Indeed, as explained later, an overrepresented group among the *donju*, the *hwagyo*, are barred from Party membership. Given the Party's continued centrality, the term “elite” has been reserved for the highest-ranking Party members and their families. Essentially, a value cannot be affixed to this connectivity and the benefits it brings. This is one reason why this study classifies

and their families. Essentially, a number cannot be affixed to the value of this connectivity and the benefits it brings.

⁵⁴ 김영희. 2016. “돈주 그들이 돈을 버는 법”. *통일한국*, 31.

⁵⁵ 동용승. 2016. “돈주 활용한 북한 변화 유도, 어떻게?”. *통일한국*, 32.

⁵⁶ The linkages between the *donju* and the state are examined in more detail in chapter 3.

the *donju* as the country's *middle* class, in addition to their similarities in identity and consumerist behaviours with the prototypical middle class as understood in the political science literature.

The word “*donju*” seems to have been coined in the early 2000s,⁵⁷ but has now entered the common lexicon of North Koreans. Beyond a simple understanding of its meaning, the concept is so familiar that it connotes a whole mental picture: the roles they undertake in the market and their relative wealth and attendant lifestyles. Refugee testimony suggests that differentiation is both possible and precise; for example, one could pinpoint, “this is a *donju*'s house, that is a poor person's house.”⁵⁸ In this way, the *donju* can be seen as constituting a coherent social stratum, with an intersubjectively recognised identity, criteria and indicators. Frank uses the number of subscribers to the Koryolink mobile phone network as a benchmark in gauging the current size of the middle class. At the end of 2015, this figure stood at around 3 million people, or approximately 12% of the country's 24.9 million-population.⁵⁹ He reasons that, with average monthly wages currently standing at \$50 or below, the capacity to afford the price of a handset (approximately \$150-350) and line fees (between \$10-20 per month) as part of one's purposeful spending would qualify an individual as a member of the middle class.⁶⁰ While some phone owners rent several lines – which is reportedly more economical than buying extra credit⁶¹ – Frank considers the effect of this practice in distorting the estimate upwards to be negligible. A similar assessment has been offered by Chad O'Carroll, the founder of NK News, in suggesting that the *donju*

⁵⁷ 최수영. 2015. “북한경제를 움직이는 ‘돈주’”. *월간 북한*. 북한연구소: 63.

⁵⁸ Cho, Jeong-ah. 2007. *The Changes Of Everyday Life In North Korea In The Aftermath Of Their Economic Difficulties*. Studies Series 07-06. Korea Institute for National Unification. 43.

⁵⁹ Pearson, James. 2015. “North Korea's Black Market Becoming The New Normal”. *Reuters*. <http://www.reuters.com/article/us-northkorea-change-insight-idUSKCN0SN00320151029>.

⁶⁰ Rüdiger Frank, personal communication with author, 23rd March 2017.

⁶¹ Williams, Martyn. 2015. “Koryolink Said To Have 3 Million Subscriptions”. *North Korea Tech*. <http://www.northkoreatech.org/2015/10/14/koryolink-said-to-have-3-million-subscriptions>.

and their family and friends comprise around 10% of the population.⁶² Often, the *donju* benefit from advantageous political connections (whether it be relatives or acquaintances) or foreign contacts, but not exclusively, and thus the condition of quasi-capitalism in North Korea has introduced an element of social mobility in a country previously governed by the *songbun* system. *Songbun* is an artificial hierarchy imposed by the regime to arrange the population into three principal classes⁶³ – core (“핵심”), wavering (“동요”) and hostile (“적대”) – on the basis of perceived Party loyalty and family background. These categories are further subdivided into 51 subgroups,⁶⁴ establishing a granular means of distributing social welfare (e.g. rations, housing and medical care) and opportunities (e.g. higher education, military service and work placements) in such a way as to reward groups considered loyal and repress the politically suspect. Thus, *songbun* serves as the regime’s instrument for social engineering, inextricably linking political loyalty with socioeconomic welfare. Weber’s three ideal types of power are concretely unified: the political elite are necessarily the economic and social elite.

⁶² Leach, Naomi. 2016. “Designer Clothes, Fast Cars And Plane Rides Over Pyongyang: Fascinating Photos Reveal That North Korea Has An Elite Living A Life Of Luxury (And They’re Not Afraid To Flaunt It)”. *Daily Mail*. http://www.dailymail.co.uk/travel/travel_news/article-3965018/Designer-clothes-fast-cars-plane-rides-Pyongyang-Fascinating-photos-reveal-North-Korea-elite-living-life-luxury-not-afraid-flaunt-it.html.

⁶³ Armstrong frames *songbun* as one of the neotraditional aspects of North Korea’s socialism: a hereditary three-tiered hierarchy of core, wavering and hostile classes resonates with the yangban, commoner and outcast/slave structure that dominated Joseon society. (Armstrong, Charles K. 2003. *The North Korean Revolution, 1945–1950*. Cornell University Press.)

⁶⁴ *North Korea Overview 2009*. 2009. Korea Institute for National Unification. 332.

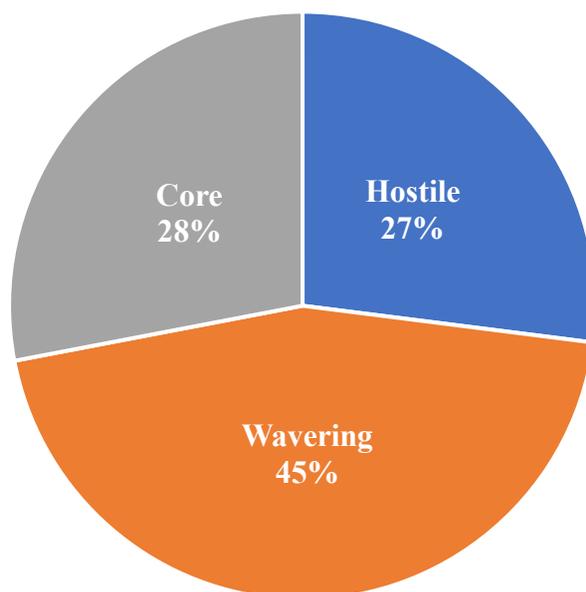


Fig. 4: The proportions of the North Korean population assigned to the three principal songbun classes.⁶⁵

The core class comprises high-ranking Party officials, anti-Japanese guerrilla fighters, veterans of the Korean War, military elites, and the descendants of factory workers and farmers from the pre-revolutionary period. Meanwhile, ordinary peasant workers, low-ranking office workers and artisans would generally fall into the wavering category. The hostile class includes political dissidents and criminals; former landowners, wealthy farmers and capitalists; Buddhists, Christians and shamans; Japanese collaborators and clerks in the colonial administration; and those who assisted the South in the war.

Inherited through one's father, and with marriage to a partner of low status sometimes leading to a demotion, *songbun* impacts the entire family's bloodline – Demick reports that North Koreans call members of the hostile class “tainted

⁶⁵ Collins, Robert. 2012. *Marked For Life: Songbun, North Korea's Social Classification System*. The Committee for Human Rights in North Korea. 25.

blood”.⁶⁶ While the regime has promoted the idea of social advancement despite poor *songbun*,⁶⁷ overcoming the stigma of a suspect background is, in practice, difficult.⁶⁸ Minor changes in one’s *songbun* could be achieved through proven dedication to the leader, university education or service in the military,⁶⁹ but these options were only available to those above a certain level. By its predetermination of life chances, *songbun* offered little reward for ambition and initiative. Hunter observes that *songbun* creates a self-fulfilling prophecy in terms of morale, whereby “the [privileged] feel they are guaranteed success in life, whether they work hard or not, and the non-privileged have a sense of futility that eventually kills all incentive to work hard and do well.”⁷⁰ Essentially, society became structured such that one’s assigned *songbun* and devotion to the Kims were the sole criteria for social advancement in life.

Owing to its rigidity, *songbun* has circumscribed the trajectories of much of the population’s lives. However, in parallel with the remonetisation of society, classification by *songbun* has become increasingly archaic, a relic of an era in which the regime itself adhered to its founding ideology. Indeed, even under Kim Jong Il, a partial eschewing of *songbun*-determined hiring practices was seen, with the issuing of a pragmatic directive to offer employment “based on present effort”. Government organisations, factories and SOEs began to consider the competence and qualification of the individual, alongside *songbun* favourability, in making hiring decisions.⁷¹ Similarly, Kim Jong Un seemingly exhorted moderation of the use of *songbun* in his speech at the Party’s 7th Congress in 2016: “[Party organisations] should squarely see people as they are instead of just reading their

⁶⁶ Demick, 28.

⁶⁷ Hunter, Helen-Louise. 1999. *Kim Il-Song’s North Korea*. Praeger. 3.

⁶⁸ This is, of course, antithetical to the central tenet of the regime’s professed philosophy, *Juche*: “[t]hat man is the master of everything means that he is the master of the world and of his own destiny.” (Kim Jong Il – “The Philosophical Principle of the Juche Idea”)

⁶⁹ Smith, Hazel. 2015. *North Korea: Markets And Military Rule*. Cambridge University Press. 169.

⁷⁰ Hunter, 8.

⁷¹ Jung, 12.

files, and assess them on the basis of their loyalty today rather than in the past.”⁷²

Chung finds that, although it is hard to pinpoint to what extent exactly, the influence of *songbun* and political power on one’s social standing has lessened since the 1990s.⁷³ This is consistent with the observed decline in the number of references made, and significance ascribed, to *songbun* in official literature over the same time period. Chung writes that, “rather than political power or *songbun*, nowadays the realisation that money can solve things is being internalised.”⁷⁴

There are many reports from refugees attesting to this:

“[North Korea] has become a society where if you have money, you won’t have any problems. If you have a lot of money, you can become a government official. As long as your *songbun* is not bad, you can buy your way up to any position. That’s how strong the power of money is. In a socialist state, everyone is equal, but in North Korea now it is money that determines a person’s status.”⁷⁵

“Under Kim Il Sung, *songbun* was very important; it decided everything. Under Kim Jong Il things are different; your family background still matters, but money nowadays is more important than social background.”⁷⁶

“The regime that never tires of denouncing capitalism has birthed a society where money is king.”⁷⁷

⁷² “Supreme Leader Kim Jong Un’s Report To The Seventh Congress Of The Workers’ Party Of Korea On The Work Of The Central Committee”. 2016. *The National Committee On North Korea*. http://www.ncnk.org/resources/news-items/kim-jong-uns-speeches-and-public-statements-1/KJU_Speeches_7th_Congress.pdf.

⁷³ 정우곤. 2004 “1990년대 북한 주민생활보장제도의 퇴색과 도시 계층구조 재편”.

현대북한연구 7 (2): 119.

⁷⁴ Ibid.

⁷⁵ Kim, Yoo-sung.

⁷⁶ Lankov, *Low-Profile Capitalism*, 185.

⁷⁷ Kang, Chol-hwan, and Pierre Rigoulot. 2005. *The Aquariums Of Pyongyang: Ten Years In The North Korean Gulag*. Basic Books.

Higher *songbun* status cannot be bought, but its effects can.⁷⁸ In today's North Korea, money can secure a more comfortable apartment, a university education, exemption from laws, medical care and all range of imported goods from the market. David-West comments that "wealth [has] displaced Party membership and family background as the [guarantee] of material satisfaction".⁷⁹

The market economy has provided new opportunities outside of governmental structures, where *songbun* has no place. Similarly, market principles prioritise profit above all else, rendering obsolete extraneous qualities that have no bearing on performance, meaning it serves as no obstacle in establishing business partnerships with Party institutions. Political connectivity certainly has a role to play in facilitating commercial success but it is by no means a prerequisite; it is still possible to prosper from the market in spite of poor *songbun*. The converse also holds true: high political connectivity is no longer a guarantee of economic wellbeing. Tudor and Pearson observe that, "[m]any of the growing entrepreneurial class have poor *songbun*, but it scarcely makes a difference in their lives."⁸⁰

Moreover, those with poor *songbun* can even be among the most successful today, as their lower expectations of the state encouraged them to enter the market at the earliest opportunity.⁸¹ Similarly, Kim notes that a typical member of the independent task forces using the market to fund state enterprises comes from the general population.⁸²

These days, the market has presented the potential of a meritocratic ascent – allowing for even a member of the hostile class to climb to the economic middle

⁷⁸ Tudor, Daniel, and James Pearson. 2015. *North Korea Confidential: Private Markets, Fashion Trends, Prison Camps, Dissenters And Defectors*. Tuttle Publishing.

⁷⁹ David-West, Alzo. 2013. "North Korea And The Contradiction Of Inversion: Dictatorship, Markets, Social Reform". *North Korean Review* 9 (1): 106.

⁸⁰ Tudor and Pearson, 226.

⁸¹ Lankov, Andrei. 2011. "North Korea's New Class System". *Asia Times*. <http://www.atimes.com/atimes/Korea/ML03Dg01.html>.

⁸² Kim, Sung Chull. 2006. *North Korea Under Kim Jong Il: From Consolidation To Systemic Dissonance*. State University of New York Press. 155.

class – based on hard work, business acumen, commercial creativity, networking ability, perhaps a certain ruthlessness and dishonesty, and a capacity to adapt and exploit the socioeconomic changes underway. In this way, private economic activities have engendered new fluidity in the social hierarchy, eclipsing *songbun* in relevance. As Cho et al. note, “[i]n the past, people were rated on which positions they held in the Party, military, or political circles, but now, they are rated on how much wealth they have.”⁸³ The resource on the basis of which a class system is stratified reflects what is valued by society at that time: political loyalty has now been superseded by money, recasting society along economic lines and establishing a much more familiar class structure.

Weber’s three component model can be applied to consider the interaction between these different attributes. Historically, poor *songbun* has condemned individuals to political and status poverty, but with the development of a capitalist social formation in post-famine North Korea, distinction on the basis of economic standing has become viable. Accordingly, a new status index has emerged, and it follows that participants will leverage their high economic power, where possible, to compensate for deficiencies in the other two dimensions.

⁸³ Cho, Jeong-ah, Jae Jean Suh, Soon-hee Lim, Bo-geun Kim, and Young-ja Park. 2009. *The Everyday Lives Of North Koreans*. Studies Series 09-03. Seoul: Korea Institute for National Unification. 50-51.

2.2 A characterisation of the *donju*

Business activities of the donju

The *donju* are the kingpins of the second economy.⁸⁴ Their primary interest is wholesale trade, with Chinese firms as the most common partners, supplying the markets nationwide with goods and exporting domestic products. This two-way trade takes place through both legal avenues, as well as smuggling. They also run distribution networks, circulating domestic and imported items around the country. Besides trade, some *donju* provide financial services to the private market – such as money-changing, money-lending, currency exchange, loans and investment, intermediary payment settlement etc. – while profiting from intra-country arbitrage. With weak and untrusted financial institutions, and laws still proscribing loans to individuals still in effect, the *donju* play a critical role as financiers, extending a line of credit to small producers in cottage industries, market traders and even state-owned enterprises (SOEs). As a source of seed capital, the *donju* have a pro-cyclical effect on the wider marketisation of the country, promoting the expansion of enterprises in retail, trade and industry.

Meanwhile, some *donju* entrepreneurs manage medium-sized businesses and factories. They have reinvigorated the services sector, which had laid dormant under state control, with ventures including shops, restaurants, repairs, pet care and car washing.⁸⁵ In addition, they have broadened the available range of leisure

⁸⁴ Some analysts of North Korea use the term “second economy” to refer to the country’s munitions-industrial sector, owing to its coordination by the so-called “Second Economic Committee” (“제 2 경제위원회”). This thesis, however, employs the more general definition used in political science, as coined by Grossman (1977). To him, the second economy pertained to “all production and exchange activity that fulfils at least *one* of the two following tests: (a) being directly for private gain; (2) being in some significant respect in knowing contravention of existing law.” (Grossman, Gregory. 1977. “The ‘Second Economy’ Of The USSR”. *Problems Of Communism* 26 (5): 25-40.) The “second economy” is also referred to as the unofficial, informal, parallel, underground, shadow, grey, irregular, unregistered economy, or the counter-economy, but the use of these terms is inconsistent between authors.

⁸⁵ 임을출. 2016. “풀뿌리 자본주의 바람 북한 시장을 휘감다”. *통일한국*, 28.

facilities, spanning billiard halls, karaoke rooms, gyms⁸⁶ and even saunas⁸⁷ and bathhouses.⁸⁸ The growth of commerce has presented opportunities for some *donju* to cater to the traders travelling around the country, by running inns, petrol stations and even motorway service stations. Others, inspired by the poor upkeep of the national rail system and its aging vehicles, have imported used trucks and buses from China to operate inter-city transport services for both passengers and freight.⁸⁹ These private transport companies originated in the early 2000s and at first served two or three cities, including Pyongyang, but have now expanded to cover the entire country. As of 2015, there are a number of such enterprises, each with a fleet of more than 10 buses.⁹⁰ Similarly, at the time of writing, there are six distinct taxi companies in operation in the capital.⁹¹

Moreover, some *donju* head small factories or workshops, while others run export businesses, owning fishing boats or farms. At the smaller end of the spectrum, the *donju* may run their businesses as a family. However, larger-scale projects involve the hiring of unrelated workers, with the subcontracting of staff becoming increasingly common.⁹²

As the most powerful market actors in the country, the *donju* have been at the forefront of what is possible in the second economy, in terms of logistics and permissibility by the regime. The largest-scale projects being undertaken by the

⁸⁶ Frank, Rüdiger. 2014. "Can North Korea Prioritize Nukes And The Economy At The Same Time?". *Global Asia* 9 (1): 41.

⁸⁷ "Private Sauna Proliferation Brings Increased Accessibility To Residents". 2016. *DailyNK*. <http://www.dailynk.com/english/read.php?num=14202&cataId=nk00100>.

⁸⁸ 최송민. 2015. "北간부, 정부(情婦)와 함께 야간에 개인 목욕탕 찾는 이유". *DailyNK*. <http://www.dailynk.com/korean/read.php?cataId=nk04500&num=107443>.

⁸⁹ Lee, Hy-sang. 2015. "Can Capitalism Take Off In North Korea?". *The Diplomat*. <http://thediplomat.com/2015/04/can-capitalism-take-off-in-north-korea>.

⁹⁰ 최수영, 65.

⁹¹ "Why The North Korean Economy Is Growing". 2017. *The Economist*.

<http://www.economist.com/blogs/economist-explains/2017/06/economist-explains-21>.

⁹² Ibid.

donju as of 2017 include mineral extraction, having taken over the rights to state mines, and housing development.

While buying and selling property still technically remains illegal in North Korea, it is becoming a “growing trend”.⁹³ In the past, regulations have been creatively circumvented through informal property swaps, with the subsequent bribing of a local official to update the residence registrations. However, in 2014 a national exchange run by the state was quietly opened,⁹⁴ followed by a relaxation in the rules governing the private ownership of land in 2016.⁹⁵ This has spurred further activity in the area, with the *donju* financing state construction projects in return for leasing rights.⁹⁶



*Fig. 5: A night view of the Ryomyong Street complex in Pyongyang, completed in April 2017.*⁹⁷

⁹³ “Private Ownership Of Land Now Legal In North Korea”. 2016. *New Focus International*. <http://newfocusintl.com/exclusive-private-ownership-land-now-legal-north-korea>.

⁹⁴ 주성하. 2014. “평양에 생긴 주택거래소, 사적 소유 인정 신호탄인가”. *동아일보*. http://news.donga.com/List/Series_70040100000144/3/70040100000144/20141216/68561618/1.

⁹⁵ “Private Ownership Of Land Now Legal In North Korea”. *New Focus International*.

⁹⁶ 설송아. 2015. “北 국가건설도 능력 부족... ‘돈주, 투자로 건설 진행’”. *DailyNK*. <http://www.dailynk.com/korean/read.php?cataId=nk04504&num=105702>.

⁹⁷ “Kim Jong Un Inspects Ryomyong Street Under Construction Again”. 2017. *Rodong Sinmun*. <http://www.rodong.rep.kp>. 16th March 2017.

North Korea is a restrictive environment for private commerce. All men of working age are obligated to attend their state work, leaving little time for the pursuit of individual economic activities. Therefore, it has become a common practice for workers to pay their manager to allow them to skip work and workplace education sessions, in exchange for a share of their profits. Defunct workplaces even decide to register attendance of employees in the morning before encouraging them to leave in order to earn money for the factory.⁹⁸ Similarly, the *donju* are in a legally precarious position: almost everything they do in their businesses is either theoretically illegal or semi-legal, while the absence of property rights exposes them to the risk of asset seizure. Accordingly, they *donju* invariably seek collusion with Party officials, for both their personal safety, as well as protection of their earnings and business from appropriation. Many enterprises register for nominal affiliation with a Party organ, military division or state factory – this façade generally costs around 30% of the profits, but such collusion provides essential political cover, as well as new business opportunities.

