

## **Kangsong Taeguk and Political Succession: Problems and Prospects**

Greg Scarlatoiu  
Committee for Human Rights in North Korea

### Abstract

To celebrate the 100<sup>th</sup> anniversary of Kim Il-sung's birthday, the North Korean regime announced its goal of achieving "Kangsong Taeguk," a "powerful and prosperous state," by April 15, 2012. After the death of Kim Jong-il on December 17, 2011, the North Korean regime confirmed his son, Kim Jong-un, as leader of the country. North Korea's 2012 New Year editorial mentioned the term "Kangsong Taeguk" only five times, while mention of Songun, North Korea's "military first policy," introduced by Kim Jong-il, was used fourteen. This article explores the meaning and likelihood of North Korea's achieving its declared goal of achieving a "powerful and prosperous state," under circumstances defined by a highly unpredictable hereditary transmission of power.

Kangsong Taeguk is to be realized through the further crystallization of perennial distinctive features of the Kim dynasty rule: its cult of personality, distorted Confucianism, a partisan guerilla tradition, and an imported socialist model. Ultimately, transforming the Workers' Party into the party of Kim Il-sung and the Kim family takes the personality cult to a new stage. North Korea's relentless development of asymmetric military capabilities has been meant to achieve the "powerful state." North Korea's focus on legitimate and illicit foreign economic transactions that do not require significant internal reform has aimed to earn foreign currency while maintaining the political status quo. "Songun Chongchi," the "military first" policy, diverts resources away from economic development and places an insurmountable burden on North Korea's economy.

In order to stabilize its economy, North Korea will need to give up its "military first policy" and place economic resuscitation at the top of its priority list. Nevertheless, keen on maintaining its grip on power, the Kim regime will likely be unwilling to experiment with reforms. Kim Jong-un is facing the same dilemma as his father: in order to ensure its long-term survival, the Kim regime ultimately needs to open up and reform. However, reform and openness, the only avenue to rebuilding

North Korea's shattered economy, are likely to result in increased inflows of information into the country, which may in turn bring about the demise of the Kim dynasty.

Keywords: North Korea, South Korea, Kangsong Taeguk, powerful and prosperous state, Kim regime, Kim Jong-un, hereditary succession, Songun Chongchi, military first policy, Sino-DPRK relations

## **Introduction**

Four years after the death of Kim Il-sung, the September 1998 Supreme People's Assembly (SPA) elevated Kim Jong-il to the Democratic People's Republic of Korea's (DPRK's) "highest post." The same meeting also formulated the new task of becoming a "powerful and prosperous state" (Kangsong Taeguk). In October 1998, North Korea declared that "defense capabilities are a military guarantee for national political independence and the self-reliant economy," and that "the nation can become prosperous only when the barrel of the gun is strong."<sup>1</sup>

Kangsong Taeguk [Kangsong Buguk] implies the establishment of a "rich nation and strong army." The concept is modeled after the slogan of imperial Japan after the Meiji Restoration (1868–1912), "Fukoku Kyohei," meaning "enrich the country, strengthen the military."<sup>2</sup> The "rich nation, strong army" objective also reflected Kim Jong-il's determination to achieve both economic development and greater military power through the development of nuclear weapons and ballistic missiles.

Egregious human rights violations continue to take place in North Korea. Food and energy shortages are endemic, the economy is in tatters, and signs of recovery are practically nonexistent. Following the major health issues that Kim Jong-il experienced in the summer of 2008, the second hereditary power transition process was launched in accelerated fashion.

After the death of Kim Jong-il on December 17, 2011, Kim Jong-un was confirmed as North Korea's hereditary leader. Over the short to medium term, Kim Jong-un will be supported and protected by a group of hardliners backed by the Korean Peoples' Army, with his uncle Chang Sung-taek and aunt Kim Kyoung-hee at its core. While the Korean Peoples' Army, Korean Workers' Party and security agencies will all play a role, the military will be the driving force behind the transition. Kim

Jong-un and his aunt were made "daejang," four-star generals, right before the September 2010 Workers' Party Congress. His uncle appeared in a four-star uniform for the first time by Kim Jong-il's coffin, a few days before the funeral.

While North Korea will continue to take a hard-line stance towards South Korea and the United States, further provocations are not to be anticipated over the short run. Kim Jong-un has been associated with a sufficient number of military provocations to beef up his curriculum vitae and doesn't need any additional ones for the time being. Kim Jong-un has already been associated with the 2009 nuclear test and missile launches, the March 26, 2010, sinking of the South Korean corvette *Cheonan* and the November 23, 2010, shelling of South Korea's Yeonpyeong Island.

However, over the long term, the Kim Jong-un regime will face the same dilemma as his father: it has to open up in order to survive, but opening up may put the very survival of the regime in jeopardy. While the regime will not openly ask for humanitarian assistance, its greatest friend is fear of instability on the Korean peninsula. Before the death of Kim Jong-il, the international community was concerned about transparency and the proper monitoring and distribution of food aid to North Korea. Fear of instability may result in the lowering of monitoring standards and greater amounts of humanitarian aid being disbursed to North Korea.

