

# Towards a Political Analysis of Markets in North Korea\*

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*There are two ways to analyze the market in North Korea. Economic analyses comprise the study of marketization from below, the dual economy (formal and informal), and market expansion as threat to the planned system and the regime. In contrast, political analyses are concerned with the economic structure as a reflection of the distribution of political power. These two approaches to analysis of market in North Korea are compared. In contrast to the economic analysis, the political analysis asserts the following: Market expansion has been boosted by trading companies run by powerful military and party organizations and the cabinet, and has contributed to regime maintenance and the regime's grip on the economy; The state intervened regularly in the process of market expansion and shaped the latter in favor of rent extraction; With market expansion, the North Korean economy can be characterized as a hybrid of state and market.*

*Keywords: market, plan, hybrid economy, dual economy, political power*

## I. INTRODUCTION

There have been several efforts to understand the market in North Korea, which has expanded rapidly since the mid-1990s. The market in North Korea has been usually understood more or less as purely economic affairs. The media's interpretation of market expansion has also been based on economic analysis. The market has presumably developed "from below" and its rapid

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expansion would undermine the planned economy and the stability of the regime. This kind of analysis has tended to ignore the intrinsic role of power and politics in the expansion of market.

In the meantime, other interpretations of the market have emerged. Political analyses regard the North Korean market as political unit, where “the structure and operation of the market are influenced by power and power relations in various ways” (White 1993, 2). Such analyses argue that market expansion in North Korea have been structured and maintained through intensive intervention of the power and politics.

This paper presents a political analysis of the market, while critiquing the economic analyses of market expansion in North Korea. Section 2 will explain main frame of the political analysis. Political institutions are found to play a determining role in the performance of economic institutions, and of the market. Section 3 will summarize main thesis on market in North Korea in the economic analysis. Section 4 will present the theses of political analysis of the market in North Korea. It will explain that the strongly centralized system of political power is reflected in the structure and operation of the North Korean market.

## II. WHAT IS THE POLITICAL ANALYSIS OF THE MARKET?

The political analysis is concerned with the ways in which power and power relations influence the structure and operation of the real market. This type of analysis can be critical of and offer alternatives to the prevailing dominant economic analyses, which usually underestimate the presence of power and politics in North Korea’s market.

The political analysis of the market is based on two premises. The first premise is that political institutions determine economic policy choices, economic performance, and the characteristics of the market. The second premise is that the same institutions would function differently in different countries. Let’s elaborate the first point. According to new institutionalism, political institutions determine the economic ones (Acemoglu, Johnson and Robinson 2004, 6), and the polity, which determines and implements the rule of games, is the first source of economic performance (North 2003, 7). The

political structure should be reflected in the economic institutions, because the distribution of benefits in a society, supported by economic institutions, should be in agreement with distribution of power in the society. If powerful groups are not getting an acceptable distribution of benefits from an institutional structure, they will strive to change it (Khan 2010, 4). Therefore, in a stable social order, the distribution of benefits reflects the distribution of power. Political settlements are manifested “in the structure of property rights and entitlements, which give some social actors more distributional advantages than others, and in the regulatory structure of the state” (John and Putzel 2009, 4). In the same sense, the market is patterned by power, and it is not purely an economic mechanism independent of politics and power. Political power relations engage with the market structure and relations of exchange, thereby making the latter’s “characteristic economic features embody political process of conflict and cooperation and political relations of domination and subordination” (White 1993, 3). Prices in the market are also influenced by political constellations.

This insight of “institutional hierarchy” can be applied not only to North Korea or to dictatorships, but also to market democracies. Acemoglu and Robinson differentiate inclusive (political and economic) institutions, which promote economic prosperity, from extractive ones, which bring economic stagnation. Their theses can be summarized as follows (Acemoglu and Robinson 2012, 73-76, 80-82). In extractive institutions, power is concentrated in the hands of a few elites, and there are virtually no constraints on its use. Here “extractive” means that the institutions are designed to transfer revenue and wealth from one part of society to benefit another (Acemoglu and Robinson 2012, 76). Here politicians are constrained relatively minimally in their pursuit of narrow self-interests. The governments run by them function as “grabbing hands” (Shleifer and Vishny 2002, 3). The concentration of power deters opposition to politicians’ attempts to structure the economic institutions in favor of extraction. Extractive institutions make elites richer and their economic power perpetuates their political power.