The composition of the middle class

Notably, the middle class disproportionately comprises elements which had previously suffered institutional and social discrimination. Ironically, the very grounds for their discrimination were often the distinguishing factors that gave them a competitive edge in the market economy. Upfront capital for investment is an essential ingredient for the launching of any business venture, and in the largely demonetised society of North Korea until the 1980s, with the exception of high-ranking Party members, only those with relatives overseas had a reliable source. Thus, those with family members abroad were able to use money transfers as start-

⁹⁸ Hassig, Ralph, and Kongdan Oh. 2009. *The Hidden People Of North Korea: Everyday Life In The Hermit Kingdom*. Lanham, Maryland: Rowman & Littlefield. 68.

up capital. This included Koreans who relocated to North Korea from Japan, having bought into the state propaganda imploring them to do so. However, they were viewed with contempt by the regime due to their association with the colonial era, and out of fear of ideological contamination. This experience stood in their favour, though, with first-hand exposure to life in a capitalist society,⁹⁹ and financial support from pro-North Korea associations in Japan. Nonetheless, these remittances began to slow in the late 1980s as the generation of relatives who knew those who had returned began to pass away.¹⁰⁰ Similarly, Koreans with relatives in China were influenced by the Chinese reforms: they would receive business advice, along with Chinese yuan, as both gifts and shrewd investments. The most significant group of entrepreneurs, though, was the ethnic Chinese living in North Korea, the so-called *hwagyo* (“화교”). While formally citizens of China, they retain the right of residency in the North. As “outsiders”, they were barred from Party membership and often had the poorest job prospects, rendering them one of the most impoverished groups in society. However, in the early 1980s when they were given the almost exclusive right to freely cross the border, they were essentially granted monopoly rights to the blank slate that was the private economy. They made the most of this mobility through cross-border arbitrage and satisfying the demands of the nascent consumer market, generally importing consumables, clothing, electronic goods and construction goods, while exporting medicinal herbs, scrap metal, mushrooms and fishery products. Similarly, the *hwagyo* were allowed to use tuneable radios, with this access to outside information sharpening their business edge. In the words of Lankov, “[b]y around 1990, being *hwagyo* became synonymous with being rich.”¹⁰¹ This group has been

⁹⁹ Lankov, Andrei. 2006. “The Natural Death Of North Korean Stalinism”. *Asia Policy* 1: 117.

¹⁰⁰ Lankov, *Low-Profile Capitalism*, 184.

¹⁰¹ *Ibid.*

able to preserve this initial advantage, too. Through their early entry into the market, they have been able to expand and diversify their businesses using their savings, while they continue to benefit from wider social networks in China, the lack of language barrier, and less fear of political repression than the average North Korean.¹⁰²

Other members of society who have gained from marketisation are those living far away from Pyongyang in the border regions. Neglected by government policy, the areas receive significantly less government expenditure – indeed, people of undesirable *songbun* status were forcibly relocated in the 1960s and 1970s from the Kaesong area to the northern provinces bordering China.¹⁰³ However, now, thanks to the geographical proximity to China, this group are able to make money from trading opportunities, organising distribution operations and catering to traders.

That said, marketisation has not been an absolute levelling force. Some relation to the hierarchy within the Stalinist sector conferred advantages outside it: personal ties to cadres are leveraged to ease the pursuit of private business, while managers of state facilities have the advantage of access to factories, resources and vehicles. Nevertheless, even in the absence of political connectivity, the most gravely disenfranchised members of society have been able to become *donju*, largely thanks to some discerning feature that made it possible for them to acquire capital from overseas early on. Moreover, the lower expectations of the state amongst underprivileged groups activated resourceful adaptations earlier than other members of society, which often equated to auspicious market entry.

Notably, in contrast with the prototypical middle class, the North Korean variant is largely not of an intellectual basis. The lives of all North Koreans were impacted

¹⁰² Tertitskiy, Fyodor. 2015. "Exclusion As A Privilege: The Chinese Diaspora In North Korea". *Journal Of Korean Studies* 20 (1): 187.

¹⁰³ Hunter, 9.

by the crisis of the mid-1990s, but intellectuals faced particularly severe disruption to their lives. Testament to this is the fact that deaths from starvation during the famine were the highest among the intelligentsia over any other social group.¹⁰⁴ Teachers, doctors and researchers had less freedom to leave their workplace and dedicate time to private economic activities than, say, a worker who was assigned to an inoperative factory. In addition, some may have felt reluctant to engage in trade, with such work widely regarded as degrading. While many intellectuals did work in the emerging marketplaces, these were merely side-jobs to supplement their meagre state incomes.¹⁰⁵ Economic differentiation is profound only on the basis of market participation, so, facing time and reputation pressures, only limited involvement was possible for intellectuals.

The lifestyles of the donju

Generally, the *donju* constitute urban dwellers, with a large concentration in Pyongyang. Flashy new high-rise apartments have been built in the capital to cater for this moneyed class – those built in 2014 around Changjon Street have even earned the area the nickname “Pyonghattan” by resident diplomats.¹⁰⁶ However, Frank notes that, “these are just the tip of the iceberg; countrywide, visitors have reported a construction boom of sorts.”¹⁰⁷ Some of the new rich opt to live in the provincial cities close to the Chinese border: in particular Rason, due to its special economic zone, and Sinuiju, which accounts for 70% of the China-North Korea trade.¹⁰⁸ Beyond convenience for business, there is a belief that money made in

¹⁰⁴ Cho, 46.

¹⁰⁵ Cho, Suh, Lim, Kim, Park, 19-20.

¹⁰⁶ Wainwright, Oliver. 2017. “The Pyonghattan Project: How North Korea’s Capital Is Transforming Into A ‘Socialist Fairyland’”. *The Guardian*.
<http://www.theguardian.com/cities/2015/sep/11/pyongyang-north-korea-capital-socialist-fairyland-kim-jong-un>.

¹⁰⁷ Frank, *Can North Korea Prioritize Nukes And The Economy At The Same Time?*, 41.

¹⁰⁸ Lee, Sang Yong. 2014. “Opening Of New NK-China Bridge Delayed Indefinitely”. *DailyNK*.
<http://www.dailynk.com/english/read.php?num=12499&catald=nk00100>.

Pyongyang is subject to great scrutiny and thus is more likely to be confiscated by the Party. The local authorities further away from the capital are more amenable to bribery, while, if the worst comes to the worst, the *donju* can more easily flee to China.¹⁰⁹

The middle class are driving new consumerist trends in the country, as evidenced by the increase in the variety of foreign products, domestically produced goods of higher quality, the appearance of advertising, and bolder designs. Some domestic packaging designs are near-identical replicas of the South Korean original, while some snacks have also been outright copied.¹¹⁰ Goods from the South are highly coveted, from high-end electronics down to instant coffee sachets, while South Korean cosmetics unabashedly line the shelves of the *Haedanghwa* department store.¹¹¹ More broadly, South Korean trends enjoy significant popularity, with it being common for middle-class women to request South Korean hairstyles in Dandong salons¹¹² and for families to renovate their home interiors in Southern styles.¹¹³

Conspicuous consumption has become a defining trait of the North Korean middle class, with Pearson and Park drily dubbed them “consumer comrades”.¹¹⁴ They are well placed to capitalise on the recent gentrification of Pyongyang – testament to this is a saying popular among the nouveau riche: “make your money in the

¹⁰⁹ 최수영, 66.

¹¹⁰ Sigley, Alek. 2017. “Crisps And Coffee Shops: North Korea’s New Consumerism”. *The Diplomat*. <http://thediplomat.com/2017/03/crisps-and-coffee-shops-north-koreas-new-consumerism>.

¹¹¹ “New Pyongyang Mall Breaks Every Capitalist Taboo”. 2013. *Chosun Ilbo*. http://english.chosun.com/site/data/html_dir/2013/08/06/2013080600435.html.

¹¹² 설송아. 2016. “평양 돈주여성, 중혜어습서 한국식 파마로 스타일 변신”. *DailyNK*. <http://www.dailynk.com/korean/read.php?cataId=nk04505&num=109939>.

¹¹³ 최송민. 2017. “김정은 별장 건설부대, 6 천달러 받고 주택 한국식 리모델링”. *DailyNK*. <http://www.dailynk.com/korean/read.php?cataId=nk04505&num=110052>.

¹¹⁴ Pearson, James, and Ju-min Park. 2015. “Pyongyang Bling – The Rise Of North Korea’s Consumer Comrades”. *Reuters*. <http://uk.reuters.com/article/uk-northkorea-change-consumption-idUKKBN0J2UY20150604>.

suburbs, but spend it in Pyongyang” (“돈 벌이는 지방에서, 소비는 평양서”).¹¹⁵

They patronise upscale private restaurants in the capital, spending in the region of \$50 per dish,^{116 117} which, based on July 2017 values of the in-country black market exchange rate and rice price is approximately equivalent to sufficient rice to last one person for five months. The choice is diverse: there are fine dining restaurants, pizzerias, burger joints, sushi restaurants and coffee shops. Some of these restaurants and department stores even offer loyalty card schemes, suggesting strong competition, and a customer base sufficiently wealthy for frequent visits.¹¹⁸ Notable, too, is the deviation by middle-class women from state-mandated fashion styles. Among the nouveau riche, the utilitarianism and asceticism of socialist fashion has given way to more Westernised styles, with brighter colours, bolder patterns, and the accompaniment of jewellery and high-heels.¹¹⁹ Ri Sol Ju, the wife of Kim Jong Un, is regarded as a fashion icon amongst the *donju*,¹²⁰ to the extent that imitations of her clothes are produced for sale.¹²¹ Similarly, an in-country source has spoken of shoes in the style of those worn by a well-known South Korean actress commanding a high price in a Pyongyang department store.¹²² In addition, observation of the custom that certain hairstyles were appropriate for

¹¹⁵ 최송민. 2015. “돈 주체 못하는 지방 돈주들 평양에 몰려든다는데”. *DailyNK*.

<http://www.dailynk.com/korean/read.php?cataId=nk04500&num=107417>.

¹¹⁶ Seol, Song-ah. 2015. “Wealthy Pyongyangites Drop Major Cash For Upscale Meals”. *DailyNK*.
<http://www.dailynk.com/english/read.php?cataId=nk01500&num=13607>.

¹¹⁷ Fifield, Anna. 2016. “North Korea’s One-Percenters Savor Life In ‘Pyonghattan’”. *The Washington Post*. http://www.washingtonpost.com/world/asia_pacific/north-koreas-one-percenters-savor-life-in-pyonghattan/2016/05/14/9f3b47ea-15fa-11e6-971a-dadf9ab18869_story.html.

¹¹⁸ “Haemaji Restaurant Loyalty Card”. 2014. *North Korean Economy Watch*.
<http://www.nkeconwatch.com/2014/04/07/haemaji-restaurant-loyalty-card>.

¹¹⁹ “Bread And Circuses”. 2015. *The Economist*. <http://www.economist.com/news/asia/21660551-propaganda-socialist-theme-park-relentless-so-march-money-bread-and-circuses>.

¹²⁰ “Kim Jong-Un’s Wife A Style Icon For Pyongyang Women”. 2012. *Chosun Ilbo*.
http://english.chosun.com/site/data/html_dir/2012/09/06/2012090600984.html.

¹²¹ Jung, Young. 2013. “North Korea’s Designer Knockoff Industry Cranks Out ‘Ri Sol Ju Style’”. *Radio Free Asia*. <http://www.rfa.org/english/news/korea/fashion-08272013160737.html>.

¹²² *Ibid*.

single women, while others were reserved for married women, has waned, with personal taste becoming more important.

The middle class has access to high-tech electronics and gadgets, foreign-made laptops and tablets,¹²³ and may own two television sets, one large and expensive, and another more modest machine for use during power shortages. Mobile phones are a necessity for the *donju*, for whom they serve a valuable function in facilitating the exchange of market information, such as prices and up-to-date exchange rates,¹²⁴ as well as a means of accessing one of the many recently launched e-commerce platform,¹²⁵ such as *Manmulsang*, which even boasts a phone app.¹²⁶ High-end phones also play a role as status symbols, with other common indicators of wealth including the installation of solar panels of one's roof,¹²⁷ and the ownership of small pet dogs.¹²⁸ Lifestyle extravagances extend to hiring housekeepers at a cost of 90 times the average state worker's wage,¹²⁹ and paying for private tuition for their children.¹³⁰ It has also been noted that the emerging middle class represents a new group of recreational drug users.¹³¹

¹²³ Byrne, Leo. 2015. "Large Increase In North Korea Tablet, Laptop Imports". *NK News*. <http://www.nknews.org/2015/10/large-increase-in-north-korea-tablet-laptop-imports>.

¹²⁴ Kim, Yonho. 2014. *Cell Phones In North Korea*. US-Korea Institute at the Johns Hopkins School of Advanced International Studies, 13.

¹²⁵ Ji, Dagyum. 2017. "N. Korea Launches E-Commerce Site With Preorder Services, Payment On Delivery". *NK News*. <http://www.nknews.org/2017/07/n-korea-launches-e-commerce-site-with-preorder-services-payment-on-delivery>.

¹²⁶ "인기를 모으는 전자상업홈페이지 '만물상'". 2016. *오늘의 조선*. <http://www.dprktoday.com/index.php?type=2&no=15784>.

¹²⁷ Choe, Sang-hun. 2017. "As Economy Grows, North Korea's Grip On Society Is Tested". *The New York Times*. <http://www.nytimes.com/2017/04/30/world/asia/north-korea-economy-marketplace.html>.

¹²⁸ "Pets Become Fashionable In Pyongyang". 2015. *Chosun Ilbo*. http://english.chosun.com/site/data/html_dir/2015/12/09/2015120900776.html.

¹²⁹ 최송민. 2015. "北돈주, 노동자 임금 90 배 주고 가정부 고용해 호강". *DailyNK*. <http://www.dailynk.com/korean/read.php?num=106318&cataId=nk04500>.

¹³⁰ 최송민. 2015. "건강한 北학생, 1,2 년 동안 '병치료' 휴학하는 이유". *DailyNK*. <http://www.dailynk.com/korean/read.php?cataId=nk04505&num=106755>.

¹³¹ Yun, Minwoo, and Eunyoung Kim. 2010. "Evolution Of North Korean Drug Trafficking: State Control To Private Participation". *North Korean Review* 6 (2): 55-64.

Visitors to the capital have remarked that the roads are markedly busier compared with previous years.¹³² Taxi fleets continue to expand and new models have been imported from China. Recent estimates suggest the total number of taxis in Pyongyang now exceeds 1000, despite the base fare equating to 80 times the price of a metro journey.¹³³ Furthermore, the possession of private cars is not unheard of among the most successful of the middle class,¹³⁴ including not only the locally produced *Pyonghwa* model, but also luxury foreign brands such as BMW and Audi.¹³⁵ These are typically registered under the name of a government agency for the sake of convenience, earning officials an informal side-payment in the process. Progress has been made in modernising various aspects of life in Pyongyang, but it is most evident in the sudden explosion of leisure facilities to cater for the burgeoning middle class, who enjoy discretionary income and free time. Kim Jong Un has declared a particular focus on the construction of these attractions,¹³⁶ with the presumed intention of rewarding Party elites for continued loyalty, capturing the newfound wealth of the *donju*, and flaunting tangible measures of improving living standards under his leadership. The privileged can enjoy new theme parks, water parks and a traditional folk park; a 4D cinema; an equestrian centre; riverside parks boasting bicycle lanes, basketball courts and picnic areas; a sports complex

¹³² “Pyongyang’s once sleepy roads now filling with cars,” *Associated Press*, 9th December 2015.

¹³³ Macdonald, Hamish. 2014. “Pyongyang Continues Taxi Fleet Expansion”. *NK News*. <http://www.nknews.org/2014/07/north-korea-introduces-new-taxis-and-features>.

¹³⁴ Lankov, *North Of The DMZ*, 144.

¹³⁵ Fifield, Anna. 2014. “North Korea’s Capital, With Its Water Parks And New Buildings, Coddles The Elite”. *The Washington Post*. http://www.washingtonpost.com/world/asia_pacific/with-its-water-parks-and-new-buildings-north-koreas-capital-coddles-the-elite/2014/09/02/fbfae1e4-89ae-415f-b33f-8a1c45724de5_story.html.

¹³⁶ “Bread And Circuses”. *The Economist*.

island;¹³⁷ and even a dolphinarium, supplied with water by means of a dedicated pipeline stretching the 70 kilometres between Pyongyang and Nampo.¹³⁸

The middle class generally prefers to hold its savings denominated in foreign currencies, due to volatility in the domestic currency exchange rate and fears of confiscatory measures by the government. Even state shops list their prices in yuan, dollars and euros,¹³⁹ while so commonplace is the use of foreign currencies that Pyongyang taxi drivers impose a surcharge for payment in the domestic currency, due to concerns over its depreciating value and its relative illiquidity.¹⁴⁰ However, payment options besides cash are becoming increasingly available to those making larger purchases, such as debit cards¹⁴¹ and pre-paid cash cards like the *Narae* card, which is loaded with dollars.¹⁴² These electronic cards are of particular use for the *Okryu* online shopping service.¹⁴³

While the wealth of the middle class guarantees a high material standard of living, it is through bribery that they are able to transfer their Weberian class power across to other domains, so as to derive improvements in their “life chances” more generally. Bribery in North Korea is common, pervasive and normalised – Kim and Koh quote one refugee as even saying, “nothing can be achieved without [it].”¹⁴⁴ The converse also seems to be true: graft is so widespread that there are

¹³⁷ “평양시에 종합적인 체육촌 훌륭히 건설”. 2017. *조선의 오늘*.

<http://www.dprktoday.com/main.php?type=201&no=20322>.

¹³⁸ “Pyongyang Witnesses Birth Of A Nascent Middle Class”. 2015. *The Japan Times*.

<http://www.japantimes.co.jp/news/2015/10/19/asia-pacific/social-issues-asia-pacific/pyongyang-witnesses-birth-of-a-nascent-middle-class>.

¹³⁹ Ruwitch, John, and Ju-min Park. 2013. “N.Korean Economy Surrenders To Foreign Currency Invasion”. *Reuters*. <http://www.reuters.com/article/korea-north-money-idUSL3N0DU0ZB20130602>.

¹⁴⁰ 설송아. 2015. “평양서 택시비 북한돈으로 내면 상식 없는 사람”. *DailyNK*.

<http://www.dailynk.com/korean/read.php?cataId=nk04505&num=107324>.

¹⁴¹ “Koryo Bank Unveils New Debit Card”. 2011. *North Korean Economy Watch*.

<http://www.nkeconwatch.com/2011/10/12/koryo-bank-unveils-new-debit-card>.

¹⁴² Pearson.

¹⁴³ “‘Okryu’ North Korean Online Shopping Website Gaining Popularity”. 2015. *The Institute For Far Eastern Studies, Kyungnam University*.

http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM150410_0001.

¹⁴⁴ Kim, Byung-yeon, and Yu Mi Koh. 2011. “The Informal Economy And Bribery In North Korea”. *Asian Economic Papers* 10 (3): 108.

few things it *cannot* achieve, and the more money one has the more enabling it is. 89% of survey respondents perceived bribery to be either “very prevalent” or “prevalent”, with the practice most commonly associated with those selling goods in the informal economy or engaging in foreign trade.¹⁴⁵ The illegal nature of the business activities of the *donju* renders bribery an integral part of their work, but it is also a common behaviour in improving welfare in other aspects of life. For instance, bribery by this moneyed class is used to exempt their children from training for the Arirang Mass Games¹⁴⁶ and to receive permission for their children to take a leave of absence from school to receive private tuition instead.¹⁴⁷ When their children are older, it can be used to secure admission to universities and excuse them from student mobilisations for public works.¹⁴⁸ In addition, military service can be evaded by procuring a falsified medical certificate from a doctor with a bribe, while a strategic “donation” to the Military Commission can bring about reassignment to a less arduous posting, such as a less remote unit.¹⁴⁹ ¹⁵⁰

¹⁴⁵ Ibid, 109.

¹⁴⁶ 설송아. 2015. “방광염 걸린 北학생들, 약먹고 집단체조훈련”. *DailyNK*.
<http://www.dailynk.com/korean/read.php?cataId=nk04505&num=105920>.

¹⁴⁷ 최송민, *건강한 北학생, 1,2 년 동안 ‘병치료’ 휴학하는 이유*.

¹⁴⁸ Yoo, Gwan Hee. 2010. “The Moneyocracy Of North Korean Higher Education”. *DailyNK*.
<http://www.dailynk.com/english/read.php?cataId=nk01300&num=6058>.

¹⁴⁹ 이상용. 2015. “北여성 軍복무제, 돈 앞에 ‘무릎’... ‘뇌물로 면제 받아’”. *DailyNK*.
<http://www.dailynk.com/korean/read.php?cataId=nk04505&num=106099>.

¹⁵⁰ 최송민. 2016. “北청년들 자원입대?... ‘오히려 뇌물로 입대회피 골몰’”. *DailyNK*.
<http://www.dailynk.com/korean/read.php?cataId=nk04500&num=108203>.

2.3 A history of class in North Korea

Strict stratification has been a longstanding characteristic of Korean society, far predating the founding of the North Korean state. For example, the social hierarchy of the Joseon dynasty has been likened to India's hereditary caste system, with its analogous elite, commoner and outcast structures, and rigidity between tiers.¹⁵¹ The colonial period saw a partial loosening of these class relations, as incipient industrialisation disrupted Korea's traditionally agrarian society, but it was the Workers' Party of Korea that orchestrated a radical reorganisation of society. In its realisation of socialism, the Party sought to recast entirely the prevailing social order, which it considered overly hierarchical, backward and serving to perpetuate the interests of those who had collaborated with the Japanese. Through land reform, the nationalisation of industry and commerce, agricultural collectivisation, the unimpeded flight of landlords and the business class to the South,¹⁵² and purges of intellectuals, the North effectively achieved the disassembly of all hitherto existing social classes. By socialising all means of production, the population was rendered employees of the state bureaucracy and divested of any of the physical bases of economic differentiation.¹⁵³

Besides dismantling existing social classes, the Party also engineered novel social structures. Firstly, a new governing class was installed, with much of the leadership coming from modest backgrounds. The elite comprised Kim Il Sung's extended family and senior Party members, which spanned half a dozen other

¹⁵¹ Seth, Michael J. 2010. *A History Of Korea: From Antiquity To The Present*. Rowman & Littlefield Publishers.

¹⁵² "There was no serious purge of class enemies because the new regime allowed landlords and capitalists to flee south." (Matray, James Irving, and Donald W. Boose. 2014. *The Ashgate Research Companion To The Korean War*. London: Routledge, 36.) Under communist rule, those identified as belonging to the oppressing classes were stripped of their assets and social status. The majority elected to flee to the South, and many had already done so before the land reform was enacted in 1946.