From the outside world's perspective, achieving "strong and prosperous nation" status by April 15, 2012, and celebrating the 100<sup>th</sup> anniversary of North Korea's "eternal" president have proved outright impossible. Even in North Korea's *2012 New Year Editorial*, the term Kangsong Taeguk, "powerful and prosperous state" was used only five times, while mention of Songun, North Korea's "military first" policy introduced by Kim Jong-il, was mentioned fourteen times. This may be an indication that North Korea is reducing its focus on the achievement of the "powerful and prosperous state" in honor of its founder.<sup>3</sup>

### **Kangsong Taeguk and the Strengthening of North Korea's Radical Centralism**

North Korea's aim to achieve "powerful and prosperous state" status by 2012 has not been meant to deviate from, but rather to re-establish a connection with the principles set forth by Kim Il-sung and the perceived age of success experienced under the rule of North Korea's architect.

The “powerful and prosperous state” involves a continuation of the authoritarian and abusive policies implemented under the leadership of Kim Jong-il, who followed in the footsteps of his father. Kim Jong-un’s promotion to “Daejang,” the equivalent of an American four-star general, at the October 2010 Workers’ Party Conference provided a strong indication that he was the anointed heir apparent.<sup>4</sup> The October 2010 conference confirmed that the Workers’ Party was now the party of Kim Il-sung and, implicitly, his family:

The Conference of the Workers’ Party of Korea [...] proved to be a major milestone in the development of our Party eternally into the party of President Kim Il-sung and in the enhancing of its leadership authority to the maximum.<sup>5</sup>

The consolidation of the ruling family’s grip on power, reinforced by the continued declared attachment to the “Songun” (military first) policy, attempts to derive its legitimacy from the authority of the founding ruler. Besides the influence of Confucian norms, memories of liberation from Japanese colonial rule, and the recovery of national sovereignty, several other factors continue to affect North Korea socially, economically, and politically. These factors also have a major impact on the country’s world views: the partisan guerilla tradition, the imported socialist model, the influence of *juche* thought, and Kim Il-sung’s and Kim Jong-il’s cults of personality.<sup>6</sup> Recent mobilization drives such as the “150-Day Campaign” have been about emphasizing unity around the leader and instigating mobilization centered on the monolithic party, rather than about boosting productivity. If Kangsung Taeguk is meant to underpin the legacy of North Korea’s architect, it cannot distance itself from the objectives set forth by Kim Il-sung:

The immediate objective of the Korean Workers’ Party is to achieve a complete victory of socialism in the northern half of the (North Korean) Republic and accomplish national liberation and people’s democratic revolutionary goals across the country. The ultimate objective is to turn the entire society into that of *juche* ideology and construct a Communist society.<sup>7</sup>

The second hereditary transmission of power should have come as no surprise, as hereditary succession is embedded in the tenth of North Korea’s Ten Principles. It was enforced upon the entire population of North Korea in 1974 when Kim Jong-il seized the hegemony of North

Korea's only political party:

The great revolutionary accomplishments pioneered by the Great Leader Kim Il-sung must be succeeded and perfected by hereditary succession until the end.<sup>8</sup>

The second hereditary transmission of power to a third generation of Kims has been accomplished while North Korea is preparing to achieve "Kangsung Taeguk" status in 2012. North Korea continues to follow the tradition of the Confucian state, narrowing the social distance between the ruler and the people by employing the analogy of the state as father. This implies all the prerogatives of that role, and all the submissiveness of the children, i.e. the people owe to the supposedly benevolent patriarch. In North Korea, the father role, assigned to God in Western tradition, is still played by the ruler.<sup>9</sup> Nevertheless, Kim Jong-un seems too young to play that role in the foreseeable future and is further removed from his grandfather's legacy, despite the striking physical resemblance between the two and efforts by the North Korean propaganda to emphasize that resemblance. Further, Kim Jong-un barely had three years to prepare to assume leadership, while his father had twenty. When he assumed power, Kim Jong-un was 27 or 28 years old, while his father was 53. Odds seem to be against him, and the Kim dynasty's chances of survival will become clear once young Kim Jong-un and his regents undergo their first true test -- such as a natural disaster, unrest caused by the despicable living conditions of the 21 million North Koreans living outside Pyongyang, a rebellion involving segments of the military, or disturbance involving the more privileged two or three million Pyongyang residents.

### **Failing State, Asymmetric Challenges**

In the 2010 Failed State Index, North Korea ranked 19<sup>th</sup> among the states most likely to collapse, interposed between East Timor and Niger.<sup>10</sup> Although North Korea may appear to be a state on the verge of extinction, it has succeeded in developing effective survival strategies, at least for the short term. North Korea has become a nuclear-armed state and a for-profit proliferator of nuclear and ballistic missile technology.<sup>11</sup> North Korea has also reportedly been involved in international terrorism, through the kidnapping of nationals of 16 countries.<sup>12</sup> North Korea has been engaged in opium and methamphetamine trafficking, in providing arms and training to terrorist groups such as Hezbollah and the now

defunct Tamil Tigers in Sri Lanka, and in cooperating with the Iranian Revolutionary Guards in the development of missiles and nuclear weapons.<sup>13</sup>

From the Kim regime's viewpoint, the DPRK may already have achieved the status of "strong nation," in particular through the development of asymmetric capabilities: nuclear weapons, missiles, and long-range artillery. North Korea has already conducted two nuclear tests, and it is estimated to be in possession of six to eight nuclear weapons. During a November 2010 visit by a senior U.S. expert, North Korea revealed that it was in the process of developing a state-of-the-art program to enrich uranium. Dr. Siegfried Hecker, a former Director of the Los Alamos National Laboratory, was "taken to a new facility that contained a modern, small industrial-scale uranium enrichment facility with 2,000 centrifuges that was recently completed and said to be producing low enriched uranium (LEU) destined for fuel for the new reactor."<sup>14</sup>