In contrast, inclusive institutions limit the arbitrary exercise of power through its dispersion in the society. Inclusive political institutions make it difficult for anyone to usurp power. The state functions as ‘helping hands’ (Shleifer and Vishny 2002), while enacting secure property rights, an

impartial legal system, and fair exchange and trade. The security of property rights is the most important, because it ensures that people will invest and increase their productivity. Inclusive institutions create inclusive markets, without entry barriers, and with competition, property rights and contract enforcement. They decrease transaction costs, inhibit rent-seeking, and promote investment and productive endeavors.

Though extractive institutions share institutions such as market, election, political party, and mass media with inclusive ones, they function differently (North, Wallis and Weingast 2009; Albrecht 2008). In inclusive institutions, economic organizations have most of their relations with the market and only incidentally with politics (North, Wallis and Weingast 2009, 146). Market and a democratic political system are kept separate, because businesses concentrate on the economy. In addition, markets in inclusive institutions guarantee open entry and competition, free movement of wealth and people, entrepreneurialism, and prohibit extortion. In contrast, in case of extractive institutions, politics and the economy are integrated. In extractive institutions, there is limited access to the market, much more privilege, much less competition, and much more rent-seeking (North, Wallis and Weingast 2009, 139). Economic structure is adjusted to foreign currency earning through export of primary goods, and to creation of privileges and rents, and thereby increases the wealth of the powerful. In such an economy, the state does not supply public goods in favor of increasing employment, the public welfare, and manufacturing (Callaghy 1988; Hutchcroft 1998; Auty 2001). In inclusive institutions, the markets are separated from politics and promote economic growth. In contrast, the extractive markets are part of extractive institutions, in which politics and economy are integrated, and are managed to contribute to create privileges and rents. These conditions stabilize the regime, but perpetuate economic stagnation and poverty (Acemoglu and Robinson 2012, 437-445; Olson 2000).

North Korea is as a country based on extractive institutions. When we talk about, however, a market, we in general imagine a market embedded in inclusive institutions. Such a market is distinguished by secure private property rights, impartial law system, fair playground in the exchange and trade, all provided by the state. The market in North Korea, however, is based on absence of secure property rights and rule of law, and on the inequality

of opportunities in the exchange and trade due to trade barriers and biased provision of business licenses by the state. In this sense, market in North Korea is a “quasi-market” (Nee 1989, 664).

It does, however, share the features of markets in countries with extractive institutions. This does not mean that market in North Korea is all the same as the one in other countries of extractive institutions. This is because political settlements are different in each country and thereby produce different forms of extractive institutions. Market in each country reflects the power distribution of the country and is structured and operated differently.

### III. MAIN THESES OF THE ECONOMIC ANALYSIS ON THE MARKET IN NORTH KOREA

Economic analyses have traditionally held the dominant position in studies on market in North Korea. The economic analysis has put forward major theses regarding North Korean market, which have become the essential elements of common sense perception. It has shown tendency to be differentiated and diversified, while subjects have been taken such as assessments on size of the market, the degree of maturation, the relations between household and market, major features of sector markets, the effects of market expansion on the planned sector and potentialities for dissidence, etc.<sup>1</sup> The main features of economic analysis can be summarized as follows.

Economic analysis assumes a duality of the North Korea economy made of formal and informal activities. Kim and Yang (2012, 16) defines market activities as those which “exist outside the central plan” or which “are barely covered by legal protection,” while identifying them with informal economic activities. Yang Mun Su maintains that the dual structure of plan and market was established after the July 1 Measures for Improving Economic Management in 2002. According to him, the state controls the planned sector, which comprises elite economy (party-economy), military economy, and

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<sup>1</sup> Comprehensive introduction and comments on economic analysis on North Korean market by South Korean economists can be found, Kim and Yang 2012, 4-5; as examples of foreign studies, Haggard and Noland 2011; Joo 2010.

Cabinet economy. Conversely, the economic activities of the population and part of the Cabinet economy have been freed from management by the state plan and allowed as areas of market activities (Kim and Yang 2012, 67). Lim Gang Taek differentiates the formal planned sector from the informal market sector, which is freed from state control and regulation. He asserts that, though marketization is more advanced in the informal sector, it has been similarly been increasing in the planned sector (Lim Gang Taek 2009, 93-98; Kim and Yang 2012).