¹⁵³ Suh, Jae-Jean. 2005. "The Transformation Of Class Structure And Class Conflict In North Korea". *International Journal of Korean Unification Studies* 14 (2): 52-84.

families.¹⁵⁴ Secondly, consistent with the Party's ideology of proletariat revolution, a working class was artificially constructed. Despite comprising no more than approximately 4-5% of the population at the time, the Party concocted and promoted a new identity of "the worker": culturally, through songs and slogans, and materially, through generous incentives for reassignment to employment in factories.¹⁵⁵ More generally, the poor were accorded a greater stake in society: farmers were liberated from tenancy, offered an education and the opportunity for political participation, and their worth as hard-working citizens was exalted. Coupled with the exodus of the previously privileged stratum, the overall effect was a "society-wide hierarchical inversion",¹⁵⁶ upending an age-old social pattern to elevate historically marginalised elements.

The country's inaugural constitution was, by and large, modelled on that of the Soviet Union. While some provisions betray their wholesale import, others reveal a conscious effort to adapt laws to the local contemporaneous realities.¹⁵⁷ For example, through the 1940s, markets were held in the country every three or five days, which was reflected by the inclusion in the constitution of the right to operate a business and engage in commerce. Beyond this, the constitution enshrined private property rights, and even the individual ownership of the means of production.¹⁵⁸ Article 10 stated that, "the State carries out the national economic plan on the basis of State and cooperative ownership," but authorised the participation of private businesses. Article 8 even declared that, "[c]reative initiative in the private economy is encouraged", suggesting early concerns of the

¹⁵⁴ Smith, *North Korea: Markets And Military Rule*, 165.

¹⁵⁵ Armstrong, Charles K. 2003. *The North Korean Revolution, 1945–1950*. Cornell University Press.

¹⁵⁶ Ibid.

¹⁵⁷ Yoon, Dae-kyu. 2003. "The Constitution Of North Korea: Its Changes And Implications". *Fordham International Law Journal* 27 (4): 1289-1305.

¹⁵⁸ "Constitution Of The Democratic People's Republic Of Korea". 1948. http://www.hrnk.org/uploads/pdfs/DPRK_Constitution.pdf.

leadership with regard to state finances.¹⁵⁹ At this time, the North Korean state was in its infancy and the Party was still establishing itself – entrenched interests persisted and intra-Party frictions were rife. Therefore, it appears that the constitution was formulated as the outcome of conflict and concessions.¹⁶⁰

However, once the Party had consolidated its grip on power, economic freedoms were abrogated in the name of progress towards communism, and consequently the dissonance between legally professed rights and those exercisable in practice grew. Cumings considers the Korean War to have started soon after 1945 in the form of civil uprisings and protests, such that the “opening of conventional battles in June 1950 only continued [the] war by other means.”¹⁶¹ In his revisionist account of its origins, he suggests the conflict was both “civil and revolutionary in character”,¹⁶² with an implicit dimension of class conflict: a struggle of Korean nationalism against the legacies of Japanese colonialism and Korean collaborationism. The peasant radicalism is interpreted as a means of redressing perceived injustice along class lines. The underclasses in the North held in contempt the upper strata in the South, who were enjoying the wealth and political power that collaboration had conferred, and whose interests had come to be safeguarded under the auspices of the US military government. In this regard, the 38th parallel came to demarcate something more indigenous than Cold War rivalries: it concretised the national class divisions as they had stood at the end of Japanese rule.

The socialisation of national industries continued through the post-war era. A memo credited to Kim Il Sung and Pak Nam Il in 1954 records that 98% of

¹⁵⁹ Zook, Darren C. 2012. “Reforming North Korea: Law, Politics, And The Market Economy”. *Stanford Journal Of International Law* 48 (1): 131-183.

¹⁶⁰ Ibid.

¹⁶¹ Cumings, Bruce. 1981. *Origins Of The Korean War, Vol. 1: Liberation And The Emergence Of Separate Regimes, 1945-1947*. Princeton University Press.

¹⁶² Ibid.

industry had been socialised, including the entirety of heavy industry.¹⁶³ On the back of the Party's top-down restructuring of society, they remark, "the main leading classes are the working class and the peasantry. The bourgeoisie represents the least numerous class [...] the alliance of the working class with the peasantry represents the vital basis of the people's democratic regime in the DPRK."¹⁶⁴ By 1957, only around 630 private manufacturing firms were reportedly in operation.¹⁶⁵ These were predominantly small-scale enterprises, concerned with the production of simple goods, such as rice mills, metal workshops and rubber factories. Lankov has characterised Kim Il Sung as "even more Stalinist than Stalin himself", in reference to his authoritarianism, personality cult, efforts to regiment the lives of the citizenry, and his suppression of private economic activities.¹⁶⁶ People received rations and household goods through a heavily subsidised public distribution system (PDS), requiring only tokenistic payment, appreciably decreasing the significance of money in society. The size of kitchen gardens was strictly circumscribed so that their tending did not divert too much attention away from work on the collective farms. Nonetheless, low-level market activity was never entirely eradicated. Farmers' markets continued to be held and were reluctantly tolerated by the regime as a residual of the semi-feudal society from which it claimed to have liberated its people. However, these were sporadic, dealt exclusively in agricultural goods and were small in size, even in comparison to other socialist countries of the time. They had only a peripheral function in supplementing state provisions as private commerce could attract punishment, such activities were condemned as anti-socialist, and the effective demonetisation of

¹⁶³ Kim Il Sung, and Pak Nam Il. 1954. "The Political, Economic, Social-Cultural Situation Of The Democratic Popular Republic Of Korea". North Korea International Documentation Project. Wilson Center Digital Archive.

¹⁶⁴ Ibid.

¹⁶⁵ Suh, *The Transformation Of Class Structure And Class Conflict In North Korea*, 56.

¹⁶⁶ Lankov, Andrei. 2013. "N. Korea-Russia Relationship". *The Korea Times*. http://www.koreatimes.co.kr/www/opinion/2017/02/304_143847.html.

society left citizens with very little cash. Farmers sold their produce generally with the purpose of acquiring necessary farming equipment, rather than the pursuit of profit in itself.¹⁶⁷ Besides, the prevailing convention had become to rely on the PDS, such that patterns of consumer behaviour had largely been remodelled in line with the Party's vision.

Building on the colonial legacy and motivated by security concerns, Kim Il Sung assigned top priority to the promotion of heavy industry as the route of economic development. This was reflected in the disproportionate investment allocated to heavy industry: the sector received in excess of 80% of total state industrial investment between 1954 and 1976.¹⁶⁸ Kim's strategy generated rapid economic growth through the 1950s and 1960s, outpacing the South, but such industrial imbalance naturally resulted in a chronic shortage of domestic goods and daily necessities. In order to address this scarcity of consumer goods, in 1958 Kim issued a mandate, instructing every county and city to establish at least one new local enterprise in these sectors. He also called for SOEs to be apportioned between regional governments, while remaining subject to the directives of central planners. This initiative elevated the role of counties in economic planning, which were encouraged to become self-sufficient in a bid to reduce their dependency on central financing.¹⁶⁹ Four years later, Kim Il Sung announced the *byungjin* policy

¹⁶⁷ Dong, *The Rise Of North Korea's Merchant Class*, 68.

¹⁶⁸ IPB, Inc. 2013. *Korea, North Country Study Guide Volume 1 Strategic Information And Developments*. Int'l Business Publications.

¹⁶⁹ North Korea extols the virtues of this county-level approach to this day. For example, the People's Korea website hosts a 1999 article from *Economic Study* ("경제연구") that describes the county as the "core unit" of local economies. It explains, "[o]ur Party's policy of developing a local region with a county as its core unit as is the most correct policy in view of national defence, eradication of distinctions between towns and the countryside, and the law-governed nature of socialist construction." (Ri Ki Ban. 2017. "Development Of Local Economies With Counties As Cores". *Korea Daily*. http://web.archive.org/web/20090824204854/http://www1.korea-np.co.jp:80/pk/117th_issue/99102703.htm.) Similar themes can be seen more recently in a 2012 *Rodong Sinmun* editorial, via the KCNA. ("Rodong Sinmun Calls For Embodying Spirit Of Changsong Conference". 2012. <http://www.kcna.co.jp/item/2012/201209/news27/20120927-08ee.html>.)

(“병진노선”), advocating for the parallel pursuit of economic development and military build-up, which further promoted the development of businesses at the county level.

At this time, Kim Il Sung envisaged a “socialist paradise” of collectivised farms and state-run factories, supported by a comprehensive and generous welfare system. Farmers and workers would exceed production quotas thanks to their genuine revolutionary zeal, and in return they would receive heavily subsidised food and consumer goods. He expressed aspirations to establish an independent, prosperous and wholly egalitarian society¹⁷⁰ – indeed, from the very establishment of the state, government propagandists presented their country in this way.¹⁷¹ From 1962 onwards, Kim Il Sung would often repeat his vision of coming affluence, whereby all North Koreans would be able to “eat boiled rice and meat soup, wear silk clothes and live in a tile-roofed house.”¹⁷² These were modest but egalitarian goals, and for the peasant population this was a tantalising promise of luxury. Notably, according to Lankov, within his imagined utopia, “no selfish profiteering would be tolerated, so money would gradually become all but useless.”¹⁷³

Ultimately, however, these ideals were subordinated to the consolidation of political authority, manifested in the stratification of society by *songbun*, such that loyalty to the *Suryeong* became the exclusive route to privilege.

North Korea of the 1960s through 1980s, too, had its rich and poor. However, the ability to accrue wealth at this time was under tight regulation by the regime.

Affluence was made possible either directly by state bureaucracy – as in the case of officials who were permitted to seek employment overseas and would be

¹⁷⁰ Kim, Sung Chull, 47.

¹⁷¹ Myers, B. R. 2010. *The Cleanest Race: How North Koreans See Themselves And Why It Matters*. Brooklyn, N.Y.: Melville House.

¹⁷² Oberdorfer, Don, and Robert Carlin. 2013. *The Two Koreas: A Contemporary History*. Basic Books.

¹⁷³ Lankov, Andrei. 2013. *The Real North Korea: Life And Politics In The Failed Stalinist Utopia*. Oxford University Press. 19.

remunerated in hard currency – or only possible through limited means, such as repatriates from Japan who would receive remittances. Moreover, Seliger writes that, “high income did not translate into higher consumption,” since luxury items were not available through the regular, public economy, but only via distribution channels exclusively for the benefit of Party cadres.¹⁷⁴

In fact, the privileges of the political elite cannot be expressed fully as a financial equivalent. While the salaries of cadres were only marginally higher than the best-paid workers, they enjoyed an astronomically better standard of living than the general population. In this sense, Hunter says, “money [was] not a good yardstick of privilege.”¹⁷⁵ Rather than simple cash sums, wealth was best measured in terms of influence, perks and access, and in this regard, it was wholly politicised. Top-ranking officials were assigned deluxe apartments, issued goods of much higher quality, and received allowances and gifts on special occasions. In addition, they were granted use of private healthcare facilities and special holiday resorts. They were also accorded freedoms denied to ordinary citizens, such as the right to overseas travel and the consumption of Western media and non-technical literature. With this system of entitlements deliberately kept out of the view, and the universal poverty of the masses, it is not surprising that the Kim Il Sungist era is widely perceived by North Koreans as having been a time of material equality. In the words of one refugee:

“[w]hen the DPRK was a socialist state, we lived in a planned economy without any rich or poor people, and with everyone receiving the same amount from the state. [...] Between 1970 to 1990 people were so equal that it was difficult to distinguish between those who lived well and those who did not.”¹⁷⁶

¹⁷⁴ Seliger, Bernhard. 2006. “Income, Wealth, And Political Power In North Korea”. *North Korean Review*, 10.

¹⁷⁵ Hunter, 129.

¹⁷⁶ Kim, Yoo-sung. 2016. “Ask A North Korean: How Capitalist Is North Korea Today?”. *NK News*. <http://www.nknews.org/2016/12/ask-a-north-korean-how-capitalist-is-north-korea-today>.

As far as the non-elite could perceive, all lives were comparable and society was homogeneous; Smith characterises the zeitgeist as one of “we are all in this together.”¹⁷⁷

¹⁷⁷ Smith, *North Korea: Markets And Military Rule*, 331.

2.4 The origins of marketisation and the North Korean middle class: pre-2000

The origins of the *donju* lie in the broader marketisation of the country, a process which has been variously termed “grassroots marketisation”,¹⁷⁸ “spontaneous marketisation”,¹⁷⁹ “*de facto* marketisation”,¹⁸⁰ “marketisation by default”,¹⁸¹ “capitalism from below”,¹⁸² the “rediscovery of capitalism and markets”,¹⁸³ the “resurgence of a market economy”,¹⁸⁴ and market “reinvigoration”.¹⁸⁵ The conventional narrative is as follows: a devastating famine in the mid-1990s precipitated commercial initiatives among the wider population as a coping mechanism. In subsequent years, an outgrowth of these activities ensued, and acquired partial legal sanction by means of a belated economic reform package in 2002. This condensed account, however, fails to fully capture the extent of societal change. By starting the story with the famine one omits how the seeds of private entrepreneurship were, in fact, planted in the preceding decades, and the intimate interplay between the state and the *donju* which has materialised since. The present study seeks to chart a longer economic history of the country, tracing the roots of marketisation back further, with particular attention given to shifting class patterns and the developments which have contributed to the emergence of today’s nascent middle class.

The origins of these phenomena are outlined below in the form of a timeline. It is

¹⁷⁸ Haggard, Stephan, and Marcus Noland. 2011. *Witness To Transformation*. Washington, DC: Peterson Institute For International Economics.

¹⁷⁹ Gause, Ken E. 2011. *North Korea Under Kim Chong-Il: Power, Politics, And Prospects For Change*. Santa Barbara: ABC-CLIO.

¹⁸⁰ Haggard, Stephan, and Marcus Noland. 2009. *Famine In North Korea: Markets, Aid, And Reform*. New York: Columbia University Press.

¹⁸¹ Smith, *North Korea: Markets And Military Rule*.

¹⁸² Lankov, *The Real North Korea*.

¹⁸³ Lankov, Andrei. 2013. “Emergence Of Market Economy In North Korea”. *The Asian*.

<http://www.theasian.asia/archives/83625>.

¹⁸⁴ Lankov, Andrei. 2016. *The Resurgence Of A Market Economy In North Korea*. Carnegie Moscow Center.

¹⁸⁵ 최봉대, and 구갑우. 2005. “북한의 도시 ‘장마당’ 활성화의 동학 – 1990년대 신의주, 청진, 혜산을 중심으로.” *현대북한연구* 8 (3): 72-110.

recognised that ascribing these radical societal changes to any given number of precise, isolated causes necessarily remains a simplification. Therefore, the critical events given below are best considered as representing stages of an evolutionary process, with the economy having gradually taken form over time, in response to pressures, and as an adaptation to its environment. Each laid the foundations for the next, and provided momentum along a trajectory that can be perceived in hindsight. Furthermore, while the series of developments outlined below has established the conditions in which marketisation has taken place and has provided the backdrop for the emergence of the *donju*, ultimately these are shorthand for the aggregate of purposeful actions made by individuals. Every pioneering venture, desperate sale and daring smuggle, every blind eye turned and officials' palm greased – it is the sum of these micro-level interactions that constitute the transformations observed.

Recent research by Philip H. Park has traced the genesis of market mechanisms and economic decentralisation in North Korea to the introduction of the “business complex” (“*련합기업소*”) model.¹⁸⁶ Hesitantly trialled from early 1974 within a select few industries, it was implemented fully in 1986. This organisational innovation saw the amalgamation of a number of related or complementary factories and businesses into a single “complex”. Each complex was headed by an overarching body, charged with its own administration and the management of its subsidiaries. Complexes, as well as their individual firms, were expected to operate on the basis of self-sufficiency, satisfying production targets and maintaining financial solvency. Accordingly, the distribution of materials between companies within a complex was discharged by contract, effectively generating an internal market. Moreover, to procure supplies unavailable within their business cluster, or

¹⁸⁶ Park, Phillip H.

in case of shortages, complexes were permitted to trade with other complexes, establish contracts with regional and central agencies, and even trade overseas. Thus, the adoption of this system represented a shift away from ideologically driven directives and towards pragmatism, with the principles of cost, price and profit beginning to govern some industrial operations. In marking a departure from a purely command economy, Park describes this contained experiment in economic rationalism as “a watershed in the DPRK economy.”¹⁸⁷

In a bid to remedy the state’s perennial problem of sectoral imbalance, in 1984 the state launched the August 3rd Production Drive (“8.3 인민소비품 생산 운동”) to promote small-scale light industry, and it is to here that the appearance of the first generation of individual profit-seekers might be traced. By personal order of Kim Jong Il, this campaign sought to increase the manufacture of consumer goods through the reorganisation of existing resources, obviating the commitment of extra production factors. Workers of marginal productivity were reassigned from their workplaces to newly established peripheral enterprises, while by-products and idle or waste materials were used as inputs. These auxiliary “work units” were first formed in factories and farms, and while they remained under the supervision of local governments, they operated outside the confines of central planning.¹⁸⁸ Moreover, “8.3 goods”, as they came to be known, were not sold in state-subsidised shops, but rather in marketplaces directly and at market prices. Soon, some SOEs began to allow workers to pay a fee for registration as an employee for official purposes, while in practice working for an affiliated 8.3 unit, in order to

¹⁸⁷ Ibid.

¹⁸⁸ Hong-Tack Chun notes that the North Korean Economic Dictionary implies that the existence of supplementary work teams, similar in form to those of 8.3 work units, predates the Production Drive. (Hong-Tack, Chun. 1999. “The Second Economy In North Korea”. *Seoul Journal Of Economics* 12 (2): 180.) The entry on “household production units” (“가내생산체”) claims that such teams produced as much as 6.5% of the country’s manufactured goods in 1983, a year prior to the 8.3 announcement. (*경제사전*. 1985. 사회과학출판사. 49.)

move into the newly profitable market sector. Moreover, with the gradual decline of the economy, more and more workers came to be paid in materials, in lieu of a wage, which could then be assembled by hand at home and sold for profit.¹⁸⁹ Critically, the growing number and frequency of farmers' markets, and their expansion to deal in a variety of non-agricultural goods, in the early 1980s coincided with the Production Drive.¹⁹⁰ As a consequence, these two developments interacted synergistically with the effect of expanding the role of markets in people's lives in compensating for the deficiencies of state planning. The initiative did not represent a switch in the focus of policy to light industry – the budget remained resolutely skewed in favour of heavy industry – rather, it was framed as a necessary move to reflect a change in people's demands. In “On Enhancing the People's Lives” in 1984, Kim Jong Il said: “30 years have now passed since the armistice and our people's material demands have very much increased.”¹⁹¹ The state used the drive as evidence of its responsiveness to people's everyday concerns, and thus a localised harnessing of market solutions was tolerable in reinforcing the socialist system. However, alongside these legal practices, the initial plan soon spurred behaviours with which the regime disagreed. State firms faced heightened pressure, not only from the sustained deterioration of the economy, but new budgetary demands as a result of a new independent accounting method instituted that year.¹⁹² As a result, managers began to allow their employees to falsely report for obligatory work commitments, in exchange for a share of their private earnings.¹⁹³ This was especially common when the given factory would be sitting idle, crippled by shortages of electricity, fuel, inputs and food for the workforce. According to a

¹⁸⁹ Dong, *The Rise Of North Korea's Merchant Class*, 69.

¹⁹⁰ Haggard and Noland, *Famine In North Korea: Markets, Aid, And Reform*, 173.

¹⁹¹ 김정일선집 8 권. 1998. 평양: 조선로동당출판사.

¹⁹² Kim, Sung Chull, 142-144.

¹⁹³ Korea Institute for National Unification, 176.

former worker at a brick factory: “[the managers] tell us: write down your name and do not come to work. Instead, give money to the enterprise. Do what you want, do not come, just donate money.”¹⁹⁴ This option, however, was not available to all. The size of the contribution would be determined through negotiation on an individual basis, but it would be far in excess of state wages, thus some initial savings and a good relationship with the management were prerequisites.¹⁹⁵ Bribery may have facilitated such an interaction – indeed, in a survey of refugees, 78% of self-described 8.3 workers claimed to have given a bribe, in contrast with a figure of 56% in the general population.¹⁹⁶

The 8.3 movement provided opportunities for further entrepreneurship. With access to direct sales shops, and time to pursue private ventures, some 8.3 workers would buy goods in bulk at their workplace and resell them for two or three times the price in rural areas.¹⁹⁷ In this way, the first wave of travelling salesmen was born, and their individualism was condemned harshly by state propaganda at the time.¹⁹⁸

Similarly, many people turned to illegal side-line activities, such as moonlighting in the production of simple foodstuffs – like tofu, noodles and beer – and household goods, including clothing, footwear, furniture and toys. By the end of the 1980s, while the number of 8.3 units continued to rise, their nature had begun to change. This new kind was typically unregistered, operated out of a household, and used raw materials stolen from state workplaces.¹⁹⁹ Often, the husband of a

¹⁹⁴ Lankov, Andrei, In-ok Kwak, Seok-hyang Kim, and Choong-bin Cho. 2013. “Surviving The Hard Times: Adjustment Strategies Of Industrial Workers In A Post-Crisis North Korean City”. *Pacific Affairs* 86 (1): 63.

¹⁹⁵ Yang, Un-chul. 2012. “Downfall Of The North Korean State Economy: Losing Political Authority And Gaining Military Frailty”. *International Journal Of Korean Studies* 16 (1): 216.