Following the anointment of Kim Jong-un as North Korea's future leader, the North Korean military held a parade in downtown Pyongyang, celebrating on October 10, the 65<sup>th</sup> birthday of North Korea's only political party. On that occasion, the North Korean military displayed the intermediate-range Musudan missile, with an estimated range of up to 4,000 km (2,490 miles), sufficient to hit U.S. bases in Guam.<sup>15</sup>

As part of its efforts to enhance its asymmetrical capabilities, North Korea has also increased the number of its special operations forces, instructed them in the use of Iraqi insurgent-style improvised explosive devices (IED) and roadside bombs, and equipped them to infiltrate through the heavily fortified border between the two Koreas.<sup>16</sup> More than four decades after the 31-man raid on the Blue House in 1968, and the attempt by 130 North Korean commandos to foment a guerilla war against the South Korean government through incursions in Uljin and Samchuk, South Korea in the same year, the specter of such a menace is still present.<sup>17</sup>

Faced with tremendous difficulties in procuring enough parts and fuel for its air force and obsolete armored divisions, North Korea has focused on asymmetric capabilities as an affordable way to remain a credible threat, preserve the Kim regime, and deter preemptive strikes aimed at eliminating its nuclear bombs and facilities.<sup>18</sup>

In 2010, North Korea launched two brutal, unprovoked attacks on South Korea. On March 26, a North Korean submarine torpedoed and

sank the ROKS *Cheonan*, killing 46 South Korean sailors. On November 23, North Korean forces fired approximately 170 artillery shells and rockets on the South Korean island of Yeonpyeong, killing four and injuring nineteen South Korean civilians and military personnel. While these two incidents constituted outrageous breaches of the Korean Armistice Agreement, from the viewpoint of the North Korean regime the incidents may have been seen as testament to its military prowess. After all, North Korea managed to sink a South Korean ship and kill 46 sailors with only one torpedo and no losses, and set a South Korean village ablaze without having to face any significant consequences.

From North Korea's perspective, the sinking of the ROKS *Cheonan* may also have resulted in a possible claim to diplomatic victory. A joint investigation report, organized by the South Korean Ministry of Defense and endorsed by US, UK, Australian, and Swedish investigators, concluded that the ROKS *Cheonan* was sunk by a surprise torpedo attack from a North Korean submarine.<sup>19</sup> However, China did not express condolences over the loss of the South Korean sailors and did not support South Korea in the UN Security Council. In April 2010, China did not even tell visiting President Lee Myung-bak of South Korea about Kim Jong-il's visit, scheduled only a few days after his.<sup>20</sup> South Korea was deeply disappointed, and Sino-South Korean diplomatic relations were probably at their lowest point since the establishment of diplomatic relations and a "friend[ly] and cooperative relationship" in 1992.

Arguably, in addition to providing proof of North Korea's lethal asymmetric capabilities, the attack on the ROKS *Cheonan* also succeeded in symbolically blocking the advancement of the longest and most spectacular offensive in South Korea's diplomatic history, the Nordpolitik launched in the late 1980s. Devised in 1983 and formally announced during the run-up to the 1988 Seoul Olympics, former president Roh Tae-woo's Nordpolitik reached out to and consolidated ties with former communist allies of North Korea, culminating in the establishment of diplomatic relations with China. In May 2008, as President Lee Myung-bak and President Hu Jintao met in Beijing, they officially announced the forging of a "strategic cooperative partnership." Although the Sunshine Policy technically replaced Nordpolitik during the terms of former presidents Kim Dae-jung and Roh Moo-hyun, the proposed "strategic cooperative partnership" can be seen as the distant offspring of the successful diplomatic offensive begun in the late 1980s. China's firm support of South Korea after the sinking of the *Cheonan*

would have been the normal continuation of this course, but North Korea managed to put China in the awkward position of being forced to side with the DPRK.

With the extraordinary differences in military, economic and human capabilities, a conflict on the Korean peninsula would undoubtedly result in the demise of the North Korean regime, unless China extended its support and protection to its cumbersome ally. Nevertheless, the potentially apocalyptic toll of a conflict on the Korean peninsula makes such a scenario unthinkable. North Korea's development of its asymmetric capabilities and its willingness to employ its conventional capabilities in unconventional ways over the past two decades have ensured that the cost of such a conflict would be even higher than a scenario involving the exclusive use of conventional warfare.

Nevertheless, a viable economy is the fundamental prerequisite for a powerful modern military. By contrast, asymmetric capabilities may provide only a temporary fix. If the North Korean military is truly interested in its long-term survival, it will need to consider supporting some level of reform in the Kim Jong-un era. The two historical precedents most likely to appeal to the North Korean military may be the Meiji Restoration in 19<sup>th</sup> century Japan, or the reforms undertaken under Mustafa Kemal Atatürk in post-World War I Turkey. Both a Meiji and a Kemalist-type scenario would involve the modernization and westernization of the North Korean state through political, economic, and cultural reforms. Under a Meiji-type modernization, the offspring of the Kim family might be protected and honored, but disempowered. Such a scenario would ensure a higher degree of domestic stability during the transformation, but might make it harder to respond to South Korean and international calls for accountability and reconciliation with a past marked by brutal aggression and ruthless human rights abuses. A Kemalist-type scenario would involve the creation of a new republic, with the complete removal of the Kim family from any position of power or privilege. While possibly more conducive to North Korea's establishing itself as a responsible member of the international community, a Kemalist transformation might result in a higher degree of domestic instability, potentially due to the *de jure* or *de facto* removal of the Kim family from the equation, leaving a power vacuum behind. A Kemalist scenario would need to identify ways to worship the legacy of North Korea's founder without continuing the cult of the Kim family.