Economic analysis maintains the thesis of “marketization below”(Lim Gang Taek 2009, 93; Kim and Yang 2012, 98). According to this theory, market expansion has been promoted by “self-support economic activities outside the plan, done by secondary economic actors such as small state firms and households” (Yang Mun Su 2010, 269) to cope with the demise of planned economy and state ration. Kim Byeong Yeon put forward a representative theory, which posited two types of market activity. First, market activities, which are registered and/or pay taxes, such as selling stall and private business based on leased assets of the state firms. Second, market activities, unregistered and/or do not pay taxes, such as household plots, sale of products thereof, small merchants without legal permits, and smuggling (Kim and Yang 2012, 15). In short, the market is composed of self-supporting activities of secondary economic entities.

According to the two theses of economic analysis, North Korea’s market is composed of ‘numerous examples of exchanges between individuals’ for self-support by secondary economic entities such as small state firms and households. This kind of market is separate and independent from the formal or planned sector under the control and regulation by the state and from power relations in the society. Accordingly, the informal sector or the market is regarded as a relatively independent area, dominated by non-political and pure ‘market mechanisms’ such as laws of supply and demand.

Third, the economic analysis tends to think that expansion of market or informal sector encroaches upon the planned sector and pose risk and threat to the regime (Lim Gang Taek 2009, 115; Kim and Yang 2012, 17). With this regard, the following theses are asserted: informal sector would gradually increase and eat into planned sector; marketization is irreversible because of increased dependence of planned sector on the market economy and of

decreased capacity of the regime to control the market (Kim and Yang 2012, 24-25, 51-52); market expansion would widen the disparity between rich and poor through corrupt relations between politics and economy, and exacerbate socio-political instability through increase of corruption and crimes, thereby weakening the state's public capacity (Yang Mun Su 2010, 97).

The theses of economic analysis contradict basic understandings of political analyses of the market in two ways. Whereas the economic analysis perceives the market in North Korea as independent from political power, political analysis asserts that the economic system, including the market, reflects the constellation of political power and interest. Moreover, while the economic analysis is based on the assumption that market exists and functions in the same manner everywhere, political analysis asserts that similar institutions operate differently in each country.

#### IV. MAIN THESES OF THE POLITICAL ANALYSIS OF MARKET IN NORTH KOREA

The political analysis of the market implies that the structure and operation of the market are influenced by power and power relations and that the market can be conceived as a political unit. Political analyses of North Korea's market make arguments that contradict those of economic analyses. The main theses of political and economic analyses will be compared.

##### 1. The Leading Actors in Market Expansion

As stated earlier, economic analysis is based on the idea of "marketization from below," according to which market expansion has been driven by "self-support economic activities outside the plan, done by secondary economic actors such as small state firms and households." In contrast, the political analysis posits that the market expansion has been driven by commercial activities of the major power organizations of the regime. Their origin is traceable to the central party organizations of the mid-1970s that had to raise funds to support the transition of power from Kim Il-Sung to Kim Jong-Il (Kim Kwang Jin 2008; Cha Mun Seok 2009). These activities included

mobilizing and compensating workers for collecting export goods for foreign currency such as song-i mushrooms and alluvial gold, and then organizing its transport and export. The people responsible for collecting exportable natural products were rewarded with luxury goods such as sugar, watches, and television sets, which they traded for necessities in local Jangmadnag market places. At the same time, the networks of special stores for foreign goods, where foreign currency earned by such activities could be spent, were expanded. All those activities, driven by the central party and Kim Jong-Il, increased commercial exchanges in North Korea (Choi Jin I 2012, 146-148). In addition to the central party organizations, by the late 1980s, and early 1990s, the military and youth organizations, were also allowed to earn foreign currency through commercial activities (Lim Keun O 2010, 22).

Park Hyeong Jung asserts that the “regime organizations and merchants associated with them, who have enjoyed protection by power and privileges, have been the leading actors and dominant players in the market expansion” (2011, 215). Choi Bong Dae maintains that “the major propulsive power for market expansion has been originated from all sided development of activities for foreign currency earning through export and import by such ‘special units’ including Office 38 and 39 of the central party, the Second Economy in charge of military weapons production, and other powerful offices of the central party, the Security Guard for Kim Jong-Il, the Ministry of People’s Armed Forces, the Ministry of State Security, the Ministry of Public Security etc.” (2011, 13). Hong Min argues that “the activation of the market has been driven by intervention, activities, and interests of the commercial companies and subsidiary units affiliated with the party, the Cabinet, and the military” (2012, 50).