¹⁹⁶ Kim and Koh, 115.

¹⁹⁷ “8.3 인민소비품”. 2017. *북한 지식사전*.

<http://nkinfo.unikorea.go.kr/nkp/term/viewNkKnwldgDicary.do?pageIndex=1&koreanChrctr=&dicaryId=207>.

¹⁹⁸ Kim. 150-152.

¹⁹⁹ *북한 지식사전*.

family would take raw materials and components from his factory and bring them home. Then, his wife would use them to make something she could take to the nearby farmers' market, either to exchange for rice or corn, or to sell.²⁰⁰ Hence, the Production Drive can be seen as an enabling development for private commerce. With production overseen outside the central plan and sales taking place in the market, it represented a decisive move away from the strict socialist economic principles that had hitherto governed the working lives of ordinary citizens. The drive transformed the architecture of state firms, in that profit-oriented work teams came to supplant the local enterprise structures of 1958,²⁰¹ and it granted relief from factory employment to pursue commercial activities at the interface of the planned and second economies. Entrepreneurialism was indirectly cultivated, and flourished against the backdrop of a stagnant economy, such that an emerging private sector exploited the weakened institutions of the public sector. Indeed, this growth came at the expense of the formal sector: the available labour supply was eroded and the misappropriation of state resources became widespread.²⁰² Finally, the drive yielded indirect effects on social behaviours in everyday life outside of work. The growth in prominence of markets and the appearance of a wide array of new products originating from 8.3 units engendered new social norms with regards to consumption, prompting a departure from an absolute reliance on distribution.

²⁰⁰ 최봉대, and 구갑우. 2003. “북한 도시 ‘농민시장’ 형성 과정의 이행론적 함의 – 1950-1980 년대 신의주, 청진, 혜산의 사례를 중심으로”. *현대북한연구* 6 (2): 166-167.

²⁰¹ 이석기. 1998. *북한의 지방공업 현황과 발전전망*. 서울: 산업연구원.

²⁰² In this vein, Im Su-ho discusses the theft from the state of manufactures, minerals and coal, and “time”. (임수호. 2008. *계획과 시장의 공존: 북한의 경제개혁과 체제변화 전망*. 서울: 삼성경제연구소.)



Fig. 6: The production drive was discussed with typical fanfare in state media, showing men and women hard at work, or earnestly admiring an array of household products. The photo on the left ran under the headline, “let us produce more high-quality people’s consumer products!”,²⁰³ while that on the right was captioned, “more stylish and useful people’s consumer products”.²⁰⁴

1984 also saw the promulgation of the country’s Joint Venture Law (“합영법”), five years after the announcement of an equivalent in China, which provided for commercial partnerships between the state and private foreign enterprises.

Although the North made for a hostile environment for international investment, the law represented an effort to attract foreign capital and demonstrated further willingness for economic experimentation, while preserving its strict political control.

Ever defiant, North Korea trumpeted its so-called *Juche* ideology, espousing principles of self-determination and the rejection of external interference in its

²⁰³ 김종훈, “질 좋은 인민소비품을 더 많이 생산하자!” 로동신문, 21st January 1985.

²⁰⁴ 리종관, “전군중적운동으로 인민소비품생산을 획기적으로 늘이자!” 로동신문, 29th August 1984.

politics, while remaining critically reliant on support from the Soviet Union and China. Thus, the North's economic and security dependency on its patrons rendered it particularly sensitive to changes in the international environment. As the political situation soured from the North's perspective, Kim Jong Il increasingly underlined the importance of the country solving its problems of its own accord. In December 1978, following the announcement that same month by the US of its intention to establish diplomatic relations with China, Kim Jong Il introduced the rousing slogan: "let us live in our own way!"²⁰⁵ This represented the first nod to "socialism in our style" ("우리식 사회주의"), a recurrent motif through the late 1980s, which was later formalised as the leading economic doctrine upon the dissolution of the Soviet Union.

The policy called for the adaptation of socialism to local conditions. This, in itself, was not an innovation inasmuch as the Soviet Union had actively encouraged it, believing that country-specific idiosyncrasies ought to be recognised for the most effective realisation of socialism.²⁰⁶ In addressing the Central Committee in 1990, Kim Jong Il was quoted as saying:

"The experience of the Soviet Union in socialist construction is, in every point, the reflection of the historical conditions and the concrete situation of the Soviet Union. [...] If the existing experience is considered absolute and accepted dogmatically, it is impossible to build socialism properly, as the times change and the specific situation of each country is different from another. [...] Guided by the Juche idea, our people have built socialism to suit the specific situation of our country, following the road they have chosen and mobilising their own strength."²⁰⁷

²⁰⁵ Song, Jiyoung. 2010. *Human Rights Discourse In North Korea: Post-Colonial, Marxist And Confucian Perspectives*. Routledge. 146.

²⁰⁶ Myers, B. R. 2015. *North Korea's Juche Myth*. Sthele Press.

²⁰⁷ Kim Jong Il. 1990. "Socialism Of Our Country Is A Socialism Of Our Style As The Embodiment Of The Juche Idea". *Korean Friendship Association*. <http://www.korea-dpr.info/lib/107.pdf>.

The notion that socialism needed to be tailored to the Korean situation stood to benefit from its conformity with the self-declared ethnonational exceptionalism about which the regime regularly eulogised, and continues to do to this day. The Party glorified “socialism in our style” as equating to “victory and invincibility”,²⁰⁸ while alleging that only through a deep understanding of its excellence was the *Juche* revolution possible.²⁰⁹ However, beyond a call for indigenisation, its content was ambiguous, if not vacuous. This conceptual vagueness, though, conferred a degree of flexibility that was useful for the regime – it specified nothing and precluded even less. Duly immunised from criticism of ideological contradiction, the Party had free rein to experiment freely with economic policy in the future, as and when it saw fit.

Rhetorically, there was a clear resemblance to Deng Xiaoping’s “socialism with Chinese characteristics”. However, while this justified China’s transition to a socialist market economy, the intention behind the North Korean variant was the polar opposite: it was a reaffirmation of the Party’s commitment to socialism. According to the North, its brand of socialism had been refined through its melding with *Juche*, while the Soviet bloc, in contrast, had gone astray by incorporating liberal ideas. It was this deviation from the true socialist principles, the North claimed, that had been its undoing. Through censure of the Soviets and promotion of particularism, the North achieved a self-othering, distancing itself from socialist countries that had either collapsed or were in the process of doing so. To complement this, references to Marxism-Leninism were gradually phased out; its appearance in the constitution was removed in a 1992 revision.²¹⁰ Essentially,

²⁰⁸ “인민대중중심의 우리 식 사회주의는 필승불패이다”, 로동신문, 27th May 1991.

²⁰⁹ 김홍근, “우리 식 사회주의의 우월성을 깊이 체득하는 것은 주체혁명위업에 충실하기 위한 중요요구”, 로동신문, 19th March 1991.

²¹⁰ See page 90 for a summary of constitutional amendments with regard to economic rights and references to ideology.

“socialism in our style” had become, in the words of Kim Jeong-hun, “socialism without socialism.”²¹¹

The late 1980s saw an expansion in private commerce. There is evidence to suggest that the military and local officials were complicit in this process; not least that their command of vehicles and fuel implicates their involvement as intermediary distributors.²¹² Sung Chull Kim posits that the impact of the Chinese reforms had begun to be felt by this time: a large number of *hwagyo* would leverage their freedom to cross the border freely and conduct trade, importing consumer goods from China and exporting North Korean fishery and agricultural products.²¹³ This trade, along with the wealth of the Chinese businessmen, seems to have propagated an entrepreneurial spirit in the North, as evidenced by the emergence of small domestic enterprises, especially in the retail and fishing sectors. This period also saw the appearance of the first money traders, referred to as the *donjangsaggun* (“돈장사꾼”), who offered private loans or traded the domestic won for American dollars, enabling moneyed individuals to buy imported goods from foreign currency shops. While market-based activities grew, physical marketplaces remained stunted and discreet in the late 1980s. They continued to lie at the fringes of social acceptability and, correspondingly, were convened at the margins of public life, either inside apartment blocks or in the very outskirts of the city, behind tall concrete walls.²¹⁴

While the state had undertaken foreign trading operations from its earliest days via dedicated organs, its system became more permissive at the end of the 1980s. John Park finds the origins of present arrangements in the new firms specifically

²¹¹ 김정훈. 1999. “남북한 지배담론의 민족주의 비교 연구”. *연세대대학교 대학원 사회학과 박사학위 논문*.

²¹² Haggard and Noland, *Witness To Transformation*, 6-7.

²¹³ Kim, Sung Chull, 150.

²¹⁴ Lankov, *The Natural Death Of North Korean Stalinism*, 111.

established to finance the 1989 World Festival of Youth and Students.²¹⁵ This model allows for government organisations to set up and oversee their own foreign trade enterprises, following prior approval from an advisory group and a background check on the foreign partner, undertaken by the intelligence services. These trading operations served as a source of funds for the operating budgets of state enterprises, as well as the loyalty donations expected of them.

Michell, based on his first-hand experience as the president of a Western consultancy firm operating in the North at the time, estimated that in 1994 the unofficial economy was already nearly one-quarter the size of the planned sector, and enjoyed the strongest growth, at least doubling in size between 1990 and 1995.²¹⁶

However, the real burgeoning of private entrepreneurship at the individual level came to the fore in the mid-1990s. The discontinuation of Soviet subsidies and debt relief, and declines in fraternal trade and technology transfers precipitated the collapse of the North Korean economy. Farming in the country was defined by an overreliance on the use of fertilisers and pesticides, which predisposed domestic production to disruption upon their unavailability. A deleteriously rigid adherence to ideologically driven agricultural policy, despite governmental recognition of its inefficiencies, soon resulted in food shortages across large parts of the country. Through the late 1980s and early 1990s, the PDS became increasingly irregular, with occasional delays, reduced volumes and the substitution of corn or grains for rice. This was exacerbated in 1994 by governmental inaction: the regime held back on investments due to fears of war from the first nuclear crisis and the death of Kim Il Sung resulted in a lack of clear leadership and the diversion of productive economic activity to mourning and mobilisations. Similarly, after making an

²¹⁵ Park, John S. 2009. *North Korea, Inc.* Washington, DC: United States Institute of Peace.

²¹⁶ Michell, Anthony R. 1998. "The Current North Korean Economy". In *Economic Integration On The Korean Peninsula*, 143.

international appeal for humanitarian aid, the regime used the donated food as a substitute for, rather than a supplement to, commercial imports, thereby misusing the aid as balance-of-payments support.²¹⁷ Ultimately, economic mismanagement, resistance to the adoption of pragmatic agricultural policy and the wilful toleration of a starving population combined with natural disasters in the mid-1990s to result in a famine which took the lives of between 600,000 and 1 million people.²¹⁸

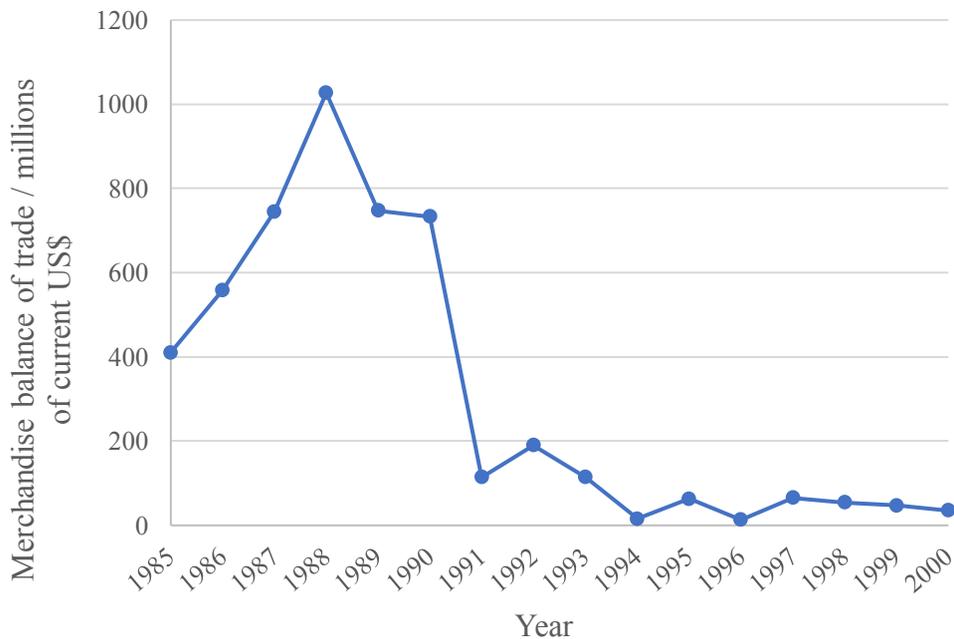


Fig. 7: North Korea’s merchandise balance of trade with USSR/Russia between 1985 and 2000, using data compiled by Eberstadt.²¹⁹

²¹⁷ *Report Of The Detailed Findings Of The Commission Of Inquiry On Human Rights In The Democratic People’s Republic Of Korea*. 2014. United Nations Human Rights Office of the High Commissioner. 198.

²¹⁸ Haggard and Noland, *Famine In North Korea: Markets, Aid, And Reform*, 76.

²¹⁹ Eberstadt, Nicholas. 2015. *North Korea’s “Epic Economic Fail” In International Perspective*. The Asan Institute for Policy Studies. 44.

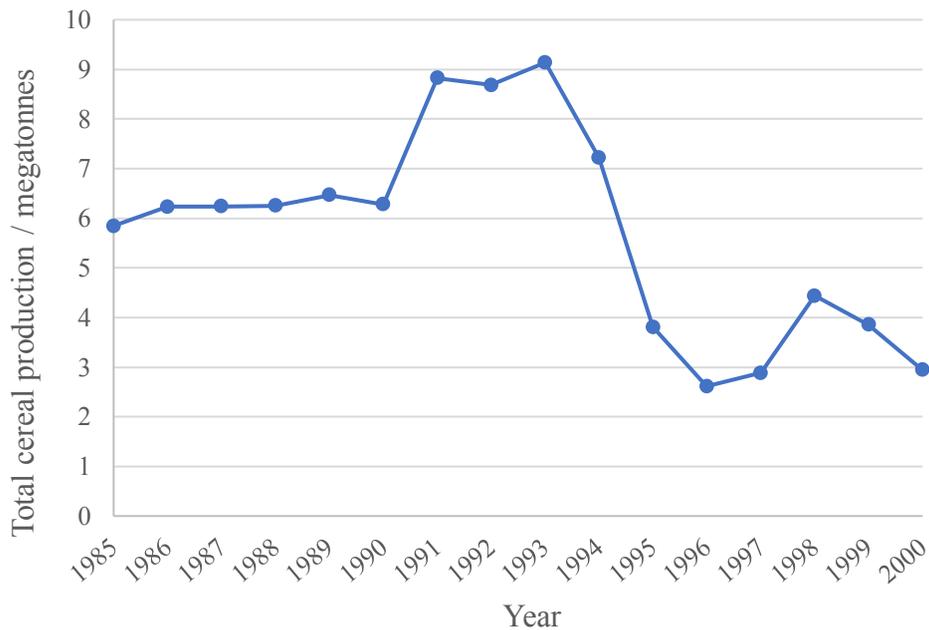


Fig. 8: Total cereal production in North Korea between 1985 and 2000, using data from the UN Food and Agriculture Organisation.²²⁰

While the PDS was never entirely suspended, Woo-Cumings suggests that only 6% of all North Koreans had regular access at the height of the famine in 1997.²²¹

Ordinary people had little choice but to take matters into their own hands. They resorted to cultivating barren hills, collecting seaweed, and foraging mountainsides for grasses, acorns and bark, as desperate survival responses. Beyond self-sustenance, people would produce commodities of value, which they could then trade for food or other essentials. Farmers would devote more time to kitchen plots, while others started cottage industries, producing consumables like noodles and liquor. Commodities stolen from factories, livestock from farms, items smuggled

²²⁰ “Democratic People’s Republic Of Korea”. 2017. *FAOSTAT*. <http://www.fao.org/faostat/en/#country/116>.

²²¹ Woo-Cumings, Meredith. 2002. “The Political Ecology Of Famine: The North Korean Catastrophe And Its Lessons”. *Asian Development Bank Institute Research Paper Series*, no. 31: 30.

across from China,²²² and humanitarian aid from international organisations began to be traded,²²³ while others turned to the sale of household possessions²²⁴ and prostitution.^{225 226}

Meanwhile, workers leveraged their technical skills and experience in the production of consumer goods for the market. With factories immobilised, enterprising workers would make clandestine use of idle machinery, unused raw materials and the labour of their colleagues to make household items which they could subsequently sell. Others would simply steal parts and components from their workplaces. Some managers would replicate this asset stripping, or use the organisational resources they had at their disposal to perform functions not feasible at the time for lone market actors. In both of these cases, private activities were parasitic on the official economy, with state facilities and resources exploited to fuel its growth. While these practices technically constituted serious crimes, endemic corruption was enabling, and allowed for a significant transfer of wealth from the state into private hands.

To facilitate the exchange of goods, small, spontaneous marketplaces, or *jangmadang* (“장마당”), began sprouting across the country. The *jangmadang* were an outgrowth of the existing farmers’ markets, and although certainly representing an expansion in the range of products available, they remained rudimentary in form. Markets would take the form of makeshift stalls at the side of roads or in school playgrounds, while, due to the scarcity of cash at first, the majority of exchanges were carried out as barter.

²²² “How Capitalist Is N.Korea?”. 2014. *Chosun Ilbo*.

http://english.chosun.com/site/data/html_dir/2014/01/04/2014010400374.html.

²²³ Haggard, Stephan, and Marcus Noland. 2005. *Hunger And Human Rights: The Politics Of Famine In North Korea*. U.S. Committee for Human Rights in North Korea.

http://www.hrnk.org/uploads/pdfs/Hunger_and_Human_Rights.pdf.

²²⁴ Tudor and Pearson, 19.

²²⁵ Lankov, *The Resurgence Of A Market Economy In North Korea*, 6.

²²⁶ Hassig and Oh, *The Hidden People Of North Korea*, 82.

Due to the paralysis of state infrastructure and consequent hardships, the *jangmadang* became critical to people's survival in *Songun*-era North Korea. Indeed, with the interruption of all social safety nets – the ration system, pensions and the provision of medical care²²⁷ – the market became more than a simple source of goods, but an essential lifeline. According to refugee testimony: “[p]eople who didn't steal, didn't commit theft, and didn't lie all died. If they are survivors, it means that they didn't follow the law.”²²⁸ Another adds, “[t]hose who showed up at their assigned workplaces and waited for public rations starved. Those who looked for work on their own survived.”²²⁹ Consequently, the privation of the mid-1990s can be seen as exerting a selective pressure, impelling the citizenry to shun state structures and assume personal responsibility for their own survival.

The further disintegration of the Stalinist-Leninist economy paved the way for wider marketisation. Entrepreneurship in all forms expanded to the point that the majority of North Koreans began to lead “double economic lives”,²³⁰ juggling their poorly paid state jobs with more lucrative private ventures. The state had little recourse but to reluctantly tolerate such illegal trade – its impaired ability to enforce its control saw a relaxation of travel restrictions and cross-border movement, permitting the mobility necessary for trade. This was enabled in large part by the readiness of officials to accept bribes.

Indeed, these coping strategies were adopted not only by individuals but also by state institutions. For one, Haggard and Noland point to the extensive deforestation along the Chinese border observed at the time as evidence of the imitation of

²²⁷ 정우곤. 2004. “1990년대 북한 주민생활보장제도와 도시 계층 구조 재편”. *현대북한연구* 7 (2).

²²⁸ Cho, 51.

²²⁹ Hassig and Oh, *The Hidden People Of North Korea*, 96.

²³⁰ Tudor and Pearson, 32.

individual practices on a larger scale by the military or official enterprises.²³¹

Likewise, the need for new sources of hard currency led to a mushrooming of import-export businesses under the state's direction, variously affiliated with the Party, the Army and the Cabinet. These trading companies soon came to form a complex web that remains highly active to this day, which John Park has branded "North Korea, Inc."²³²

The autonomy that had been progressively delegated to regional governments since 1958 was conducive to the spread of private entrepreneurship. Local councils continued to be accountable for the welfare of their communities, and severe budgetary constraints induced officials to authorise profit-seeking ventures by individuals. The greater immediacy of the suffering to local officials, and the prospect of personal incentives, prompted their willingness to flout central edicts. Brandishing this "local latitude"²³³ as their ideological defence, the co-optation of private businesses was seen as a viable means of guaranteeing subsistence. In this way, the empowerment of the county as a self-sufficient unit made the institutional void of the mid-1990s fertile ground for private entrepreneurship. The devolution of further rights, later, to the county only cemented these economic marriages of convenience.

The gendered pattern of participation in the informal economy was distinctive: women played a dominant role, constituting the majority of market traders and small business proprietors. In part, this may have been motivated by the more lenient legal constraints. Full-time employment was never mandatory for

²³¹ Haggard and Noland, *Famine In North Korea: Markets, Aid, And Reform*, 170.

²³² Park, John S.

²³³ Kim, Sung Chull, 146.

women,^{234 235} and there is evidence that agents of the Ministry of People's Security would be laxer in enforcing the law with female marketers.²³⁶ Meanwhile, men largely considered the crisis to be temporary and so were reluctant to give up their state jobs.²³⁷ Patriarchal gender roles also figure: the traditional responsibility of the mother to secure food for her family was reinforced by the widely-held belief that commerce would be degrading for men. These female entrepreneurs soon came to earn far in excess of their husbands' state wages, and became the breadwinners of their households. This inversion of historic relations has become so pronounced today that women involved in the market describe men solely in state employment as "completely pointless"²³⁸ or like "lights that are switched off all day".²³⁹ "The husband may follow socialism, but only if the wife follows capitalism will they make ends meet" has become a common adage.²⁴⁰ The notion of women as the leading driving force in the market is the basis of the present-day phenomenon of the "Golden Couple" – a Party official husband and an entrepreneur wife – a union of political and financial power.²⁴¹ Nonetheless, since some relation with the Party, military or security bureaucracy is necessary for the

²³⁴ Lankov, Andrei, and Kim Seok-hyang. 2014. "Useless Men, Entrepreneurial Women, And North Korea's Post-Socialism: Transformation Of Gender Roles Since The Early 1990s". *Asian Center For Women's Studies* 20 (2): 73.