However, under Kim Jong-un's rule, in order for North Korea to undergo a successful transformation and receive assistance from multilateral and bilateral development agencies, it would have to agree to the complete, verifiable, and irreversible dismantlement (CVID) of its nuclear program. North Korea would also have to reduce drastically the ratio of its national budget allotted to defense, and to collect and provide the requisite national statistical data. By the end of 2010, North Korea was supposed to work with the UNDP towards the submission of its Millennium Development Goals report, but that plan failed to materialize, even in 2011. To date, one of the most useful data-collection exercises in North Korea has been the population census conducted by the UN Population Fund (UNFPA) in 2008 and published the following year.

### **North Korea's Military First Policy ("Songun Chongchi") and Economic Stagnation**

Allocating scarce resources to the development of North Korea's nuclear and missile capabilities may prompt North Korea to claim that it has accomplished its desired level of military strength and that it can now focus on achieving prosperity. However, the main obstacle blocking economic development in North Korea is the massive allocation of scarce resources to the military. This allotment has steadily increased over the years and is a significant percentage of the country's GDP. According to a report by the Korea Institute of Defense Analyses (KIDA), North Korea's defense budget was approximately \$9 billion in 2009, about 15 times higher than the official amount declared by the North Korean regime. KIDA indicated that North Korea claimed that its defense budget was \$570 million.<sup>21</sup> KIDA also pointed out that official North Korean figures indicated that North Korea's defense budget was constantly on the increase, from \$470 in 2006 to \$510 million in 2007 and \$540 million in 2008. In 2009, North Korea's GDP, calculated on an exchange rate-based on Purchasing Power Parity (PPP), was \$40 billion.<sup>22</sup> Based on this estimate, North Korea's defense spending amounted to 22.5% of its GDP.

It appears that Kim Jong-il decided that shifting too far away from the "centrally controlled and military dominated economy undermined his regime."<sup>23</sup> North Korea's military first policy has thus affected the economy as a whole and impeded economic development. For as long as this policy is continued under the rule of his son, there is little room for

economic reform or development. If North Korea is serious about achieving “powerful and prosperous state” status, it will need to come up with a slogan and subsequent measures that elevate the economy to the status of top priority. If that shift occurs, the regime may be able to stabilize the economy.

Achievement of the “powerful state” status first precludes the achievement of the “prosperous state.” Ultimately, the military first policy is the root cause of North Korea’s economic troubles. Achieving the “powerful and prosperous state” status in this very order is a hopeless cause. If North Korea is serious about “Kangsung Taeguk,” its priorities need to be changed.

### **Between Crisis and Catastrophe, a Cloistered Economy**

For almost two decades, North Korea’s cloistered economy has oscillated between crisis and catastrophe, with hundreds of thousands dying in the great famine of the 1990s. In the aftermath of that tragedy, North Korea sensed the need to reform the country’s excessively centralized economic system. In July 2002, the so-called “7.1 measures” were introduced, but those measures failed to result in dynamic economic growth.<sup>24</sup>

Between the July 2002 market liberalization reforms, aimed at large-scale economic change, and the November 2009 confiscatory currency reform, aimed at cracking down on burgeoning private markets, the Kim regime faced a fundamental dilemma: economic reform was needed for long-term regime survival, but economic transformation could also set the stage for regime demise. Throughout the consolidation of Kim Jong-un’s rule, the Swiss-educated crown prince of North Korea, the Kim regime now faces the same predicament.

Currently, the North Korean regime appears to be engaged in “anti-reformist openness,” attempting to earn hard currency without the need to consider any degree of economic reform or restructuring. This is reflected in the focus on the extractive industry and mineral exports to China as well as other areas, comparatively of a much smaller scale, including remittances from workers officially dispatched overseas and overseas North Korean restaurants staffed by North Korean-dispatched workers, and North Korea tours for foreigners that sometimes provide “instruction” on North Korea’s peculiar ideology, such as “juche tours.” The regularity of North Korea’s requests for food assistance from the international community could arguably be included in the same

category of “anti-reformist openness” measures.

Twenty-three years after the collapse of communism in Eastern Europe and the former Soviet Union, what is the nature of North Korea’s regime and its economy? Has North Korea’s centrally planned economy remained unchanged, while its former allies in Eastern Europe have reformed and transformed their economies, prior to joining the European Union and North Atlantic Treaty Organization (NATO), or even the Organization for Economic Cooperation and Development (OECD)?<sup>25</sup> Or has North Korea, in its turn, also gone through an economic transformation of a different kind?