## 2. The Hierarchical and Monopolistic Structure of the North Korean Market

According to political analyses, the market in North Korea reflects the hierarchical and monopolistic distribution and structure of power. In contrast, economic analysis presumes that marketization is promoted by self-support activities of the secondary economic units such as small state firms and households, in other words, that it is perceived as numerous examples of

exchanges among equal partners.

In a nutshell, the economic analysis ignores the hierarchical and monopolistic structures of North Korea's market. For example, though one of the economic analyses mentions that "the trading companies have played important roles in promoting marketization in North Korea," the trading companies are perceived merely as technical distribution units for export and import (Kim and Yang 2012, 116).

In reality, the trading companies are subsidiaries of powerful regime organizations and enjoy privileges and extra profits of monopolies under political protection. In turn, they fund the operations that are essential to regime survival. The existence and operation of trading companies therefore cannot be understood without considering the intervention of power. They are established by political power for political purposes, enjoy the top positions in the monopoly hierarchies, and are guaranteed extra profits. In this respect, they have unrivaled advantages to other market players.

Park Hyeong Jung states that the "trading companies affiliated with powerful regime organizations has made up the upper echelon of the market in North Korea, dominated the commercial infrastructure directly or co-opted the spontaneously emerged activities and agents related with market, and make them subservient" (2011, 215). Choi Bong Dae argues that on the ladder of commercial activities, the offices for foreign currency earning of party-state organizations occupy the top rung. On the next rung are the big private money holders, and several rungs lower are retail sellers and producers for exportable natural goods (2011, 13). Hong Min also identifies several rungs in the market hierarchy. At the top are companies for foreign currency earning affiliated with the party, the Cabinet, and the military; below are, private money holders, who are affiliated with trading companies and mobilize capital and organize work forces and trading activities; below them are local production unit managers, usually private persons, and local power organizations including provincial party organizations, city and county People's Committee, and local police stations. On the lowest rungs are people, who take part in commercial activities for daily subsistence (Hong Min 2012, 59-61).

### 3. The Hierarchical Structure of the Market and the Structured Predation

The North Korean market is also characterized by rent appropriation and exploitation of the weaker by the stronger. The tendency for the rich to become richer and the poor poorer is ingrained in the market structure of North Korea. Though the economic analysis confirms that the same tendency is at work in North Korean market (Kim and Yang 2012, 101-102), it originated more from circumstantial factors in market expansion rather than from the market structure itself. It has been argued that the crackdowns on market since 2007 have strengthened the collusion between money and power, which has made the rich richer and the poor poorer. In other words, the intensified market crackdowns have changed the structure of the North Korean market.

In contrast, political analyses are concerned with disparities in power and market dominance among participants in North Korean market, therefore with the hierarchical structure of the market. The powerful regime organizations, the drivers of market expansion, are distributed monopoly rights (*waku*) for export and import, made up of certain volume of goods or of certain amount of foreign currency for certain duration, by Kim Jong-Il (Lim Gang Taek et al. 2011, 83-110). Kim Jong-Il distributes licenses for export and import to regime organizations, based on his judgment about each organization's contribution to the regime survival. Only organizations, bestowed with trade licenses by Kim-Jong-Il, are allowed for export and import in permitted areas. In this way, the top leader guarantees extra profits to chosen regime organizations through his political intervention and his selective assignments of monopoly trade rights. A set of regime agencies and groups enjoys preferential treatments by the top leader Kim Jong-Il and repays him accordingly with payoffs and loyalty.<sup>2</sup>

Trading companies affiliated with and operated by powerful regime

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<sup>2</sup> One way for a dictator to maintain power, is to distribute privileges among power groups in exchange for their loyalty (Tullock 1986; Mesquita and Smith 2012; Wedeman 2012).

organizations are guaranteed monopolistic profits through the market positions of monopolistic buyers and sellers. Several companies enjoy being monopolistic or oligopolistic buyers for certain exportable natural goods. They dominate the process of collection and/or extraction, transport and export of these commodities. The backbone of the “marketization from below” is no more than expansion of commercial activities as related with production/collection, transport and export of extractive natural goods. The trading companies earn profits while taking advantage of the wide gaps between international and domestic prices of export goods. They also have monopoly import licenses for certain goods and dominate internal distribution chains. Foreign currency revenue earned is partly paid to Kim Jong-Il, partly for self-support expenditures for operation of regime organizations, and the other part is for private enrichment of corrupt officials and share of private entrepreneurs.