²³⁵ Census data shows that in 1993, half a million women were registered as not working "by choice", and this was tolerated by the state. (홍성국. 2010. "1993/2008 년 북한 인구센서스: 인구구조와 변화". *북한학회*/35 (1): 109-143.)

²³⁶ Haggard, Stephan, and Marcus Noland. 2012. *Gender In Transition: The Case Of North Korea*. Working Paper Series. Peterson Institute for International Economics. 2.

²³⁷ Lankov, *The Natural Death Of North Korean Stalinism*, 113.

²³⁸ Seol, Song-ah. 2014. "May 1st A Reminder Of Class Divide". *DailyNK*. <http://www.dailynk.com/english/read.php?num=11831&catald=nk01501>.

²³⁹ Park, Ju-min. 2015. "In North Korea, Men Call The Shots, Women Make The Money". *Reuters*. <http://www.reuters.com/article/us-northkorea-women-idUSKBN0O90Y020150524>.

²⁴⁰ "장마당". 2017. *북한 지식사전*.

<http://nkinfo.unikorea.go.kr/nkp/term/viewNkKnwldgDicary.do?pageIndex=1&koreanChrcetr=&dicaryId=158>.

²⁴¹ "Also Available To Earthlings". 2012. *The Economist*. <http://www.economist.com/node/21547295>.

success of large-scale ventures, the upper echelons of the *donju* are overwhelmingly male.²⁴²

Choi and Gu, in their study of the *jangmadang* in Chungjin, Sinuiju and Hyesan, found that in the latter half of the 1990s almost identical patterns of stratification among market traders emerged across the three cities.²⁴³ The proximity of an individual to the goods being circulated between cities was a key determinant of the way in which they engaged with the market, and thereby their household income. The upper stratum of market participants comprised those earning foreign currency abroad and the large-scale brokers with whom they maintained ties. The middle tier included wholesale traders of food and industrial products, as well as subcontractors who would hire a modest number of workers. Lastly, a large number of domestic subcontractors, marketplace traders, peddlers, street food sellers and day labourers constituted the lower class.

The *de facto* decriminalisation of market activity, its propagation across the country, the normalisation of market consumption, and the increasing permeability of the Chinese border expanded the possible commercial opportunities in the unofficial sector. Early market actors, who had already made money and established useful connections, proceeded to undertake trade and business ventures on much more ambitious scales, emerging as the *donju* recognised now. They established a service industry, operating inns and restaurants and inter-regional transport for passengers and freight. They would also cater to newly appearing niches in the market by meeting the needs of lower-level traders, such as in the provision of credit and financial services. By acting as a source of seed capital for new market entrants, the *donju* had a pro-cyclical effect on marketisation, and thus

²⁴² Lankov, Andrei. 2017. “Gangnam At The Daedong River: The Life Of The Newly Rich North Koreans”. Presentation, Seoul Museum of History.

²⁴³ 최봉대, and 구갑우, *북한의 도시 ‘장마당’ 활성화의 동학 – 1990년대 신의주, 청진, 혜산을 중심으로*, 99.

instigated a positive feedback loop for their own enterprises.²⁴⁴ Similarly, once they had accrued sufficient capital and standing within society, the *donju* began entering into formal and informal partnerships with the state. Cadres would effectively subcontract *donju* to run the trading divisions of their enterprises, while the *donju* would register their businesses as subsidiaries of Party- or Army-affiliated institution under profit-sharing agreements. While informal and covert in nature, these arrangements are effectively pseudo-public-private partnerships.²⁴⁵ In short, the *jangmadang* arose as a necessary coping mechanism in response to the effective breakdown of the PDS and the nationwide collapse of industry. These failures represented an inability on behalf of the state to uphold its end of the socialist social contract, and brought about a profound reorganisation of society, deviance in institutional conduct and an enduring change in the state-citizenry dependency relationship. Trade was a means of survival for some, while others opportunistically seized upon the vacuum created. The state, on the whole, begrudgingly accepted this grassroots marketisation, not least because its capacity to quash it was so compromised. This permissive environment, from the efficacy of corruption and the debilitated state apparatus, meant that private economic activity rapidly grew in scale, reach and significance. Jeong Se-jin estimated there to be between 700,000 and 800,000 private entrepreneurs in the North at the end of the 1990s, equating to approximately one-thirtieth of the population.²⁴⁶

²⁴⁴ With a lack of support from state finance, seed capital remains of critical importance to this day. A “get-rich-quick” scheme in North Korea in the current climate is to borrow money from the *donju*, inevitably at a high interest rate, and subsequently trade in controlled goods, such as drugs and precious metals. The returns on these items are, needless to say, higher, than conventional consumer goods, considering the associated risk. Then, once the trader has accumulated enough capital they can shift to importing Chinese goods and supplying markets around the country, joining the ranks of the *donju*. (김영희)

²⁴⁵ For further details on the business partnerships between the *donju* and Party officials, refer to chapter 3.

²⁴⁶ 정세진. 2000. *계획에서 시장으로: 북한 체제 변동의 정치 경제*. 한울.

Sung Chull Kim identifies three livelihoods with the potential for incomes inordinately higher than those paid by state-assigned jobs, during the time of Kim Jong Il's leadership. Firstly, with little competition and no other sources of private finance, loan sharks were able to command interest rates as high as 30%.^{247 248} Without legal recourse to protect their business, the collection of debts was ensured by backing from organisations such as the army or the security agencies.²⁴⁹ Secondly, smuggling as part of a foreign currency-earning enterprise was lucrative, and their number and scale ballooned in the late 1990s.²⁵⁰ The premiums possible for the trade of banned or restricted goods – such as antiques, herbal remedies, deer meat, pine mushrooms and precious metals²⁵¹ – resulted in high profit margins. Thirdly, he describes the workings of the “funding squad”, which may have represented the first bridge between the official and unofficial economies. Under this arrangement, a military unit, state security agency or Party body would temporarily contract a group of dealers to use the market or illegal means to make up for their organisation's shortfall in raw materials or operating costs, or to generate extra revenue as necessary for gifts to the leadership. In the absence of legal infrastructure, the parties would enter into an unofficial contract, working together for, on average, a period of three years. The state institution would empower the squad through purely nominal roles at the organisation in order to facilitate their business operations. This would allow them to flout legal restrictions, receive travel permits and supplies of fuel, register equipment and vehicles, and enjoy a guarantee of assistance and protection from their patron. Sung Chull Kim characterises this relationship as one of guardian and functionary, with recognition only granted to the extent as necessary for the execution of the

²⁴⁷ Kim, Sung Chull, 153.

²⁴⁸ Dong, *The Rise Of North Korea's Merchant Class*, 70.

²⁴⁹ *Ibid*, 239.

²⁵⁰ Lankov, *The Real North Korea*, 87.

²⁵¹ Lankov, *Low-Profile Capitalism*, 188.

task at hand, and with any given team being dispensable.²⁵² Profits would typically be shared in a 3:7 ratio, between the organisation and squad respectively. A constitutional revision in 1998 partially acknowledged that some aspects of economic decision-making had been decentralised and that private commerce had been reactivated. For instance, social and cooperative organisations were allowed to engage in foreign trade and the definition of personal property was broadened to include “income earned through legal economic activities”,²⁵³ although precisely what “legal economic activities” entailed was unclear, meaning this provision likely extended only minimal protection to individuals. The amendments codified the requirement for SOEs to be financially self-sufficient and made express reference to profitability, in saying that state businesses should “make proper use of such economic levers as cost, price and profit.”²⁵⁴ The famine had caused a significant dislocation of the population, in desperate pursuit of food and with rural dwellers offering assistance to their urban relatives, and this received belated sanction with the addition of the right to travel. It was ambiguous, though, whether this applied specifically for commercial purposes, or more generally.²⁵⁵ In all, the constitution represented a duality, inasmuch as it declared that the country “relie[d] on the socialist production relations”, while allowing social and cooperative organisations to own the means of production and implicitly acknowledging the burgeoning market. That same year, South Korea’s Ministry of Unification estimated that between 300 and 350 officially authorised markets were operating in the North.²⁵⁶

²⁵² Kim, Sung Chull, 148.

²⁵³ “Constitution”. 2014. *Naenara*.

<http://web.archive.org/web/20041010153457/http://www.kcckp.net/en/great/constitution.php>.

²⁵⁴ *Ibid*.

²⁵⁵ Zook, *Reforming North Korea: Law, Politics, And The Market Economy*, 144.

²⁵⁶ Haggard and Noland, *Famine In North Korea: Markets, Aid, And Reform*, 173.

2.5 The origins of marketisation and the North Korean middle class: post-2000

Kim Jong Il visited China on four separate occasions between 2000 and 2006 and repeatedly implied he was ready to learn from Chinese-style reforms.²⁵⁷ In January 2001, a little over a week before one of his visits,²⁵⁸ the state daily newspaper, *Rodong Sinmun* ran an editorial allegedly penned by Kim himself, in which was written:

“Since things are not what they used to be in the 1960s, we should not work in old-fashioned ways. Entering the 21st century, any work must be done flawlessly, meeting the demands of the times. [...] As we enter the new era, we must completely review the outdated conventions and customs of other countries and develop our industries in our own way. [...] Rather than being shackled to readymade concepts, hanging on to old and outdated ideas, we should boldly do away with what needs to be abolished and bring about technological development.”²⁵⁹

This justification had parallels with the proclamation of “socialism in our style”, for both of which particularism was invoked as grounds for a move away from socialist orthodoxy. Kim’s message implied that any economic shortcomings had been borne out of the indiscriminate application of foreign ideas, rather than in their poor execution, and that further adaptation was required. Hence, change came to be rhetorically framed as a process of refinement, rather than repudiation. To this end, a speech delivered by Kim Jong Il in October 2001 was entitled, “On *Improving and Perfecting Socialist Economic Management in Line with Requirements for Building a Strong and Prosperous Nation*”.

²⁵⁷ Szalontai, Balázs, and Changyong Choi. 2017. “China’s Controversial Role In North Korea’s Economic Transformation”. *Asian Survey* 53 (2): 286.

²⁵⁸ Jeffries, Ian. 2017. *North Korea: A Guide To Economic And Political Developments*. Routledge. 163.

²⁵⁹ 김정일. 2001. “21 세기는 거창한 전변의 세기, 창조의 세기이다”. *로동신문*, 4th January 2001.

In light of these signals of interest, observers anticipated some kind of imminent liberalisation, and this came on 1st July, 2002 with the Economic Management Improvement Measures (“2002 년 7.1 경제관리개선조치”).²⁶⁰ The “7.1 measures” were a comprehensive series of policies notable for their pragmatism in implicitly acknowledging the bottom-up remonetisation of society and according formal recognition to the second economy.

Firstly, the government brought to an end the economic support it had given its citizens. The PDS was officially terminated, except for top-tier cadres, and subsidies on basic necessities were lifted, bringing their prices closer in line with the prevailing market rate. This led to a sharp increase in the prices of food, utility bills and transport fares. Wonhyuk Lim reports, by way of example, that the price of pork increased from 7 won to 180 won per kilogram, and the price of electricity rose 70-fold.²⁶¹

Secondly, state wages were also increased, but with significant variation across jobs. Moreover, the hike in pay was not in proportion with prices – in fact, the overall price level rose by approximately 1000%.²⁶² Haggard and Noland put forward two possible motives behind this move: to address monetary overhang, or to destroy the savings of those profiting off the market.²⁶³ Both theories are consistent with an internal memo from October 2001 in which Kim Jong Il personally lamented the decline of the state’s preeminence in economic affairs:

²⁶⁰ In the eyes of the regime, “reform” (개혁) and “opening” (개방) are taboo. The ideas are regularly derided in newspaper editorials through association with economic dependency and flunkeyism, which supposedly they inevitably beget. They are described as a “honeyed poison”, the rejection of which is a source of pride for the North. Instead, liberalising initiatives are typically branded in more politically tactful terms, such as “improvement” (“개선”) and “rebuilding” (“재건”).

²⁶¹ Lim, Wonhyuk. 2006. “North Korea’s Economic Futures: Internal And External Dimensions”. In *Korea: The East Asian Pivot*, Newport, RI: Naval War College Press.

²⁶² Haggard and Noland, *Famine In North Korea: Markets, Aid, And Reform*, 182.

²⁶³ *Ibid.*, 182-185.

“Because official prices set by the state are lower than farmers’ market prices, there aren’t enough goods in the formal sector, but individuals have stocked up goods ranging from rice to automotive parts. [...] The state is producing goods, but most goods and money end up in the hands of individuals. [...] Frankly, the state has no money, but individuals have two years’ budget worth.”²⁶⁴

Thirdly, state enterprises were given more autonomy, and their administration became less politicised through the empowerment of managers over Party cadres. In addition, they were tasked with covering their own running costs and their performance was to be assessed on the basis of “earning indicators”²⁶⁵ – that is, profitability. Perhaps cognizant that greater managerial discretion, in combination with the requirement of self-sufficiency, would undoubtedly translate into market participation, the state proactively elected to allow SOEs to procure resources from the market, as well as use it as a means for selling products manufactured outside of the plan. Providing they met their centrally mandated targets, plants had independence in deciding what to produce and where to sell it, as well as the material incentives they gave their staff. They were also entitled to launch new subsidiary businesses, entirely unrelated to their original domain, in the pursuit of profit. In January earlier that year, the *Rodong Sinmun* had similarly emphasised the primacy of profit:

“The economic management should be improved and perfected in a revolutionary way on the principle of ensuring profitability. This is the main content of the WPK’s strategy for economic construction. Ensuring profitability in socialist society means making a substantial contribution to the promotion of the people’s wellbeing and to the interests of the whole society.”²⁶⁶

²⁶⁴ Lim.

²⁶⁵ Yang, Moon-soo. 2013. *A Review Of Marketization In North Korea*. Korea Focus - January 2013. The Korea Foundation.

²⁶⁶ “Full Play To Advantages Of Korean Socialist Economic Management Called For”. 2002. *Korean Central News Agency*. <http://www.kcna.co.jp/item/2002/200201/news01/29.htm>.

Fourthly, the measures legalised private economic transactions by individuals, granting the population their “economic citizenship”.²⁶⁷ They also laid the basis for the legitimisation and expansion of farmers’ markets into “universal markets” (“종합시장”) the following March – universal markets were permitted to sell manufactured goods in addition to agricultural products. With official sanction, markets soon came to be permanently established structures, occupying prominent locations in the centres of cities.

Nonetheless, the 7.1 measures were not a purposeful effort towards reform. A confiscatory ban on dollar holdings in December 2002, the attempt to reinstate the PDS in October 2005, subsequent crackdowns on marketplaces and the preservation of price controls on intra-enterprise transactions suggest that this was not an entirely decisive move towards liberalisation.

While many of these policies signified a relaxation of market restrictions, they betray the regime’s ambivalence. For instance, as part of the price hikes, the state procurement price for rice was set to reflect the actual retail price, narrowing the price difference and, as a consequence, encouraging the sale of produce to state channels rather than the informal economy. In addition, the unannounced rise in the price level would have had the most dramatic impact on those holding the most cash, i.e. market traders and the *donju*, the real value of whose working capital and personal savings would have plummeted. The state also showed marked defiance in publicising these measures: the article announcing their enactment in *The People’s Korea* ran under the headline “New Economic Policy Enforced in DPRK; Seeking Maximum Profits While Maintaining Principles”.²⁶⁸

²⁶⁷ Cho, Suh, Lim, Kim, Park, 30.

²⁶⁸ “New Economic Policy Enforced In DPRK; Seeking Maximum Profits While Maintaining Principles”. 2002. *The People’s Korea*.
http://web.archive.org/web/20020923170421/http://www1.korea-np.co.jp:80/pk/183rd_issue/2002090412.htm.

The state had originally imposed an extreme socialist social contract, requiring “an exchange of loyalty to the leadership for cradle-to-grave sustenance”,²⁶⁹ with said loyalty entailing the surrender of certain freedoms and rights. However, the 7.1 measures signalled an implicit recognition by the regime of its failure to uphold its end of this contract and, in doing so, formalised the new relationship between the state and its people that had organically taken form.

For individuals, the death knell was sounded for much of the social security system, and in exchange they received the right to pursue private economic activities. As Cha and Anderson remark: “the government was essentially telling citizens to fend for themselves.”²⁷⁰ Likewise, for factories, subsidies were revoked and in return greater managerial autonomy granted. These moves were driven by necessity: if the state was unable to provide, it had little choice but to yield control. One refugee recalls: “our attitude to the government was this: if you can’t feed us, leave us alone so we can make a living through the market.”²⁷¹ In this way, despite subsequent attempts to restore the previous model, a new, looser social contract came to govern state-society relations.

²⁶⁹ Babson, Bradley O. 2009. *Transformation And Modernization Of North Korea: Implications For Future Engagement Policy*. The National Committee on North Korea. http://www.ncnk.org/sites/default/files/content/resources/publications/Transformation_and_Modernization_of_North%20Korea.pdf.

²⁷⁰ Cha, Victor D., and Nicholas D. Anderson. 2012. “A North Korean Spring?”. *The Washington Quarterly* 35 (1): 15.

²⁷¹ Choe.

	Individuals	SOEs
Revoked	Social security system Subsidies on basic goods	Subsidies
Given	Rights to private economic activity	Greater managerial autonomy
New responsibilities	Personal survival	Self-sufficiency Profitability

Fig. 9: The 7.1 measures openly acknowledged the role of the second economy in people's lives, thereby according post hoc legal recognition to private economic activities. In this way, a new social contract was established that reflected the actual state of affairs.

Therefore, rather than deliberately charting a new course in economic policy, the 7.1 measures can be seen as extending tacit and belated acceptance to economic practices that had, by that time, become widespread and even engrained.²⁷² The policies acknowledged the changed nature of the economy, which had effectively become a system of duality, marked by an “uneasy coexistence” between the dwindling planned economy and the emerging second economy.²⁷³ The state was admitting to the inefficiencies of the Stalinist sector in meeting consumer demands, and making a begrudging concession of economic space to new market participants, in a pragmatic move to reflect economic realities. Along these lines, the Party internally began calling this new flavour of socialism, “practical socialism” (“실리 사회주의”).²⁷⁴

²⁷² Hazel Smith finds parallels with the 2002 reforms conferring *post hoc* recognition to the market, bringing the law closer in line to reality, and constitutional and legal revisions in 1972 that served to reflect the monolithic centrality of Kim Il Sung, that had already been in place ever since the early 1960s. (Smith, *North Korea: Markets And Military Rule*, 114.)

²⁷³ Szalontai, Balázs, and Changyong Choi. 2012. “The Prospects Of Economic Reform In North Korea: Comparisons With China, Vietnam And Yugoslavia”. *Europe-Asia Studies* 64 (2): 231.

²⁷⁴ Chung, Young Chul. 2004. “North Korean Reform And Opening: Dual Strategy And ‘*Silli* (Practical) Socialism’”. *Pacific Affairs* 77 (2): 283-304.

Nevertheless, beyond the legalisation of the *jangmadang* and its upgrade to the status of universal market, many of the policies had the secondary effect of actively incentivising market participation. For example, the disparities between the increases in wages and prices made life within official economic structures even less secure, while the ensuing inflation resulted in market goods being unaffordable on a state salary alone. Similarly, the cessation of state welfare transformed markets into people's primary source for items previously distributed by the state, such as household goods and medicines.

The *donju* were positioned to reap huge benefits from the 7.1 measures, through both the legal approval of existing practices and the new opportunities presented. Since the *donju* would supply and finance market traders, and operate service businesses geared towards the newly moneyed, the expansion of markets, and their new legal status, served to enlarge their client base. In addition, the greater operational independence conferred to SOEs, coupled with the imperative of self-sufficiency, fostered more creative collaboration with the *donju*. Similarly, while exercising their newfound right to pursue forays in different sectors, enterprises would recruit the services of the *donju* for their business expertise and private financing. Armed with the state's lauding of profitability and self-reliance as justification, the *donju* were emboldened to pursue even more daring ventures with state partners.²⁷⁵

While the nature of the measures was largely passive, it seems that legal endorsement prompted a surge of market participation. Based on 335 refugees, Lee Yeong-hun found that the unemployment rate rose from 23% at the end of the 1990s up to 35% following the introduction of the measures. He attributed this to female workers withdrawing from the formal labour market in order to pursue trade in the informal sector in a full-time capacity, inspired by the new legality and

²⁷⁵ Smith, *North Korea: Markets And Military Rule*, 290.

the prospect of much higher earnings.²⁷⁶ Similarly, in describing a “deepening informalisation” from 1996 to 2003, Kim and Song find that informal economic activities accounted for approximately 78% of total household income, matched by a 78% participation rate of survey respondents in the informal economy.²⁷⁷

Anecdotal evidence also suggests that it was at approximately this time that marked differentiation amongst merchants became plainly visible.²⁷⁸

However, 2004 marked the start of a period of determined restraint, or “reform in reverse”.²⁷⁹ The regime adopted a wide variety of methods to suppress market activity – marketplace crackdowns and closures, a strengthening of the state’s regulatory grip, and the imposition of obstructive regulations – with an aim to curtail the socioeconomic significance of the second economy and partially restore the Stalinist system.