Of all terms applied to North Korea’s current state, possibly *neo-patrimonial economy* most accurately describes the present situation in the DPRK.<sup>26</sup> Over the past two decades and especially since the death of its founding father Kim Il-sung in 1994, North Korea has made a transition from a *Stalinist neo-patrimonial command economy* to a *post-Stalinist neo-patrimonial rentier economy*. Eighteen years after the death of Kim Il-sung and about 17 years since the outbreak of the great famine,<sup>27</sup> North Korea’s economy has become highly compartmentalized. The economy used to be controlled by the Cabinet, but it is now dominated by state trading companies.

In North Korea, there is a “royal palace economy,” yielding much needed foreign currency for the Kim regime, a “people’s economy,” much smaller by comparison and represented primarily by open door markets, and a “central economy,” that is in a state of *de facto collapse*.<sup>28</sup> State trading companies function as part of the “royal palace economy,” earning foreign currency for the Kim regime. Moreover, the other role these companies perform is to prevent the economic and commercial actors from interacting, thus retaining ultimate control over commercial transactions. Economic activities still controlled by the Cabinet, the military economy, collective agriculture, as well as economic activities generated through mobilization and volunteering, also constitute compartments of the North Korean economy.

DPRK state trading companies include Economic Division 2, Logistics Mobilization Bureau, KPA; Cheongwoonsan Trading Company, Military Unit 963, KPA; Executive Department, General Political Bureau, KWP; Kookjaeyeonhap Trading Company, Joint Chiefs of Staff Division, KPA; Chongjin Trading Company, General Staff Division, KPA; and Department of External Affairs, Ministry of Light Industries, Cabinet.<sup>29</sup> The activity of these state trading companies

appears to display two fundamental tendencies: widespread corruption, through the forging of official quota authorization documents, and the increasing exploitation of North Korean laborers.<sup>30</sup>

Since private property is not allowed in North Korea, private entrepreneurs need the cover and protection of a state agency. Permits are issued, and titles, even military ranks are bestowed upon entrepreneurs who are able to pay bribes. Economic and commercial actors are involved in a neo-patrimonial hierarchy, characterized by the ruthless abuse of public power by public officials for private gain.

With the possible exception of the open markets, the exchange of commodities in North Korea is not ruled by competition. Additionally, there is no legal framework in place governing the free exchange of commodities. Capital accumulation may be happening just on a very limited scale. Labor markets and private ownership of the means of production practically do not exist in North Korea, so obviously North Korea's economy is not capitalist.

But is North Korea's economy still communist? Karl Marx, who coined the term *rentier capitalism*, would be turning in his grave if one considered North Korea's still economy to be communist. The North Korean regime and its bureaucrats ensure their survival by collecting rent on lucrative enterprises that generally involve no requisite investment: the exportation of natural resources, humanitarian assistance, inter-Korean exchanges (such as the now defunct Mount Kumgang project), aid from China, or remittances sent by workers dispatched to China, Russia, the Middle East, Africa, and Eastern Europe.

Undoubtedly, remnants of the command economy are still present as an official façade, and at least 70% of the state firms allegedly remain under the control of central plans. Nevertheless, 70% of North Koreans are not getting enough food through state-distributed rations, while 20% are getting no food at all from such rations. This amounts to the *de facto* systemic *failure of the centrally planned economy*, a state of affairs characterized by the critical loss of state control over state-owned property, thus allowing systematic and generalized ransacking by state officials.<sup>31</sup> With rampant abuse bestowed upon them by the Kim regime, corrupt bureaucrats have put in place a system relying on patronage and loyalty. Commercial relations are structured along patrimonial lines of communication, and the corrupt hierarchy of power results in discriminatory opportunities extended to those engaged in economic exchanges.

While the “people’s economy” is by no means the result of top-down reform, but rather a coping mechanism aimed at survival and a symptom of state failure, North Korea’s commercialism has been imposed from above. While he was still alive, National Defense Commission Chairman Kim Jong-il played a deeply disruptive role through his need for slush funds and his political practice of bestowing presents upon officials in order to maintain their loyalty. In the 1970s, only the Workers’ Party had a license to establish commercial companies, but that changed in the 1980s. In the 1990s, the regime began urging its constituent parts and agencies to earn their own revenue.

North Korea’s recent commercial activities have been driven by its neo-patrimonial hierarchy, previously with Kim Jong-il at the top—a role now presumably assumed by his son and his regents—including central companies under his command, and then mid-level offices and semi-private entrepreneurs (the ones who interact with the producers). The leader of the Kim clan has the ultimate say in issuing and distributing business licenses, and takes primary responsibility in resolving conflict among his lieutenants. The key to the success of a central company is obtaining a monopoly trade license and having the political protection of the Kim regime bestowed on it. Mid-level offices are tasked with the collection of natural resources, while producers, at the very bottom of the food chain, are the gatherers of these resources. Mid-level offices display an amalgamation of private and public elements, with private merchants being hired and given military and other official ranks, if they perform appropriately. The key to success is to register as a subsidiary of a public organization. As far as the producers are concerned, they often fall victim to predatory practices. Unemployment does not exist on paper, as employees of public companies bribe supervisors to take leave and engage in commercially lucrative activities. Established after the death of Kim Il-sung as a survival mechanism, such commercial interactions have evolved, and now provide remittances up the food chain and ensure the retention of resources needed to maintain the respective organizations in existence.