Thus, trading companies run by powerful regime organizations enjoy market dominating positions of monopoly and oligopoly over producers and distributors located on lower rungs of the market. The asymmetrical power relations between trading companies and subsistent producers and merchants are reflected in the huge difference in profit levels. According to Park Hyeong Jung, “this system guarantees monopolistic profits to Kim Jong-Il/Kim Jong-un and ‘special units’ of the regime at the cost of state property and general population” (2012, 3). Hong Min asserts that diverse powerful regime organizations have colluded to appropriate surpluses produced by the market, while taking advantage of their public function (2012, 63).

#### **4. North Korean Economy as Hybrid of Formal and Informal**

Economic analyses claim that the North Korean economy is made up of two independent sectors: formal and informal, or planned economy and market economy. North Korean economy is, however, rather perceived as a hybrid one of both components, because the duality can hardly be maintained analytically in the real world.

The mainstay of the North Korean economy is no longer the state firms embedded in the official plan system, but the commercial trading companies, established outside the plan system and run by the party, military, and

Cabinet (Park Hyeong Jung 2009, 48-50). As the plan system lost coherence and ability to supply conditions for plan fulfillment, the state firms have been set in operation more and more not by the plan system but by the money and commercial connections supplied by market activities of the trading companies and other non-plan actors. In this sense, the fusion rather than separation of “formal” and “informal” are the rule, because the “planned” or “formal” sector is permeated by market or informal activities. In many cases, the state firms engage in commercial activities to earn revenues to send payments above as fulfillment of plan obligation.

To elaborate, the economic analysis has underestimated the importance of commercial trading companies outside the framework of the plan, while sticking to the traditional perception of the North Korean economy as made of plan and state firms. They monopolize the export and import of North Korea, and dominate the chains both of extraction, collection, and export of primary products and of commercial distribution and sale of imported goods. They are neither state firms owned by the ‘people’ nor under direct direction of state plan, but are subsidiaries of regime organizations for financial self-support and run by commercial principles outside the plan with politically guaranteed special privileges. They combine public and private elements. On the public side, they can take advantage of public competence, asset, and workforce of the regime organizations, and on the private side, capital and commercial and management talents of private entrepreneurs. While the regime organizations provide private entrepreneurs with investment opportunities and political protection, the latter bring regular payments to the former. Under this quasi-contract, the private entrepreneurs are given some official titles related with public function of the regime organizations, and are allowed to conduct private businesses in the guise of public affairs. The revenues are divided between the host organization and the private entrepreneurs and used as operational funds in case of the former, and as a source of private enrichment in the latter. Though this process produces private entrepreneurs with significant capital, they will support the regime because their survival depends on their political connection to the market.

In North Korea, the planned economy or the formal sectors have been penetrated by and survive through market activities. Though most of the state firms are still officially in operation on plan principles, they are similar to

those of the trading companies run by regime organizations outside the plan. The state firms are bound to fulfill the plan directives, though they are no longer supplied with resources from above. Therefore the state firms in formal sectors must fulfill their formal obligations to the state through informal activities, such as participation in the commercial activities outside the plan. They invite private investments to make the production process going on or lease facilities to private entrepreneurs, and report their share of profits as plan fulfillment and send obligatory payments to the center (Yang Mun Su 2005, 1-53). They also receive payments from their own workers and, in return, excuse them from attendance at job places, so that they can engage in their own commercial activities. The revenues thereby generated by the state firms are reported as part of fulfillment of obligatory cash plan. The collective farms make income by leasing their land to state firms for cultivating food crops, and reporting it as part of cash plan fulfillment (Choi Jin I 2012, 137-145). Some state firms produce goods both for plan delivery and for market sale order to fulfill the state plan without resources from above and to survive in market conditions. They reduce the quality and increase the quantity of goods for plan delivery to fulfill the plan at least nominally, while keeping the quality of goods for market sale high enough for real sale.