The 2004 reforms of the criminal code instituted the use of “labour training” for up to two years as the penalty for many crimes related to private commerce. Likewise, the “additional clauses” added in 2007 broadened the definition of economic crimes and increased the severity of their associated punishments, including longer fixed-term prison sentences and even the death penalty.²⁸⁰ Specifically, it made reference to “illegally operating a business, such as a restaurant, motel or store”, amounting to recognition of such businesses, operated by the *donju*, at the time.²⁸¹ In 2005, the private sale of grain was banned; in 2006, all able-bodied men were forbidden from working in the marketplace; and a year later this was extended,

²⁷⁶ 이영훈. 2007. *탈북자를 통한 북한경제 변화상황 조사*. 코리아연구원.

²⁷⁷ Kim, Byung-yeon, and Dongho Song. 2008. “The Participation Of North Korean Households In The Informal Economy: Size, Determinants, And Effect”. *Seoul Journal Of Economics* 21 (2): 369.

²⁷⁸ Lankov, “Low-Profile Capitalism: The Emergence Of The New Merchant/Entrepreneurial Class In Post-Famine North Korea”. 189.

²⁷⁹ Haggard and Noland, *Witness To Transformation*, 5.

²⁸⁰ Haggard, Stephan, and Marcus Noland. 2012. “Economic Crime And Punishment In North Korea”. *Political Science Quarterly* 127 (4): 664-665.

²⁸¹ Haggard and Noland, *Witness To Transformation*, 86.

much more significantly, to women below 40 years of age.²⁸² In 2007, the authorities imposed caps on market prices and the volumes that traders could sell. Then, in 2008, security was heightened along the Chinese border; the police increased inspection of luggage on trains, trucks and buses; and specific taskforces were deployed to discipline traders working outside of designated areas, or selling prohibited goods.

In 2010, a number of large markets were forcibly closed, including the Pyongsong market in Pyongyang and the Sunam market in Chongjin, both major hubs for wholesale trade.²⁸³ More recently, in 2015, customs procedures along the border with China were tightened, resulting in the volume of cross-border trade falling by one third.²⁸⁴ Then, in December 2015, approximately 100 *hwagyo*, a major component of the modern middle class, were arrested on suspicion of espionage,²⁸⁵ while reports surfaced of a new rule forbidding sellers from holding more than 500kg of rice, along with a dedicated Food Supply Task Force (“식량타격대”) to seize any excess.²⁸⁶

Furthermore, diktats were issued with a view to frustrating the smooth functioning of markets and impede their growth. Beyond age limits on traders, opening hours of marketplaces were circumscribed, along with their physical location and the frequency with which they could be held. For example, some markets were instructed to open only once every 10 days.²⁸⁷ Border permeability became

²⁸² Won-hong, Kim. 2014. *Women Of North Korea: A Closer Look At Everyday Life*. Ministry of Unification.

²⁸³ Dong, Yong-seung. 2012. “Economic Outlook Of North Korea In 2012”. *Korea Focus* 20 (4).

²⁸⁴ 강미진. 2015. “北, ‘간첩사건’ 이후 국경·내부 통제 대폭강화”. *DailyNK*.
<http://www.dailynk.com/korean/read.php?cataId=nk04500&num=105903>.

²⁸⁵ 최송민. 2015. “北中 관계 파탄? ‘北, 中대사 미행·화교 100 여명 간첩죄 체포’”. *DailyNK*.
<http://www.dailynk.com/korean/read.php?cataId=nk04500&num=107486>.

²⁸⁶ 강미진. 2015. “北식량타격대, 500kg 이상 쌀 보유하면 가차없이 압수”. *DailyNK*.
<http://www.dailynk.com/korean/read.php?num=107461&cataId=nk04500>.

²⁸⁷ 양문수. 2010. *북한 경제의 시장화: 양태, 성격, 메커니즘, 함의*. 파주: 한울 아카데미.

fluxional and the handling of foreign currencies was prohibited at times. Markets also faced restrictions on the items which were permitted for sale – these were frequently revised, leading to huge losses for traders and *donju* who had made investments in such stock, being left unable to sell their inventory.²⁸⁸ In all of these cases, rules were circumvented where possible and quietly lifted at a later date, producing unpredictable cycles of relaxation and repression.

Clearly, the regime still had at its disposal a vast arsenal of means to suppress the market. Yet, the most illustrative display of its enduring dominance was a currency revaluation in 2009. Following a surprise announcement through the public-address system wired into homes and workplaces, the old North Korean won was to be exchanged for new notes at a rate of 100:1. Strict limits were enforced in terms of the validity period – there was a five-day window before the old notes became invalid – and the maximum sum that each person could convert – 100,000 won at first. In response to public outrage, this ceiling was swiftly raised to 150,000 won, with a further 300,000 won allowed if it was deposited as savings at a bank.²⁸⁹

The move was pursued, in part, as a means of curbing the country's rampant inflation, which had been aggravated by the 7.1 measures. This liberalisation had broadened market participation, causing the demand for goods to rapidly outstrip supply and the monetary base to expand.²⁹⁰ However, Frank notes that a currency revaluation would have had negligible effect in countering inflation as it does little to correct the underlying imbalance between supply and demand.²⁹¹ Similarly, had tackling inflation been the primary objective of the reform, there would have been

²⁸⁸ Cho, Suh, Lim, Kim, Park, 30.

²⁸⁹ Sung Hwee, Moon. 2009. "Public Currency Announcement Broadcast". *DailyNK*. <http://www.dailynk.com/english/read.php?catId=nk01500&num=5722>.

²⁹⁰ Bae, Jong-ryul. 2007. *Internationalization Of North Korean Economy: Issues And Tasks*. KDI Review Of North Korean Economy. Korea Development Institute.

²⁹¹ Frank, Rüdiger. 2010. "North Korea In 2009: Domestic Developments And The Economy". In *Korea 2010: Politics, Economy And Society*, 44. BRILL.

little reason not to give forewarning, not least to allow time for appropriate planning by citizens and to ease the transition.

The redenomination was more than economic in nature, and has been seen as a manifestation of the power struggle between the Party and the rising middle class. Publicised only one day in advance, the reform was clearly “designed to be a shock”.²⁹² The low value of the upper cap meant it amounted to a *de facto* expropriation by the state, destroying the savings of market traders and neutralising them as a burgeoning social class. It represented a reassertion of state dominance over the economy, making use of its central lever both financially and symbolically, to impose a return to economic orthodoxy. The regime sought to undermine people’s confidence in the markets, and heighten the risk of involvement. The message was clear: the state was still the ultimate authority and would do all it could to defend its predominance. To dispel any doubts, the reform was shortly followed by the closure of some of the country’s largest markets. Notably, the *donju* stood to be less affected than lower-level traders and ordinary market users. Firstly, the impact would have been mitigated by their proclivity to use foreign currencies. Anxious about the instability of the won and its vulnerability to seizure at the whims of the state – there had been four currency revaluations previously – the use of the Chinese yuan and US dollar had become common practice for the *donju* in their business dealings and as a store of value for their savings.²⁹³ Similarly, through their close ties with the authorities, they were able to minimise their losses.²⁹⁴ However, they would have been affected indirectly by the losses sustained by their customers and the decrease in overall market activity.

²⁹² Abrahamian, 70.

²⁹³ 이석기, 김석진, and 양문수. 2012. *북한 외화통용 실태 분석*. 산업연구원.

²⁹⁴ 최수영, 64.

An official of the North Korean central bank was quoted in the *Choson Sinbo* as saying the country was, “not moving toward a free market economy but will further strengthen the principle and order of socialist economic management.”²⁹⁵ While official pronouncements can rarely be taken as reliable indicators of the state’s intentions, it does seem to point towards a motivation consistent with past behaviours – the capturing of private wealth for reallocation to state institutions. Previous currency revaluations, the withdrawal of the “blue won” foreign exchange certificates and a prohibition of dollar holdings have all necessitated bank deposits. Subject to ceilings, they have served to expand the national budget. Generally, North Korea has a long history of government-led initiatives to incentivise bank usage in the face of great mistrust in the sector. For example, a public bonds scheme was launched in 2003 to lure privately held cash into state banks, but uptake was unenthusiastic.²⁹⁶ Along similar lines, the use of foreign currency was banned the following month, requiring businesses to deposit their cash at banks, with withdrawal only allowed pending government approval.²⁹⁷ Volatility in the domestic currency promoted hedging, which was subsequently removed as an option.

Synthesising these two lines of thought, the 2009 devaluation represented an attack on the merchant class through a confiscation of their new wealth, but the state intentionally stopped short of eradicating markets, as the redirection of private capital towards state banks made finance available for investment within the Stalinist sector. Thus, while the state maintains the capacity to quash the market entirely, it began to see that it could make the market serve its own interests within

²⁹⁵ Harden, Blaine. 2010. “N. Korean Currency Crackdown Fuels Inflation, Food Shortages”. *The Washington Post*. <http://www.washingtonpost.com/wp-dyn/content/article/2010/01/06/AR2010010604699.html>.

²⁹⁶ Hassig and Oh, *The Hidden People Of North Korea*, 80-81.

²⁹⁷ Jean H. Lee, “N. Korea Bans Foreign Currencies in Market Clampdown,” *Associated Press*, 31st December 2009.

the planned economy. From this perspective, in a country that prides itself on having abolished tax, the currency revaluation was essentially just that.

Two policy packages announced in 2012 (“6.28 방침”, “6.28 measures”) and 2014 (“5.30 담화”, “5.30 measures”) suggested a return to the reformist tendencies of the 7.1 measures. For example, the partial relaxation of agricultural rules in 2012, such as the reorganisation of collectives into household-sized “production teams” (“분조”) and allowing farmers to retain up to 70% of the total harvest,²⁹⁸ has further increased the volumes of food being traded through the market in recent years. With the *donju* sitting at the very apex of the informal economy, any increase in throughput at even its lowest rungs has indirectly benefitted them, through an enlargement of their potential customer base and a greater penetration of the market into people’s lives. At first, the agricultural provisions were phased in unevenly, but as of January 2015 appeared to have been implemented widely.²⁹⁹

Moreover, the “management method in our style” (“우리식 경제관리방법”) introduced as part of the 6.28 measures has been emblematic of Kim Jong Un’s devolution of managerial authority to individual state enterprises. Under this system, the state maintains ownership of the means of production and designates the heads of enterprises, but they have discretion over how to fulfil production targets and meet market needs, including in making deals with other businesses and hiring and firing personnel. In this way, the Party has not only acknowledged

²⁹⁸ The share of the harvest to which each work team is entitled seems to vary by region, while differing estimates abound among observers. However, Lankov, citing two South Korean research institutes, as well as his own interviews with North Koreans in China, believes the figure typically stands at 70%. (Lankov, Andrei. 2017. “Is Byungjin Policy Failing? Kim Jong Un’s Unannounced Reform And Its Chances Of Success”. *The Korean Journal Of Defense Analysis* 29 (1): 28.)

²⁹⁹ Chang, Jae-soon. 2015. “Agricultural Reforms In N. Korea Appear To Be Working: U.S. Expert”. *Yonhap News Agency*.
<http://english.yonhapnews.co.kr/northkorea/2015/01/28/39/0401000000AEN20150128000300315F.html>

the informal economy, but has instructed managers to make effective use of it. This has expanded the role of private financiers and suppliers, positioning the *donju* to become the real impetus behind economic development. Overall, however, these policies have “lacked consistency and often exposed zigzagging directions.”³⁰⁰ Implementation, too, has been ill-planned, impeded by institutional resistance and an insufficient allocation of resources to smooth the transition. In June 2015, commentators suggested that factories operating according to this system were still few in number and seemed “experimental”, with speculation that its wider implementation might have been postponed or cancelled.³⁰¹

For some observers, the 6.28 and 5.20 measures constitute some element of reform in themselves and signal an intent to move towards opening and reform,³⁰² while others suggest they are instead a means to normalise the planned economy.³⁰³ For Park Hyeong-jung, they represent the transition from a “socialist planned economy” to an “unplanned socialist economy”.³⁰⁴

These days, while the regime continues to cling rhetorically to socialism, capitalism is, in practice, flourishing. On the basis of 2009 census data, one study suggested that 83% of North Koreans’ livelihood is tied to the market.³⁰⁵ The mid-1990s famine acted as the critical impetus for the pursuit of private economic activities by the general population and still patterns regional rates of market participation today. The figure is higher in provinces which suffered particular hardship – e.g. 93% of North Hamgyong residents are involved in the informal

³⁰⁰ Park, Hyeong-jung. 2013. *North Korea’s ‘New Economic Management System’: Main Features And Problems*. KDI Review Of The North Korean Economy. Korea Development Institute.

³⁰¹ Lankov, Andrei. 2015. “North Korea Appears To Have Slowed Down Economic Reform Drive”. *Radio Free Asia*. <http://www.rfa.org/english/commentaries/parallel-thoughts/korea-lankov-06012015155436.html>.

³⁰² *한반도 정세: 2014 년 평가와 2015 년 전망*. 2014. 경남대 극동문제연구소.

³⁰³ 목용재. 2012. “‘6.28 방침’은 개혁 아닌 계획경제 정상화 일환”. *DailyNK*. <http://www.dailynk.com/korean/read.php?cataId=nk00400&num=96624>.

³⁰⁴ Park, Hyeong-jung.

³⁰⁵ *Chosun Ilbo*. *How Capitalist Is N.Korea?*.

economy – while in Pyongyang, where citizens were partially sheltered from the full effects of the disaster, the same proportion stands at 56%.

In 2014, Cho Bong-hyun estimated that half a million private businesses were operating in North Korea, comprising approximately 400,000 enterprises in the service sector and 100,000 small manufacturers.³⁰⁶ Similarly, it is estimated that, on average, 75% of a North Korean household's income is derived from the informal market, and that 80% of consumer goods are bought through the *jangmadang*, over conventional state-run stores.³⁰⁷

Through the analysis of satellite imagery, Silberstein found that physical market space had either increased or remained unchanged across the country in recent years, and that structures had been rebuilt and modernised. In Sinuiju, for example, he discovered the market space had grown by 110% between 2003 and 2014, despite government crackdowns in the interim period, suggesting the relevance of the market remains on the incline.³⁰⁸ Besides officially designated marketplaces and streetside stalls, businesses now operate out of tents (“막매대”)³⁰⁹ and rooms in houses which have been converted into shops.³¹⁰

The range of products, too, has broadened, with markets now purveying a wide range of Chinese, South Korean and Japanese goods. The diversity is such that a new saying has been coined: at the *jangmadang* “there is everything except cat horns” (“고양이 뿔 말고는 없는 게 없다”).³¹¹ Market expansion has, likewise,

³⁰⁶ Ibid.

³⁰⁷ Korea Institute for National Unification, 177.

³⁰⁸ Silberstein, Benjamin Katzeff. 2015. *Growth And Geography Of Markets In North Korea: New Evidence From Satellite Imagery*. US-Korea Institute at the Johns Hopkins School of Advanced International Studies.

³⁰⁹ 이상용. 2015. “北시장화로 노점상 ‘막매대’ 급증... ‘2km 노점 거리 이뤄’”. *DailyNK*. <http://www.dailynk.com/korean/read.php?cataId=nk04504&num=106593>.

³¹⁰ 임을출, 28.

³¹¹ “북한 장마당에 LED TV·노트텔까지... ‘생수 없어서 못 팔아’”. 2015. *중앙일보*.

led to a corresponding growth in the number of different jobs within the market. For example, the *dondeggo* (“돈데꼬”) are businesspeople who specialise in the buying and selling of foreign currency, trading US dollars and Chinese yuan with both individuals and companies alike. This, in itself, reveals market growth, as their analogue of the 1980s, the *donjangsaggun*, only concerned themselves with the sale of dollars to the privileged. The *-deggo* suffix is used similarly in naming those involved in the large-scale dealing of other items, too, such as *ssaldeggo* (“쌀데꼬”, rice seller), *sinbaldeggo* (“신발데꼬”, shoe seller) and even *jibdeggo* (“집데꼬”, estate agent).³¹²

The *donju* are responsible for the influx of foreign goods and growth in the wholesale and retail markets; the operation of financial, service-sector and real estate enterprises; and the upswing in domestic manufacture and housing construction. Overall, the activities of the *donju* have shown trends of expansion, diversification, and growing complexity, requiring greater professionalism and ever closer collaboration with the state. Similarly, the *donju* themselves have become richer, more ambitious and increasingly audacious.

While the last two year of Kim Jong Il’s leadership saw the end of the market repression period – universal markets and the use of foreign currencies became permitted once more in February 2010 – it to Kim Jong Un’s name to which a more permissive stance to the informal economy has become associated, with no major crackdowns on markets since his accession. Lankov notes, “[u]nder Kim Jong Un, not a single policy has been implemented which would somehow damage the interests and efficiency of private businesses. It’s a good time to be rich in North Korea.”³¹³ Furthermore, the enforcement of existing regulations has been

³¹² Confirmed via a short, unstructured interview with a North Korean refugee.

³¹³ Pearson.

relaxed. In fact, while many laws prohibiting aspects of private commerce are still on the books, officials have been expressly instructed to overlook violations of these rules.³¹⁴

Since the country's central economy remains stagnant, trapped in a low-level equilibrium, the business activities of the *donju* largely account for the observed uptick in trade with China. This trade stems from their own wholesale import-export businesses, including the supply of the country's domestic markets, or the profitable ventures they pursue in collaboration with Party cadres, or under the guise of government institutions. Critically, this surge has relied on China's "commercial patronage" of the North,³¹⁵ politically motivated trade in line with its national security strategy.

³¹⁴ Lankov, Andrei. 2016. "Kim Jong-Un: His First Five Years". *The Korea Times*. http://www.koreatimes.co.kr/www/news/opinion/2016/12/304_219911.html.

³¹⁵ Eberstadt, Nicholas. 2014. "North Korea's Paradoxical Upswing In Trade". *American Enterprise Institute*. <http://www.aei.org/publication/north-koreas-paradoxical-upswing-in-trade>.

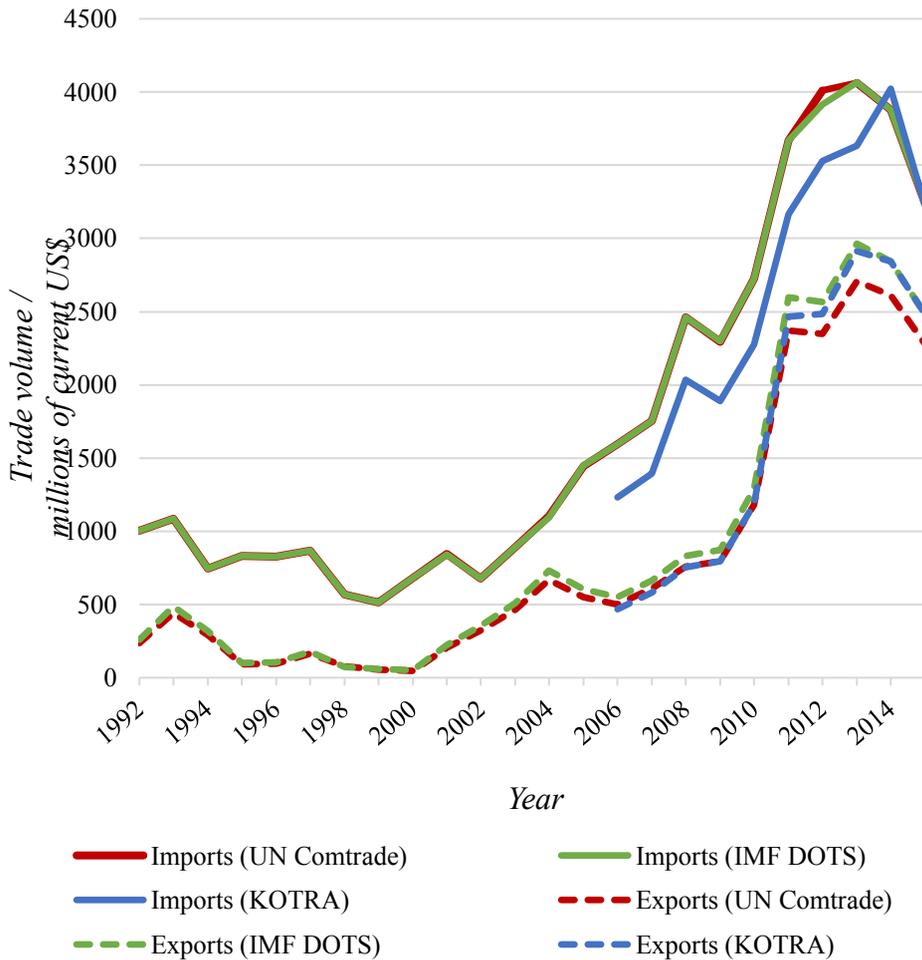


Fig. 10: North Korea's annual trade volume between 1992 and 2015.³¹⁶

While statistics derived from Chinese reports give a general indication of trade volumes, they are limited by intervals of non-recording by the customs agency and

³¹⁶ Given the unavailability of North Korean macroeconomic data, the graph above visualises data generated through “mirror statistics”, drawing on figures reported by China to UN Comtrade and the IMF Direction of Trade Statistics. The data was adjusted for inflation using the Consumer Price Index as reference, and FOB-CIF corrections applied as per the method outlined by Eberstadt (Ibid.) Data from the Korea Trade-Investment Promotion Agency, available from 2006 onwards, was plotted alongside for comparison. (Korea Trade-Investment Promotion Agency. 2015. 2015 북한 대외무역 동향. 15.)

do not take into account illegal trade. Nevertheless, the three sources above show good agreement, with a clear trend of rapid growth in North Korea's legal merchandise trade with China, most pronounced from around 2009 onwards. The total trade volume between North Korea and China grew more than sevenfold between 2000 and 2015. Indeed, the annual growth rates in the North's world trade volumes in recent years have been the highest since the termination of trade agreements with the Soviet bloc in 1990,³¹⁷ and China is, by far, the North's most significant partner, accounting for between 87-91% of its total trade volume between 2011 and 2015.³¹⁸

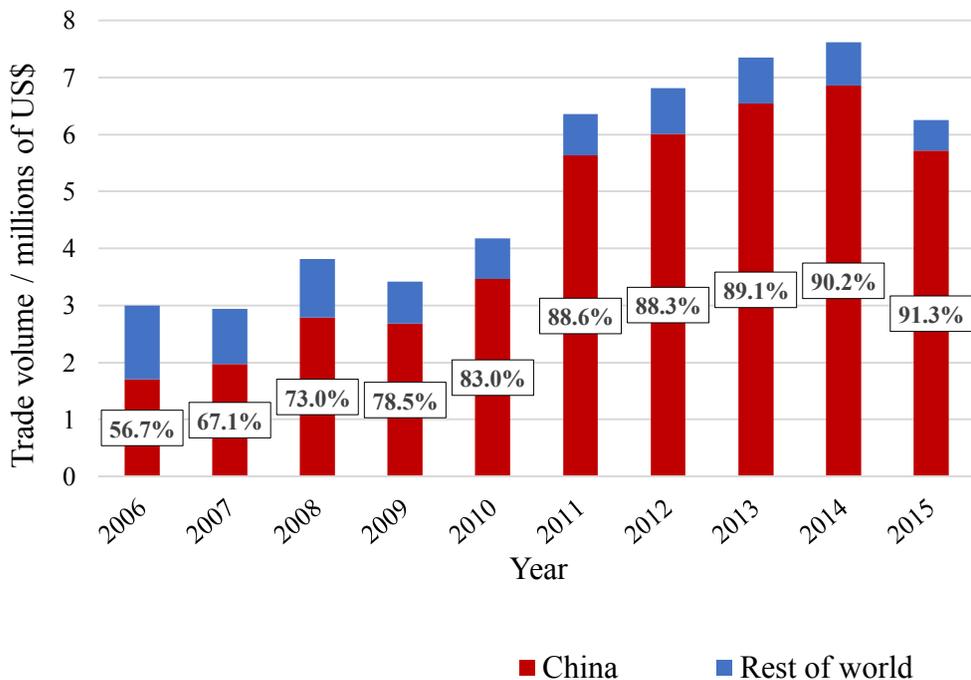


Fig. 11: North Korea's yearly trade with China in red and the rest of the world in blue, with the percentage accounted for by China overlaid. In addition to an upwards trend in the overall volume of trade, there is a growing dependency on China as the North's major trading partner. Data from the Korea Trade-Investment Promotion Agency.³¹⁹

³¹⁷ Frank, Rüdiger. 2015. "North Korea's Foreign Trade". 38 *North*. <http://38north.org/2015/10/rfrank102215>.