Where does North Korea’s economy stand now, nearly three years after the November 2009 confiscatory currency reform? According to data submitted by an intelligence agency to GNP Representative Yoon Sang-hyun of the Republic of Korea (ROK) National Assembly’s Foreign Affairs, Trade and Unification Committee, about 300 markets are very active in North Korea, despite the regime’s attempt to suppress

them.<sup>32</sup> The regime has quietly allowed markets to expand in the aftermath of the disastrous currency reform. Such markets include Tongilgori and Jungang markets in Pyongyang; the Kangso and Doksan markets in South Pyongan Province; the Chaeha market in Sinuiju, a distribution point for Chinese-made goods; and the Hoeryong Market in Hoeryong, North Hamgyong Province, which plays a similar role, while allowing Chinese vendors to sell goods there.<sup>33</sup>

Representatives of delegations that have recently visited Pyongyang have indicated that they have detected confirmation of a pushback by following the currency reform. According to foreign residents of Pyongyang, inflation is still serious, and formal markets and “alley traders” are back in business. A UNDP price survey indicates that the rate of inflation between November 2009 and March 2010 was 30%. Some positive signs seem to exist, but are confined to the capital city. According to foreign residents of Pyongyang, the food presentation at the markets appears to be of good quality, and markets display a reasonable variety of goods, not all made in China.<sup>34</sup> According to foreign visitors, people in Pyongyang appear relaxed, and can often be seen calling or texting on their cellular phones.<sup>35</sup>

Egyptian telecom company *Orascom* established North Korea’s cell phone network, Koryolink, which had reached one million subscribers by the end of 2011, mostly in Pyongyang.<sup>36</sup> The North Korean regime has rushed to build 10,000 apartments in downtown Pyongyang by April 2012, and even the notorious Ryugyong Hotel, a 105-story skyscraper under construction since 1987, symbol of the empty shell of the Kim regime personality cult, will partially open by April 15, 2012, with help from the same Egyptian company.<sup>37</sup> However, most of these developments appear to be purely cosmetic.

North Korea’s Central Bank appears to have announced that people can now keep their savings in foreign currency. The same bank is also talking about using debit cards to draw on foreign currency accounts, although no details are available. North Korea has established a Joint Venture and Investment Commission under its Ministry of Trade, tasked to approve Foreign Direct Investment (FDI) and Joint Venture (JV) projects other than Kaesong. However, no efforts have been made to increase the macro-economic capacity in the financial system.

Such apparently positive signs are confined mostly to the capital city of Pyongyang. About two to three million people belonging to North Korea’s “core class” in its social classification system, *Songbun*, enjoy

much better living conditions than the other 21 million, whose lives have been miserable for almost two decades.

In order to join international financial institutions such as the IMF or multilateral development agencies such as the World Bank and the Asian Development Bank, North Korea would have to collect, compile and submit its national statistical data, which has, thus far, been a daunting task.<sup>38</sup> Nevertheless, there are some positive signs in that regard. After collaborating with United Nations Population Fund (UNFPA) on the publication of the *2008 Census of Population of DPRK*, North Korean authorities are displaying further indications that they may be willing to collaborate with UN agencies on data collection. The United Nations Development Programme (UNDP) has been working with the National Statistical Office of North Korea on a Millennium Development Goals (MDG) assessment in North Korea, involving trips to other Asian countries, including the UNDP Sri Lanka office, by North Korean officials. Nevertheless, North Korea failed to submit an MDG report to the UN General Assembly by the September 2010 deadline. The UNDP office in Pyongyang is now able to hire directly, and 18 North Korean staff members are working at the UNDP office on three-year contracts.

Sanctions appear to have prompted North Koreans to engage in innovative efforts to enhance import substitution. For example, the North Korean authorities boast an innovative technological process to use anthracite, a variety of mineral coal, available in North Korea, to make steel, instead of coke, and also to use anthracite to make fertilizer.<sup>39</sup> Overall, the North Korean regime appears determined to increase exports and the rate of import substitution.

There are further signs that entrepreneurial initiatives may be possible even within the badly bruised, centrally planned system. Around 2002, North Korea purchased the Ushers Brewery in the Wiltshire town of Trowbridge, previously used to brew award-winning traditional British real ales. Wiltshire's Ushers Brewery became the Taedong River Brewery, maker of the now famous Taedong River Beer, which was even featured in one of North Korea's first TV commercials, in the spring of 2009. Although the technology employed by the brewery is quite antiquated, it manages to produce 60,000 kl of beer for Pyongyang residents. The brewery is allegedly allowed to retain 25% of its revenue to pay bonuses to staff members and to reinvest. Within the centrally planned system, the brewery is allowed to produce more than the initial target, up to 70,000 kl, and to export part of its production to a

small niche overseas market in Russia. Several microbrewers also appear to be functioning in North Korea, some of them restaurants with their own beer-making facilities. A foreign NGO has extended 600 loans to 600 micro-enterprises in North Korea, at a 25% interest rate over a four-month period. It appears that the repayment rate has been 95%.

Power generation continues to be a great challenge. The Swiss Agency for Development and Cooperation (SDC) has worked on hydroelectric power station rehabilitation, but North Korea's winters are cold, and lakes often freeze. North Korea's old Ukrainian oil-fired plants are still working, but they use low-quality coal that produces sulfur, resulting in corrosion of the existing facilities. Instead of seeking light water reactors (LWR), whose usefulness would be highly restricted by the unavailability of a distribution network with a capacity higher than 250 kW, North Korea needs to upgrade its hydroelectric power generation capabilities, repair power plants and fix its distribution system, concentrating on the same priorities that were suggested to the North Korean regime in 1994.