As formal and informal are not clearly separable in North Korean economy, it should be understood as hybrid one. The economic analysis asserts that informal sectors or market activities can be defined as self-support activities of secondary economic agents such as small state firms and households. The other parts of the economy are presumed to be still under direction of the state plan and make up the formal sector. As described above, however, not only secondary economic agents but also powerful regime organizations are involved in commercial activities for self-support. In a nutshell, the economic entities, including those presumably to belong to the plan or formal sector according to the economic analysis, are also engaged in market activities. Then, it is not clear how to differentiate the formal from the informal sectors. It is rather to be understood that the formal and informal are combined and not separable in North Korea.

## 5. Regime Security and the Political Manipulation of the Market

The economic analysis asserts that market expansion tends to undermine regime security, while the political analysis contends that the former does not necessarily endanger the latter. The economic analysis tends to perceive the “market as a source of new power, which may challenge the traditional state” (Kim and Yang 2012, 145). It is asserted that the informal economy presumably weakens the formal one and the dispersion of market values damage the ideological basis of socialism, and in the end undermines the socialist planned economy (Kim et al. 2012, 17). In contrast, according to the political analysis, although market expansion poses some challenges to regime security, the regime has been successful in taking advantage of it to enhance its financial chance of survival and to tighten its grip on the economy.

How does the political analysis explain that market expansion contributes to regime security? The main reason has been that the regime and its organizations have been maintained by revenues from commercial activities in the market. As stated earlier, the North Korean regime assigns commercial privileges and protection to regime organizations and loyal groups, and allows them to earn their own income (Park Hyeong Jung 2011, 214). Choi Bong Dae asserts that “the foreign currency earning activities of the privileged state organizations are done upon the constraints of rent-distribution by the dictator and the market is the part of economic space, where the rents are realized through activities of export and import” (2011, 13). In other words, “the essence of market activation is to realize rent opportunities of the privileged regime organizations, which contribute to regime security.” (Choi Bong Dae 2011, 14)

The regime resorts to repression and control of the market in general and individual market entities even if the market expansion contributes to regime security. The regime allows the market to expand in order to extract resources more efficiently and then to redistribute them politically among loyal groups to ensure continued payoffs and loyalty. The problem is that the market may not expand in the same ways and directions as the regime wishes. Then, the regime must constantly intervene in the market, correct the

course of its expansion. It must be said that the regime has been successful in doing so, because there have been virtually no constraints on its domestic and economic policy.

Three points are therefore worth mentioning. First, when the regime restricts market activities, the revenues from corruption of the regime organizations and officials in charge of its implementation tend to increase. If the market is regulated, political connections are more important than entrepreneurial talent (Nee and Oppen 2010). Restrictions on the market significantly increase the negotiating power of the agencies and officials of the regime in relation to participants in the market and produce favorable conditions for the former to increase revenues from corrupt payments. In the end, such measures change resource distribution among market participants in favor of those who support the regime. In reality, after restrictions on the market were imposed in the second half of 2007, the connection between power and money has been strengthened, and law enforcement officials have enjoyed better conditions for enrichment through payoffs from corruption (Kim and Yang 2012, 55-104; Choi Dae Seok et al. 2010, 35-48). The strengthening of market repressive measures coincided with the appointment of Jang Seong Taek as Chief of Administrative Department at the central party in charge of police, judiciary and prosecution in October 2007. During the subsequent transition of power from Kim Jong-Il to Kim Jong-un, Mr. Jang and other internal security organizations have been promoted. These interventions in the market have redistributed the wealth in favor of pro-regime elements in society, at the expense of the rest of the population.

Second, the repressive measures are intended to inhibit the growth of potentialities for independence on the side of the regime agencies, localities and individuals on the base of increased wealth in the process of market expansion. Some of the each group may earn enough wealth and accumulate horizontal connections to dream about weakening their subservience to the center. This may increase potential challenges to the regime. Therefore, the regime needs preventive “inspections for anti-socialist phenomena” on subsidiary organizations and extra extractions of wealth from the population. There have already been several attempts to inhibit regime agencies, localities, and individuals from amassing too much wealth and increase the potential for independence from the center, including the leadership purge of the

Sixth Armed Forces in 1996, and inspections for anti-socialist phenomena for Hyesan city in 2000 (Lim Keun O 2010; Park Hyeong Jung 2011, 231-232). In addition, there have been frequent mergers and abolitions of trading companies run by military units. The money exchanges measures in November 2009 were another attempt to weaken the financial power held by some segments of the rich population.