³¹⁸ Korea Trade-Investment Promotion Agency, 3, 14.

³¹⁹ *Ibid.*

This increased level of trade with China has borne fruit: North Korea's economy has shown signs of growth. A study conducted by the Hyundai Research Institute (HRI) – using UN infant mortality data, supplemented by grain output figures – estimated that the country's GDP rose from \$930 in 2014 to \$1013 in 2015, equating to an annual growth rate of 9%.³²⁰ This would be the first time, according to the HRI, that the North Korean GDP has breached the \$1000 mark. However, others provide more conservative assessments: Bank of Korea figures hovered around 1% between 2011 and 2014,³²¹ Choe Sang-hun of *The New York Times* offered a broad estimate of anywhere between 1-5% in 2017,³²² while Lankov in the same year suggested that growth stood at approximately 3-4%.³²³ However, it appears that not all citizens are sharing in the spoils of this tacit liberalisation. Having cut back on much of the social welfare system with the 7.1 measures, the poorest in the country have been effectively left to fend for themselves. Residents of the provincial cities and countryside must rely on minimal state benefits, barter and won-denominated trade to making a living. A recent UN report claimed that 18 million people were “in need”,³²⁴ with a vulnerability to food insecurity and a lack of access to basic healthcare and sanitation, with 41% of the population undernourished.³²⁵ In this vein, North Korea

³²⁰ 현대경제연구원. 2016. *2015 년 북한 1 인당 명목 GDP 추정*.

³²¹ The Bank of Korea. 2016. *Gross Domestic Product Estimates For North Korea In 2015*.

³²² Choe.

³²³ Lankov, Andrei. 2017. “The Limits Of North Korea's Meager Economic Growth”. *NK News*. <http://www.nknews.org/2017/02/the-limits-of-north-koreas-meagre-economic-growth>.

³²⁴ UN Resident Coordinator for DPR Korea. 2017. *DPRK Needs And Priorities: March 2017*.

³²⁵ The author concedes that figures from the UN report ought to be taken with a pinch of salt. Presumably due to the unavailability of reliable data, the number of North Koreans “in need” was taken as the number who “depend” on the PDS. While the quantity of rations can fluctuate and the supply can, at times, be unreliable, the assumption that all recipients are automatically food insecure overlooks more significant sources of food in modern-day North Korea, not least the *jangmadang*. Nevertheless, while 18 million may be larger than the true figure, the UN report is a valuable reminder of ongoing food insecurity and deprivation among large swathes of the population.

is increasingly being described as a society in which “the rich get richer; the poor get poorer”.³²⁶

These economic disparities are profound and growing. The regime has devised many ways of preying on the market in order to expand its national finances, such as the obligation for enterprises to pay in the region of 30% of their profits to the state, the collection of market stall rents, and various forms of fees which are tantamount to taxes. However, these new funds have not been directed into improving the welfare of its ordinary citizens to any meaningful extent. Instead, Kim Jong Un has committed huge sums to vanity projects and leisure facilities in the capital so as to satisfy the greater material demands of the new middle class and further capture their wealth.

Rural dwellers criticise the country’s leadership and middle class as citizens of the self-serving “Pyongyang Republic” (“평양 공화국”), or by saying that “20 million rural citizens exist for the benefit of the 3 million in Pyongyang” (“2000 만 지방 주민은 300 만 평양 시민을 위한 존재”).³²⁷ The Korea Development Institute recently put numbers to this inter-regional discrepancy, determining the per capita GDP of Pyongyang residents to be three times as large as that of people living outside the capital.³²⁸ Furthermore, despite the paucity of concrete data, approximate evaluations of the country’s Gini coefficient have been put forward. For one, Lankov, as a simple “guesstimate”, suggests the figure of “0.5 or above”.³²⁹ Meanwhile, Kim Tae-jong and Kim Ji-hong, have sought to adopt a more rigorous approach, drawing on the family income data of 700 refugees, along

³²⁶ 임을출, 29.

³²⁷ 장진복, 2011. “北평양-지방 격차확대... ‘평양공화국’ 불만증대”. *뉴시스*. http://www.newsis.com/view/?id=NISX20111113_0009745525.

³²⁸ 이석, 2016. *북한의 실제 취업률과 소득은 얼마나 될까?*. KDI Focus. 한국개발연구원. 7.

³²⁹ Lankov, *Emergence Of Market Economy In North Korea*.

with their self-perception relative to those around them. In the most conservative model they employ, they produced a coefficient of 0.69-0.74 in 1997, rising to 0.77-0.85 in 2004.³³⁰ This would place North Korea as one of the most unequal countries in the world – only four countries had Gini coefficients exceeding 0.6 in 2001. They add, “[e]ven more alarming, of course, is the strong possibility that even these unusually high values of Gini coefficients are likely to understate the true nature of income distribution in North Korea.”

Ultimately, Kim Il Sung’s vision for a socialist egalitarian society gave way to capitalist plurality under Kim Jong Il’s leadership. Since Kim Jong Un came to power, this income inequality has only reached new heights and levels of recognition within the country.

³³⁰ Kim, Tae-jong, and Ji-hong Kim. 2017. “Measuring Income Distribution In North Korea”. *KDI School Of Public Policy And Management*. Unpublished, a copy of the paper was kindly provided by the authors.

Provisions	Constitution				
	1948	1972	1992	1998	2009/2016
Right to income from private economic activities	✓			✓	✓
Definition of private property	Land, cattle, farm tools, raw materials, manufactured goods, residences, outhouses, income, savings	Socialist distributions, additional benefits, products of “subsidiary home enterprises” (e.g. small plots of cooperative farmers)	Socialist distributions, additional benefits, “products of individual side-line activities”	As 1992, plus “income from other legal economic activities”	As 1998
Right to medium- or small-scale trade and business as an individual	✓				
Promotion of private enterprise	✓				
Right to domestic travel				✓	✓
Duty to pay taxes	✓				
Right to the private ownership of the means of production as an individual	✓				
Socialist production relations		✓	✓	✓	✓
Reference to Marxism-Leninism		✓			
Reference to communism		✓	✓	✓	
Self-supporting accounting system for SOEs				✓	✓
Entities allowed to pursue foreign trade	The State or under its supervision	The State	The State or under its supervision	The State and social, cooperative organisations	State organs, enterprises and social, cooperative organisations
State encouragement of joint ventures			✓	✓	✓
State encouragement of special economic zones				✓	✓

Fig. 12: The evolution of the economic and commercial legal framework, as enshrined in successive constitutions. Notable are the expansions of property rights and the institutions allowed to engage in foreign trade.

The general trend above is one of increasing economic autonomy, in parallel with the spurning of Marxism-Leninism and communism. It ought to be noted that in North Korea there exists a large discrepancy between theoretical rights and the way in which citizens might be free to exercise them in practice. Unlike in other settings, the constitution does not serve as the supreme embodiment of law but changes do indicate institutional adaptation, if not only to minimise the dissonance between the rulebooks and real life.

In fact, constitutional amendments underestimate the magnitude of change underway in the country, as recently they have only passively reflected the bottom-up economic transformation. As Zook writes, “[i]n socialist systems, the constitution works in concert with other legal instruments to facilitate the implementation of political policy and practice by providing after-the-fact legitimisation of party directives.”³³¹ Since the Party’s move from reluctant toleration of markets to their legal accommodation was belated, the constitutional revision was even more so. Thus, the constitution was catching up with politics, which itself was catching up with the social reality.

³³¹ Zook, *Reforming North Korea: Law, Politics, And The Market Economy*, 135.

3. The relationship between the North Korean middle class and the state

The *de facto* marketisation of North Korea has often been conceived as a competition between social forces, where capitalist individualism emancipates the population from the rigid collectivism designed by the regime. Yet, in light of the cautious accommodation of market principles and its actors by the state, the two cannot simply be said to be in diametric opposition. Certainly, in becoming the primary source of food and goods for the majority of the population, the markets have undermined the regime's claim for the superiority of its original economic system. The market has also established a space in which a second society can exist, and served to corrode the regime's monopoly on the transmission of information. However, to frame the relationship between the market and the state as either purely cooperative or purely antagonistic is reductive. As will be explored below, the state has been able to maintain control over society, and has ensured that marketisation unfolds in a way conducive to its continued dominance, making it serve state goals at three key levels.

At the individual level

While the marketisation of the country was essentially spontaneous, with its expansion catalysed by previous economic experiments and institutional configurations, the state has played an active role. Indeed, through the 1990s, local officials deviated from the central mandate to facilitate marketisation. They were complicit in market practices by turning a blind eye to individual entrepreneurship, refraining from the strict enforcement of regulations from above, and personally orchestrating county-level business ventures. It presented a means of assuring the survival of their local population, for whom they were responsible and whose suffering was more immediate than to the upper echelons of the bureaucracy. Moreover, Party cadres themselves were not entirely insulated from food

shortages,³³² and so their own food security, to some extent, was also at stake. Officials also saw an opportunity to earn profits for themselves, as well as gifts and kickbacks.

This relationship, with Party members benefiting from the market at an individual level, lives on to this day. While Choi describes the existence of “power-type *donju*”, who covertly use their high-ranking position to make money directly, these constitute a distinct minority.³³³ Due to the Party’s continued rhetorical objection to the market, involvement by the authorities must be at arm’s length, so as to minimise exposure and avoid direct complicity, while their time is already consumed with official duties. Instead, it is more common to use their relatives as proxies or to entrust their savings with distinguished *donju*, who then might lend it to others, smaller than themselves, forming a pyramid structure.³³⁴

The most common practice, however, is the extraction of rents. At the lower ranks, cadres benefit from the stall rents of market traders, while corrupt officials extract bribes for a range of activities. In the words of Haggard and Noland, they “[exploit] their ability to limit entanglement with a brutal penal system.”³³⁵ Since all processes of the businesses of the *donju* are illegal – e.g. loaning money, the hiring of wage labour, private property ownership – or require prior approval – e.g. internal movement and travel to China – higher-level cadres exploit their discretionary power of turning a blind eye, approving official papers or offering the appropriate rights. According to refugee testimony:

³³² Haggard and Noland. *Witness To Transformation*. 6.

³³³ 최수영, 64-65.

³³⁴ 김영희, 31.

³³⁵ Haggard and Noland, *Economic Crime And Punishment In North Korea*, 659.

“North Korean officials live off of their status and position. Even if you are in the Central Committee of the Party, [it] is difficult to make a living. [...] Even without requesting, those in the department can continually receive bribes. If there is even a slight connection, people try hard to use that connection to establish relationships. If they do, they pour in bribes.”³³⁶

Kim Jong Un’s recent focus on construction has presented new opportunities for the wealthiest *donju*, since the institutions entrusted with its delivery have been given the discretion to source funding independently. These projects have largely been financed with private capital, with Party officials receiving kickbacks.³³⁷ Apartment building can be particularly lucrative for all parties concerned: the property market is currently flourishing and so the returns on the *donjus*’ investment can be very large, while local housing officials may even receive one of the units as remuneration.³³⁸ Besides the financial gains, the financing of property development gives a chance for the *donju* to network with high-ranking officials, which may prove advantageous for securing other business ventures in the future.³³⁹

Other *donju* have diversified into the mining industry, bribing cadres in a bid to receive the rights to inoperative mines. Pits are typically abandoned by state firms once the supply of coal at shallow depths has been exhausted, as deeper-level extraction is prohibitively expensive. However, the *donju* in possession of sufficient upfront capital to finance such operations stand to make considerable profits from these untapped reserves. Rights are granted and mines sold, effectively shifting the ownership and management of a state enterprise to *donju*, providing they deliver regular kickbacks to officials. It has even been reported that some

³³⁶ Park, Young-Ja. 2015. “Informal Political System In North Korea: Systematic Corruption Of ‘Power-Wealth Symbiosis’”. *International Journal Of Korean Unification Studies* 24 (1): 134.

³³⁷ 설송아. 2015. “北 국가건설도 능력 부족... ‘돈주, 투자로 건설 진행’”. *DailyNK*. <http://www.dailynk.com/korean/read.php?num=105702&cataId=nk04504>.

³³⁸ Hassig and Oh, *The Hidden People Of North Korea*, 89.

³³⁹ 동용승. 2016. “북한 돈주들의 부동산 투기 열풍”. *월간북한*, 76.

mines are declared depleted prematurely so as to maximise the informal income for consenting authorities.³⁴⁰

Beyond graft, there are many opportunities for state employees to profit from the financial infrastructure established by the *donju*. For example, without recourse to legal enforcement mechanisms, the collection of debts by moneylenders is commonly enforced through informal backing by the army or security agencies, with their coercive capacities duly compensated.³⁴¹ Likewise, personnel from the railway division of the Ministry of People's Security make money through foreign currency arbitrage, capitalising on intra-regional differences in exchange rates.³⁴² In turn, private entrepreneurs actively seek collusion with the authorities so as to legitimise their businesses. Bribery has both a permissive and lubricative effect for the enterprises of the *donju*, ensuring their personal safety, minimising uncertainty, protecting their earnings and operations from appropriation, and receiving protection from interference.³⁴³ Essentially, this arrangement partially compensates for the absence of market-supporting institutions. In this light, there exists a “mutualistic symbiosis”³⁴⁴ between the two groups, inasmuch as Party officials are able to transmute their political power into economic wellbeing, while the *donju* become rich, essentially at the acquiescence of authority. Indeed, research suggests that there exists a strong positive correlation between Party membership and participation in both the formal and informal economies.³⁴⁵ Accordingly, through this “economic marriage of convenience” both groups are able to harness the

³⁴⁰ 설송아. 2015. “北서 ‘검은금’ 석탄 폐광 운영권 3000 달러에 거래”. *DailyNK*. <http://www.dailynk.com/korean/read.php?cataId=nk04504&num=105879>.

³⁴¹ Kim, Sung Chull, 239.

³⁴² 최송민. 2015. “北보안원, 북한돈·달러 환차익으로 막대한 돈 벌어”. *DailyNK*. <http://www.dailynk.com/korean/read.php?num=107366&cataId=nk04504>.

³⁴³ Cho, 45.

³⁴⁴ Szalontai and Choi, *Immunity To Resistance?*, 60.

³⁴⁵ Silberstein, Benjamin Katzeff. 2015. “The (Market) Forces Of History In North Korea”. *The Diplomat*. <http://thediplomat.com/2015/11/the-market-forces-of-history-in-north-korea>.

resource in which they are endowed to expand their Weberian power in other areas.

At the organisational level

Ever since the 1970s, state enterprises in North Korea have enjoyed significant operational freedom with regards to international trade, much greater than was typical in other communist countries. As discussed in section 2.4, the heads of government institutions would use this permission to empower informal “funding squads”. The money raised would benefit both the business – by, for example, ensuring a sufficient supply of raw materials – and the officials themselves, who would take a portion themselves. They would also be able to make larger loyalty donations to the Kims, which would be looked upon favourably in deciding on commendations and promotions.³⁴⁶

Military units and SOEs also petition the central authorities for permission to engage in foreign trade directly or launch new foreign currency-earning subsidiaries. Given exclusive rights to a particular local resource, they recruit the services of businesspeople experienced in the area. In return, the *donju* are able to offer their expertise, connections and finance to assist with trade logistics and the hiring of workers. The most common exports of these state trading companies include squid, shellfish, pine nuts and mushrooms, while a notable phenomenon in recent years has been the progressive specialisation of the goods sold by each firm. However, as managerial independence broadens and expectations of profitability heighten, SOEs are facing pressure on an ever-greater number of fronts. In response to this, certain piggybacking behaviours have evolved, whereby private enterprise makes use of state facilities or the special privileges accorded to state companies. With the joint input of capital from both the state and the *donju*, many

³⁴⁶ Kim, Sung Chull, 155.

of these commercial relationships take the form of pseudo-public-private partnerships. For one, some organisations rent out their trading permits (“무역와크”) to the *donju* and then operate domestic companies using the lease money, while the officials in charge receive bribes.³⁴⁷ Similarly, others effectively outsource their business by leasing their exclusive right to a resource. For instance, the fishing enterprises under the direction of the artillery corps make available their permits for hire by the *donju*, on the condition that they fulfil an annual quota and deliver 30% of their profits.³⁴⁸ In addition, space in state-owned factories can be leased for private manufacture. By way of an example, production levels at the country’s shoemaking factories are subject to government-prescribed seasonal quotas and so the output cannot be adjusted to match actual market demand. The *donju*, however, as private operators, are able to step in and capture this demand, and pass on a share to the cadres in charge.³⁴⁹ Moreover, Dong Yong-seung describes how the *donju* are able to intervene in the formulation of trade plans by SOEs to request the inclusion of items in demand in the market, and support the associated expenses. While it is state organs which undertake the importing in this case, the goods, in practice, find their way to the market.

Similarly, besides creditor partnerships, the *donju* act as customers for the wholesale imports of state trading companies. Exploiting their greater organisational resources and permissions, state firms may import large volumes of goods for resale to *donju* specialising in wholesale distribution. In this way, the state positions itself at the top of a supply chain that ultimately ends in the

³⁴⁷ 설송아. 2015. “北외화별이 회사, 무역와크(허가증) 장사로 돈방석”. *DailyNK*.

<http://www.dailynk.com/korean/read.php?cataId=nk04504&num=107445>.

³⁴⁸ Seol, Song Ah. 2015. “Donju-Dominated Fisheries A ‘Win-Win’”. *DailyNK*.

<http://www.dailynk.com/english/read.php?num=13293&cataId=nk01500>.

³⁴⁹ 설송아. 2015. “北 개인 제조업 성행... ‘국영공장까지 임대’”. *DailyNK*.

<http://www.dailynk.com/korean/read.php?num=107197&cataId=nk04504>.

marketplace, with the *donju* as enabling intermediaries. It has been reported that trading companies bought large quantities of fruit for such purposes in the run-up to the Seventh Party Congress, in order to raise the loyalty funds that had been requested.³⁵⁰

At the regime level

Much of the *donjus*' business exists as a carefully crafted fiction, which partly neutralises the ideological challenge it poses to the regime's official insistence on socialism, while also raising money for the state. As soon as a trader expands beyond petty commerce, a political cover becomes essential. A common practice among small businesses, such as shops and restaurants, is registration for nominal affiliation with a government agency in exchange for approximately 30% of its profits. While ostensibly a subsidiary of a state organ, the business is privately financed and managed, either by the *donju* themselves or hired labour. The property relations are intentionally obfuscated so as to present a more politically palatable façade; this disguise effectively replicates the "red hat" business model of transition-period China. For instance, the so-called "*seobicha*" ("서비스차") companies – which operate bus networks across the country for both passengers and freight – offer side-payments to local government agencies for registration as a business under their umbrella and permission to operate in the area.³⁵¹ Private pharmacies are also known and permitted, providing they contribute a share of their turnover to the public health department. Even the sale of foreign medicines

³⁵⁰ Seol, Song Ah. 2016. "Authorities Shake Down Trading Companies For Extra Loyalty Funds". *DailyNK*. <http://www.dailynk.com/english/read.php?cataId=nk01500&num=13860>.