In the public realm, overtures towards China are apparent. North Korea celebrated China's entrance into the Korean War for the first time in its history, and the Arirang Festival dedicated one section to China. In 2010, North Korea's English-language magazine provided ample coverage of Kim Jong-il's visit to China. An August 2011 visit to Russia seemed to indicate that the late North Korean leader was keen on balancing his foreign dependency by playing out the Russians and the Chinese, as North Korea did during the Cold War. Kim Jong-un is likely to follow in his father's footsteps.

### **China's Role in North Korea's Economy**

Reports on whether Chairman Kim Jong-il was successful in securing much needed Chinese assistance, following his May 20–26, 2011 visit to Beijing, Heilongjiang, Jilin and Jiangsu provinces, were mixed. This was the third visit by the North Korean leader to China in one year. These three visits followed a four-and-a-half year hiatus in his travels to China.

From North Korea's perspective, China remains its only lifeline, and by far, its primary trade and investment partner. Chinese investment is key to North Korea's stated goal of becoming a "strong and prosperous nation" by 2012. North Korea's dependence on China was on a steep increase even prior to its further isolation in 2010, following its brutal



attacks against the ROKS *Cheonan* and South Korea's Yeonpyeong Island. The Sino-DPRK trade ratio increased from about 43 percent of North Korea's foreign trade in 2003 to 78.5 percent in 2010. In 2009, North Korea exported \$790 million to China—out of its total exports of \$1.1 billion—while importing \$1.9 billion—out of its total exports of \$2.4 billion—mainly in crude oil, machinery, and electronic goods. Most of North Korea's exports to China are mineral resources, and China's investment in North Korea is mainly focused on developing the infrastructure needed to acquire mineral resources located in North Korea's northern regions.

According to World Bank estimates, China's average GDP growth during the first decade of the 21<sup>st</sup> century was 9.7 percent. China's spectacular economic growth has not been matched by commensurate political or social changes. Maintaining a vigorous economic growth rate is indispensable to preventing the eruption of domestic discontent and safeguarding public order and the political status quo. From China's perspective, domestic and international stability is a basic prerequisite of economic growth. North Korea's obstinate devotion to oppressive and violent ideological stringency and adulation of its leader and his family may be embarrassing even by Chinese standards, and North Korea's brinkmanship and unpredictability may be a cause of frustration for China. Nevertheless, although the Sino-DPRK relationship has experienced rough times, the bond established before and during the Korean War still matters to China. Furthermore, even if North Korea is an asset of diminishing value to the Chinese, its role as a buffer zone against pro-American South Korea remains important.

Sustaining the Kim regime in Korea and the military junta in Burma ensures that China's borders are secure, including the 850-mile North Korea-China border. It also means that China doesn't have to deal with massive refugee inflows. Such support also creates business opportunities, in particular in the extractive industries, for Chinese companies. On several occasions, top Chinese officials, including Chinese premier Wen Jiabao have advised North Korea's leadership to emulate China's example by moving toward a market-driven economy. However, at least from North Korea's current perspective, ideological zeal is imperative for the preservation of the Kim regime, perhaps for at least another generation. Between the July 2002 market liberalization reforms—aimed at large scale economic change—and the November 2009 confiscatory currency reform—aimed at cracking down on

burgeoning private markets—the Kim regime faced a fundamental dilemma: economic reform is needed for long-term regime survival, but economic transformation could also set the stage for regime extinction.

On June 1, only a few days after Chairman Kim's return from China, North Korea committed a deliberate, unparalleled and ruthless breach of customary diplomatic practice and protocol. The Kim regime revealed its own version of what happened at a secret meeting between top officials of South and North Korea in May. If North Korea were truly desperate to secure Chinese economic assistance, not throwing such an insult at South Korea might have been a sensible approach. However, the overtures towards China, coupled with the unprecedented offense flung at the current South Korean administration, seem to indicate that North Korea is keener than ever on realizing its *TongJoong BongNam* strategy of rapprochement with China and the exclusion of South Korea.

The same argument may apply to North Korea's request for U.S. food assistance. From the U.S. perspective, the merits of such requests are likely to be based exclusively on humanitarian grounds and on the likelihood of ensuring appropriate monitoring of humanitarian aid distribution. However, North Korea may have identified an opportunity to exploit what it perceives as a small crack in the robust U.S.-ROK coordination under the Obama and Lee administrations. North Korea may have seen the potential of having a slightly different U.S. and South Korean approach to responding to the issue of humanitarian assistance needs in North Korea. The virulent attack on the Lee administration was conducted as the United States was still assessing the need for humanitarian assistance in North Korea. This seems to show that the Kim regime has also been aggressively pursuing its *TongMi BongNam* course of action, by aiming at some degree of communication with the United States, while excluding South Korea.

Has China learned from South Korea's ill-fated Sunshine Policy? As far as investment in areas other than North Korea's extractive industries is concerned, is it possible to transcend political motivations and establish lucrative, profit-yielding joint ventures? Numbers released by the Egyptian firm Orascom Telecom, on its subsidiary, Koryolink, the largest single non-Chinese investment in North Korea, appear to indicate that it may be possible. According to Orascom data, Koryolink, North Korea's domestic cellular phone network provider, reached 535,133 users during the first quarter of 2011, a 420 percent increase from 125,661 users in the first quarter of 2010. By the end of 2011, Koryolink

subscribers had reached one million. Nevertheless, a monopoly such as Koryolink, based on a cozy relationship with the North Korean regime rather than solid market economics, is unlikely to set a precedent for any type of market-oriented transformation.