Third, the repressive measures are intended to change the distribution of rents among regime organizations. Kim Jong-Il has rearranged the system of foreign trade licenses among regime organizations depending on changing importance of their contribution to regime survival including creation, merger and abolition of trading companies. The more the top leader can make the competition intensive to get monopoly licenses from him among regime organizations, the more revenue he can collect (Congleton and Lee 2008). Both Kim Jong-Il or Kim Jong-un have changed assignments of licenses for foreign currency earning activities depending on the imperatives of regime survival (Park Hyeong Jung et al. 2009, 23-72; Good Friends 2011; Joongang Daily, July 27, 2012).

## 6. The Political Structure of Personal Dictatorship, its Influence on the Economy and the Character of Market

The political analysis derives the characteristics of North Korean market from the system of personal dictatorship. Choi Bong Dae describes the North Korean political system as “personal dictatorship with neopatrimonial characteristics,” in which the dictator maintains his rule over regime organizations and elites through construction of exclusive and monopolistic system of distributing rents, in North Korea through mainly trading rights. For this purpose, the dictator must maintain monopolistic control rights over sources of rent extraction (Choi Bong Dae 2011, 209). Hong Min suggests redefining the term *Suryeong* (absolute dictator) economy to describe “the totality of all economic relations” (2012, 57). According to him, the *Suryeong* economy is “a mechanism of systemic integration of all elements, which enable him the absolute monopoly over politics and economy” (Hong Min 2012, 57). Park Hyeong Jung adds that “the structure of the economy and the market reflects the political system of extreme centralization of power on the

dictator as well as the ‘unitary’ hierarchy of power structure” (2012, 3).

## V. CONCLUSION

The market in North Korea has been mainly understood as an economic phenomenon. Accordingly the economic analysis has dominated research on the market in North Korea. Its contributions have framed the understanding of the North Korean market. There have been some pitfalls in the economic understanding of market in North Korea. The political analysis supplies more appropriate and differentiated view points while emphasizing the inseparable relationship between that country’s politics and economy.

The political analysis differentiates itself from the economic one in four ways. First, the political analysis asserts that the market in North Korea is embedded in the realities of power, while the economic analysis regards the market as independent area from the political power. The economic structure including the market and the distribution of economic resources reflect the social distribution of power. The market does not exist and operate outside of power relations. The more inequitable the power distribution is, the more inequitable the economic structure and the distribution of resources are.

Second, the political analysis asserts that markets are structured and function differently in each country according to different political power relations. In contrast, the economic analysis assumes that, markets tend to operate along similar lines, no matter where they are located. For example, the economic analysis assumes that the markets in South and North Korea are the same economic mechanisms. In contrast, according to the political analysis, they are different ones. The latter point out that South Korea’s market is embedded in inclusive institutions, while North Korea’s is a part of extractive institutions and helps to maintain privileges and rents extraction through political entry barriers.

Third, the leading actors in the market expansion are assumed differently. The economic analysis assumes that “secondary economic entities” such as small state firms and households are the market actors, whose distributive and productive activities for subsistence make up the market activities. In contrast, the political analysis asserts that the drivers of market expansion

are the privileged companies run by powerful regime organizations. The market in North Korea is hierarchical, in which the privileged companies at the top control the resource producers and retailers at the bottom. This kind of market based on monopolistic hierarchy exploits the weak so that the rich becomes richer and the poor becomes poorer.

Fourth, the two political and economic interpretations have different views of the market's political effect. The economic analysis insists that market poses a serious threat to the planned economy and the regime. The political analysis emphasizes the role of market expansion for the regime survival and the regime's control of the economy. According to this theory, North Korean leaders and regime organizations can intervene, structure and manipulate to subordinate the economy, especially the market, to regime survival and privilege maintenance, while taking advantage of overwhelming power and comprehensive public competence. In the end, the market expansion in North Korea is framed in a hierarchical structure in support of realizing the interests of the dictator and the regime organizations. Constant political interventions in the market perpetuate the market's subservience to the state, while constantly revising and restructuring the market.

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