³⁵¹ Seol, Song Ah. 2014. "Servi-Cha Professionalizing For Kim Jong Eun Era". *DailyNK*. <http://www.dailynk.com/english/read.php?cataId=nk01500&num=11621>.

is tolerated, since the higher price they can command results in larger sums being paid to the state.³⁵²

The *donju* also make calculated decisions in purchasing government bonds, giving gifts or making donations to the Party. Such financial support is recognised by letters of appreciation, certificates and medals – essentially tangible symbols of protection, which may prove useful if subsequently found in contravention of laws. This “get out of jail free card” tactic is prudent in light of the significant grey area in the country’s commercial law, whereby many pre-crisis laws remain in effect but are rarely enforced.³⁵³

The requirement for businesses to contribute a certain percentage of their turnover to the state is essentially a tax. While North Korean propaganda speaks proudly of the country’s supposed abolition of all taxes in 1974, in reality there is a wide variety of fees payable to the state. Those working in the market are levied a daily stall rental charge, as well as a monthly fee relating to the product sold.³⁵⁴

Moreover, the suppression of business activities taking place in homes at the start of 2017 suggests a move to bring markets out of the shadows so as to increase the collection of fees.³⁵⁵

Here, it is evident that the state has moved on from its repressive approach to the market. It reserves the capacity to close down marketplaces, forcibly terminate businesses and persecute entrepreneurs, but it refrains from doing so. Instead, it is orienting market forces such that they serve state goals, one of which is ensuring that the market contributes to the state budget. Indeed, it is making efforts on

³⁵² 설송아. 2016. “北돈주, 의료시스템 장악?... ‘약국직접운영 성행’”. *DailyNK*.

<http://www.dailynk.com/korean/read.php?cataId=nk04504&num=109682>.

³⁵³ “The ‘Money Makers’ Of North Korea”. 2013. *New Focus International*.

<http://newfocusintl.com/the-money-makers-of-north-korea>.

³⁵⁴ Yoo, Gwan Hee. 2010. “Tax? What Tax? The North Korean Taxation Farce”. *DailyNK*.

<http://www.dailynk.com/english/read.php?cataId=nk02900&num=6203>.

³⁵⁵ Kang, Mi Jin. 2017. “Cottage Industries Under Fire As Regime Seeks To Boost Revenue”. *DailyNK*. <http://www.dailynk.com/english/read.php?cataId=nk01500&num=14414>.

various fronts to absorb the wealth of traders. For instance, the use of state bank accounts and credit cards is being actively promoted, which would simplify transactions for the middle class, obviating the handling of large sums of cash, but also clearly yields benefits for government revenue. Similarly, the upgrading of port infrastructure and the development of e-commerce platforms facilitates trade, while their use generates income for the state. Koryo Air's launching of a flight route between Pyongyang and Dandong – the Chinese hub for cross-border trade – shows a clear willingness to catalyse the movement of traders and goods, while allowing the state to charge higher prices than the railway for the same journey.³⁵⁶ It also represents an alternative to the private bus networks now spanning the country, the popularity of which continues to grow, so that it can defend its current market share of the transport sector. In addition, the state is encouraging consumerism by building extravagant department stores, supermarkets and so-called “meat and fish shops”,³⁵⁷ while accommodating demands for higher living standards, with the provision of relatively costly leisure facilities and a national housing exchange, which takes more than 10% of the sale price as commission.³⁵⁸ Another example is the government's activities in the mobile phone market. Capitalising on the trend for phones, for both personal and trading purposes, the state makes huge sums through both the selling of handsets and network usage fees. It resells phones bought for around \$80 in China for close to \$300,³⁵⁹ while domestic production initiatives surely allow for even larger profit margins. Furthermore, the state originally had a 25% stake in the country's first

³⁵⁶ This route was suspended in May 2017. While reliable information is scarce, it has been suggested that this came as the result of a unilateral decision by Beijing, and not a change of heart by Pyongyang. (O'Carroll, Chad. 2017. “Air Koryo Dandong To Pyongyang Service Suspended, Airport Confirms”. *NK News*. <http://www.nknews.org/2017/05/air-koryo-dandong-to-pyongyang-service-suspended-airport-confirms>.)

³⁵⁷ Kim, Yonho, 41.

³⁵⁸ 해주성.

³⁵⁹ “N.K. Desperately Collecting Foreign Currency”. 2011. *The Korea Herald*. <http://www.koreaherald.com/view.php?ud=20111102000761>.

telecommunications operator, Koryolink, a joint venture with an Egyptian firm. However, the government now seems to have seized full control of the company, as well as having launched a competitor.³⁶⁰ With a total monopoly on networks, the authorities' recent moves to streamline the registration process for new phones can be interpreted as part of a strategy to encourage new users to subscribe and thereby hand over their privately held foreign currency.³⁶¹

In all these instances, the state has captured the wealth of the emerging middle class, by either facilitating trade or appealing to their lifestyle aspirations. It has reactively inserted itself into the market, catering to and profiting from its participants, in an attempt to preserve its relevance and reclaim economic space for itself. It is allowing the *donju* to become rich, providing it is able to share in the spoils, too.

Nevertheless, publicly, at least, the regime continues to deny the full pervasiveness of the market, viewing it as a “temporary, ancillary, and unwelcome phenomena that will in some future scenario be eradicated.”³⁶² Ri Ki Song, an economist at the Pyongyang Academy of Social Science, made this undoubtedly clear in an interview with the Associated Press in 2010, when he said:

“In the future, the marketplaces will no longer exist. The main role of the markets is to sell things that factories and other enterprises can't supply. We allow the markets because the country right now doesn't have sufficient capacity to produce consumer goods.”³⁶³

³⁶⁰ Fifield, Anna. 2015. “North Korea Tells Egyptian Company: Thanks For The Cellphones. We'll Take The Company, Too.”. *The Washington Post*. <http://www.washingtonpost.com/news/worldviews/wp/2015/11/19/north-korea-tells-egyptian-company-thanks-for-the-cellphones-now-scam>.

³⁶¹ Kim, Yonho, 40.

³⁶² Smith, Hazel. 2011. *Don't Expect A Pyongyang Spring Sometime Soon*. Center for Strategic and International Studies.

³⁶³ Talmadge, Eric. 2015. “North Korea's Creeping Economic Reforms Show Signs Of Paying Off”.

However, it seems that the total eradication of the informal economy, along with the nascent middle class, would, in fact, be detrimental to the regime. For one, the reliance of the poorest in society on the government for basic goods and services has been redirected to the *donju*, absolving the government of responsibility. By fulfilling functions historically performed by the state, the *donju* have become important stakeholders in the operation of the country. As Szalontai and Choi write, the middle class has created a “safety valve” for the regime, serving to partially alleviate state-society tensions.³⁶⁴ Like the prototypical middle class in other settings, the *donju* have become a source of societal stability. Moreover, while the regime may outwardly proclaim its ambitions to reinstate socialism, its actions betray its true intentions. Rather than seeking to eradicate the market, the state has envisioned a role for it, acknowledging it and even integrating it as a vital component of its economic planning. Testament to this is a March 2017 article in a newspaper published by Kim Il Sung University:

“Net profits gained by individual corporations are fundamental to the establishment of a powerful economy. [...] All corporations should set up scientific strategies and management strategies of their own and ensure they have the maximum effect in their production and management activities so that they could fulfil their duties to provide the state with more profits.”³⁶⁵

In fact, it appears that Kim Jong Un is pursuing what might be best viewed as “outsourced *byungjin*”,³⁶⁶ with the *donju* co-opted as key partners in its realisation. This strategy implies a division of labour, whereby the state and the *donju* dedicate

³⁶⁴ Szalontai, Balázs, and Changyong Choi. 2014. “Immunity To Resistance? State-Society Relations And Political Stability In North Korea In A Comparative Perspective”. *North Korean Review* 10 (1): 62.

³⁶⁵ 지성림. 2017. “北 ‘기업 수익, 경제건설 밀천’... 계획보다 이익 우선”. *연합뉴스*.

<http://www.yonhapnews.co.kr/bulletin/2017/04/04/0200000000AKR20170404116000014.html>.

³⁶⁶ Kim Jong Un unveiled his signature policy of *byungjin* at a meeting of the Central Committee in March 2013. This second incarnation refers to the parallel development of the country’s economy, as before, alongside, this time, its nuclear weapons programme.

themselves to the area in which they have specialised capabilities: the *donju* are mobilised to deliver economic development, while the state concentrates on nuclear weapons development. Old laws have been overlooked and private enterprise quietly encouraged so that the regime can earn money through market stall rent fees, taxes and the 30% share of profits that businesses are obliged to contribute. Cha Mun-seok estimates that the regime earns between \$174,525 and \$222,604 from stall rent fees alone each day.³⁶⁷ In this way, the regime is able to draw funds into the state budget, allowing it to rehabilitate the paralysed planned sector. In addition, the *donju* are reliable sources of finance, providing upfront capital for state projects, which the regime can flaunt as having taken place under its direction. Equally, their activities in the service and manufacturing sectors have revived defunct industries, eased material scarcities and offered employment opportunities. Furthermore, progress has been achieved in the level of domestic production, to substitute for imports from China of consumer goods and processed foodstuffs, helping to realise the state's exhortations for *jagang* (“자강”), or self-empowerment. Another element of the strategy is that a vast, diffuse mesh of individuals might evade international sanctions regimes more easily and with greater agility, in comparison with a small number of official, state-owned companies.

Kim Jong Un has made many pledges to improve the quality of life of his people: he promised that North Koreans “will never have to tighten their belts again” in his inaugural speech,³⁶⁸ and then, in his 2017 New Year's Address, to “launch the

³⁶⁷ 통일연구원. 2016. *공식시장의 시장관리체계와 장세 수입*. 북한 전국 시장 정보: 공식시장 현황을 중심으로. <http://lib.kinu.or.kr/wonmun/008/0001478607.pdf>.

³⁶⁸ “남조선 각계가 김정은제 1 비서의 위인적품모 칭송”. 2014. *KCNA*. <http://www.kcna.co.jp/calendar/2014/06/06-07/2014-0607-012.html>.

people's economy generally onto an upwards trajectory."³⁶⁹ Outsourcing the economic development aspect of *byungjin* to the *donju* – through the greater responsiveness of the market to the material demands of the population, and the financing of modern facilities – seems to offer one means of achieving this.

³⁶⁹ “北김정은 ‘2017년 신년사’ 전문”. 2017. *연합뉴스*.
<http://www.yonhapnews.co.kr/bulletin/2017/01/01/0200000000AKR20170101045500014.html>.

4. Conclusion

In a society which used to exhibit marked socioeconomic equality, with the exception of only a handful of families at the very top of the Party, capitalism has brought about social stratification to the extent that it can now be said that a middle class exists in North Korea.

While individual entrepreneurship has its origins in reforms of the mid-1980s, it came to the fore during the economic hardships and famine of the mid-1990s, when governmental control loosened and informal markets sprouted as an essential coping mechanism. These markets grew in number, size and scope, and the traders behind them became more ambitious in their ventures, capitalising on the greater permeability of the border with China, the potency of bribery and the elites' needs for novel ways in which to make money. What emerged out of necessity soon became an opportunity.

The North Korean middle class can be defined by the business activities, identities and lifestyles of its members. Their command of economic resources, combined with rampant cultures of corruption and bribery in the country, empowers these private entrepreneurs in a manner consistent with the Weberian formulation of a middle class, i.e. they occupy comparable market positions and thus stand to enjoy similar "life chances". Similarly, their ownership of businesses and partnerships with state manufacturing enterprises satisfies Marx's definition. Even though the ventures undertaken by this mercantile class are diverse, they earn incomes far exceeding that of their agricultural or low-level *jangmadang* counterparts, and yet remain outside the systems of privilege reserved for the political elite, and so can be seen as constituting a coherent stratum of society.

Nowadays, the *donju* are the preeminent force in the country's economy, with a pro-cyclical effect on its wider marketisation. This group of entrepreneurs perform wholesale trade, offer financial services to other market participants, and are

serving to revitalise the domestic service, leisure, manufacture, export and construction industries. They have now acquired such private wealth and social standing that they are able to invest in projects with the state. Despite a legally restrictive environment, and their activities standing in direct opposition with the regime's professed ideology, the *donju* are able to exist – indeed, to flourish – and make money within said contradiction. The regime has decided to tolerate the economic realities, realising that the commercial interests of market participants coincide with those of state stability. The *donju*, for instance, play a significant role of alleviating state-society tensions through the provision of products and services, easing material scarcities and offering employment to the general population. They also benefit the state directly, by drawing funds into the national budget through taxes, stall rents, administration fees, and, most significantly, the share of operating profits required for nominal affiliation. The extent of involvement of the *donju* in state planning, and the critical roles they play, suggest that they have become an integral component in the state's strategy for economic growth. Viewed in this light, by adopting an approach of non-interference and discreet promotion of market forces, the regime has effectively outsourced the economic dimension of *byungjin* to the *donju*.

Until recently it was common to speak of a “coexistence” between the state-directed and market economies. However, given the interpenetration between the two, the interactions between Party officials and the *donju*, and the interplay between the legal and the technically illegal, any attempt to dissect the current economy into two distinct systems is rendered fruitless. The government is now merely one player in a complex system, with the middle class dominating and shaping the space around the increasingly blurred boundary.

Potential orientation to transformation

Any discussion of the middle class in political science inevitably turns to their relationship with democracy, owing to their historical role in shaping the course of political development in Western societies, and that assigned to them in various strains of modernisation theory. Without further elaboration, it is sufficient to say that the existence of a middle class does not automatically beget democratisation, despite popular generalisations to the contrary. After all, Barrington Moore's well-known dictum – “no bourgeoisie, no democracy”³⁷⁰ – denotes a precondition, not causality. Alternatively, the so-called “contingent approach” suggests that democratisation depends on a multitude of society-specific, socio-political factors, and any claim that democracy necessarily follows on from the mere existence of a middle class is an oversimplification. By extension, it challenges the assumed pro-democratic orientation of the middle class, instead allowing for opposition on purely rational grounds in the furthering of class-specific interests.

For the sake of analytical expediency, the *donju* could be conceptualised as economically minded rational actors, in a model that forefronts their commercial operations and material interests. It is safe to say that the *donju* would welcome changes in some aspects of the regime's behaviour. They must be frustrated at its bureaucracy, its interventions in the market, mobilisation campaigns, and its military adventurism, which may jeopardise ties with China. They must fear encroachment, the appropriation of their assets or businesses, and even their personal safety for breaking laws technically still on the books. Finally, they must hope for a more permissive and protective legal framework, especially surrounding property rights, which might be upheld predictably by a more constrained government.

³⁷⁰ Moore Jr., Barrington. 1966. *Social Origins Of Dictatorship And Democracy: Lord And Peasant In The Making Of The Modern World*. Beacon Press.

However, the commercial success of the *donju* specifically depends on their ability to navigate successfully a restrictive environment. The *donju* may not be sufficiently skilled to survive greater competition, especially against much larger and wealthier international firms, with their current standing largely derived from auspicious market entry and personal connections. In Hellman's classic article on post-communist transitions, he suggests that, in a closed system, early winners from the first stage of relaxation have incentives to resist further reforms for fear they eliminate the special advantages and market distortions upon which their initial flow of rents depend.³⁷¹ Similarly, it has been observed in other settings, that liberalisation can undermine businesses that are critically reliant on political connections.³⁷² In turn, the concomitant formalisation of business processes can simply lead to red tape, rather than meaningful legal assurances.

The support for democratisation would also depend on the relationships between the middle class and other classes. A docile peasantry for hired labour would be seen as advantageous by ruthless business minds, but liberalisation might bring with it labour rights and the freedom of assembly. Looking upwards, while co-optation of the *donju* by the regime has aligned their commercial interests, the latter continues to have ultimate control. By determining to whom business opportunities are extended, the Party retains the power to mould political views through inclusion. As Pearson and Tudor write, "the new, rising capitalist class generally seeks to join the existing elite through marriage and business ties, rather than undermine it."³⁷³

The middle class's greater sensitivity to economic shock would make them cautious of any transitional destabilisation. Likewise, they may be nervous that

³⁷¹ Hellman, Joel S. 1998. "Winners Take All: The Politics Of Partial Reform In Postcommunist Transitions". *World Politics* 50: 204-205.

³⁷² Fisman, Raymond. 2001. "Estimating The Value Of Political Connections". *The American Economic Review* 91 (4): 1095-1102.

³⁷³ Tudor and Pearson, 178.

any reform period would trigger defensive entrenchment by the Party elite, as was observed in Russia.³⁷⁴

Moreover, in the Soviet Union, a higher satisfaction with one's life was found to result in decreased receptivity to change.³⁷⁵ The North Korean *donju*, in perceiving their own socioeconomic wellbeing, are likely to be content – poverty remains easily seen, and widespread starvation is still a recent memory. It is probable, too, that they enjoy a greater sense of self-fulfilment than the average citizen, performing unfulfilling labour for a pittance, and thus in comparison with the disillusioned peasantry, the *donju* might be expected to show political conservatism.

There is also the possibility that the nascent middle class is distinctly uninterested in politics. As David-West remarks, the rise of the market was “spontaneous, unorganised, leaderless, non-ideological and apolitical”³⁷⁶ – thus, participation is not necessarily incendiary. Even though rule-breaking is intrinsic to the lifestyles of the middle class – the consumption of foreign media, the running of businesses, the use of foreign currency – these behaviours might be better seen, rather than conscious acts of resistance, as incidental noncompliance. Indeed, commerce is a major impetus for such deviant behaviour,³⁷⁷ with phone calls made abroad, for example, often in the pursuit of market-related information. Along these lines, Smith argues that the primary motivation of the *donju* is monetary gain, rather than political access and advancement, and that they do not represent an inherently political class.

Obviously, this approach omits ideological affinities, the limited capacity for effecting change in such a repressive state, and the role of more social motivations

³⁷⁴ Smallbone, David, and Friederike Welter. 2008. *Entrepreneurship And Small Business Development In Post-Socialist Economies*. Routledge.

³⁷⁵ Finifter, Ada W., and Ellen Mickiewicz. 1992. “Redefining The Political System Of The USSR: Mass Support For Political Change”. *The American Political Science Review*, 86 (4): 868.

³⁷⁶ David-West, 103.

³⁷⁷ Cho, Suh, Lim, Kim, Park, 45.

for demanding liberalisation.³⁷⁸ Trivially, individuals will have their own personal opinions, but one of the virtues of class analysis is the flexibility to assume that views within a class are more tightly scattered around an average stance than among the population as a whole. This is only a brief thought experiment, yet it does suggest that the interests of the *donju* are best served by the current incarnation of the system, such that there exists little incentive to perturb it. In this way, the middle class are more likely to be “allies of the state”,³⁷⁹ than the agents of change envisioned by some overzealous analysts. This should serve as a reminder to avoid falling into the perennial trap of making predictions about the demise of the North Korean regime. As long as the personal security and commercial outcomes of the *donju* are inextricably tied to political sponsorship, the *donju* can be expected to indulge the clientelist networks and cooperate with Party officials. In turn, the regime is able to manipulate the middle class, along with marketisation more generally, so that they serve, rather than subvert, state goals.

³⁷⁸ There is, for instance, anecdotal evidence of *donju* fleeing the country in the pursuit of better lives for their children, cf. Lankov, Andrei. 2017. “Fate Of A Fishmonger”. *The Korea Times*. http://www.koreatimes.co.kr/www/opinion/2017/03/304_225967.html.

³⁷⁹ Chen, Jie, and Bruce J. Dickson. 2010. *Allies Of The State: China's Private Entrepreneurs And Democratic Change*. Harvard University Press.

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국문초록

북한의 스탈린주의 경제 쇠퇴와 시장 경제 재활성화는 그에 따른 사회계층 양상에 변화를 유발하였다. 정치적으로 결정되는 출신성분 제도가 삶의 기회에 미치는 영향력은 감소하고 있으며, 경제적인 자원에 대한 소유권에 근거한 새로운 계층분화가 등장하였다. 마르크스와 베버의 계급이론을 적용함으로써 비공식 시장의 정점에 위치한 국제 무역상, 금융 업자와 사업가 등을 북한의 초기 중산층으로 정의할 수 있다. 집단으로서 ‘돈주’라 불리는 이들 계층은 대부분 역사적으로 차별 받아온 집단들로 구성되는데, 이후 이들은 시장에서 이윤을 취하기 위해 자신들의 차별적 특성을 활용할 수 있게 되었다. 1990년대 중반의 대기근 이전의 경제적 실험은 시장의 급격한 확산과 성장의 토대를 마련하고 현재 관찰되는 돈주와 국가 사이 상업적 파트너십의 초석이 된 것으로 보인다. 그들의 제휴는 일반 대중에 기본 재화와 서비스를 공급하는 데 있어 필수적 기능을 수행하고 김정은의 경제 성장 목표 실현에 기여한다. 이러한 점에서 북한 정권이 병진노선을 효과적으로 아웃소싱하였다 할 수 있다. 또한 이 계약적 관계는 돈주에게 제한적 환경을 부분적으로 극복하여 영업의 반경을 확장할 기회가 될 뿐 아니라 당 관계자에게는 그들의 정치적 지위를 경제적 부로 변형할 수단이 된다. 이러한 점에 비추어 보았을 때, 이론적으로 적대적인 두 계층의 유착이 진행될수록 이들은 더욱 상호의존적인 관계를 형성한다.

주요어

북한, 조선민주주의인민공화국, 중산층, 돈주, 시장화, 계층화, 국가사회관계, 아웃소싱된 병진

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