Although the “lips and teeth” Sino-DPRK relationship may be a thing of the past, China remains North Korea’s main trading partner and principal supplier of food, fuel and arms, and the one Security Council member that loosely interprets the implementation of UNSCR 1718 and 1874 sanctions to avoid the collapse of the Kim regime. Nevertheless, although trade with China accounts for almost four-fifths of North Korea’s foreign trade, the 2009 Sino-DPRK trade, amounting to \$2.7 billion, was over 51 times lower than Sino-ROK trade, which amounted to \$138.5 billion in the same year. Between 2003 and 2009, Chinese investment in North Korea amounted to \$98.3 million, significantly lower than investment even in Burma, the recipient of over seven times more Chinese investment. For Sino-DPRK investment relations to evolve beyond limited investment in North Korea’s extractive industries and infrastructure improvement such as the development of the Wihwa and Hwang-geum-pyong islands near Dandong in the Yalu River, and for Sino-DPRK trade to transcend its current limitations, some degree of market-oriented reforms will likely be needed in North Korea. Without such a transformation, North Korea’s last remaining lifeline may turn out to be no more than life support, prolonging a deathbed hallucination.

### **Anti-Reformist Openness**

Can such tactical-level observations translate into strategic-level conclusions, indicating that the government may want to engage, but not to reform? Are foreign visitors only taken to showcase production facilities? Most likely, and it is hard to see such facilities as seeds of entrepreneurship and capitalism, or as indications of foreseeable strategic changes.

Is North Korea’s current economic system sustainable? Over the short run, for as long as rent keeps coming in, North Korea’s rentier economy is most likely sustainable. Is North Korea willing to reform? It may be willing to engage, but definitely not to reform. Nobody voluntarily reforms. One is pushed into it. If willing to overcome the current state of affairs, North Korea would need to collect, compile, and submit its national statistical data and give serious consideration to reducing its military budget, prior to inviting the IMF to conduct a fact-

finding mission aimed at an old-style structural adjustment package. Needed measures would include liberalizing its economy; reducing transaction costs; including hidden transaction costs; liberalizing its labor market and allowing foreign and South Korean investors to hire directly, subsequently also allowing investors to obtain local supplies; diversifying the Kaesong business model and allowing it to go beyond that area, permitting other inter-Korean joint ventures to form; and limiting the role of state trading companies in foreign trade and actively promoting direct company-to-company linkages. Under the current circumstances, as it becomes entrenched in the 2012 celebrations and consolidation of Kim Jong-un's leadership, the North Korean regime is very unlikely to introduce such measures.

North Korea has trifled with reform before. In July 2002, it introduced market liberalization reforms, focusing on four basic measures:<sup>40</sup> monetizing the economy through the abolition of the food rations system and the relaxation of price controls, thus allowing prices to be determined by supply and demand; abandoning the artificially high value of the North Korean won to induce foreign investment and provide export incentives for domestic firms, from 2.2 won to 1USD to 150 won to 1USD; decentralizing economic decisions, allowing farmers' markets to operate and transplanting managerial decisions for industry and agriculture from the central government into the hands of local production units; and moving ahead with special administrative and industrial zones to induce foreign investment, including the Kaesong Industrial Zone and the Mount Kumgang project.

Although the July 2002 reforms may have represented the regime's first attempt to induce large-scale economic change, just like any other reforms in North Korea, they were half-hearted and based on the misinterpretation of Chinese reforms. As shown by the case of such Eastern European countries as Poland and Hungary which trifled with decentralization as early as the 1970s, decentralization without ownership in communist states ultimately results in the misuse and abuse of public authority for private gain by public officials.

On previous occasions, North Korea's half-hearted reforms ultimately resulted in failure. In 1991, North Korea decided to open the Rajin-Sonbong special economic zones but to "friendly capitalists" only, that is pro-North Korean regime Korean-Japanese businessmen, and to place them in the middle of nowhere. After opening the Kaesong Industrial Zone to South Korean investors, North Korea did not allow

them to hire local staff directly, which is a fundamental condition of business success, as far as an investor is concerned. Caught between its fundamental dilemma of having to open up in order to survive, but also understanding that openness and reform might result in its demise, the Kim regime did not consider further liberalization to reinforcing the July 2002 reforms. The end result was the distorted distribution of economic opportunity among and by highly corrupt officials abusing the public authority vested in them to augment their private benefits.

### **Reform and Elite Mobility**

Rather than following the path taken by most Eastern European countries after the collapse of communism and the Soviet Union, North Korea may be more inclined to consider the socialist-type economic reform first implemented in Hungary and Poland in the 1970s and 1980s. Socialist-type economic reforms in those two countries began with the practice of the decentralization of decision-making authority and the delegation of such authority to enterprise managers. At about the same time as Polish state-owned enterprises lost their capacity to expand, an “organic privatization” started in the late 1970s, and small private businesses prospered.<sup>36</sup>

The Eastern European precedent indicates that, from the viewpoint of socialist elites, a higher degree of elite mobility, centered on the professional qualifications of technocrats and managers, resulted in a higher degree of elite reproduction in the post-socialist years. In Czechoslovakia, the 1968 Soviet invasion abruptly ended the Prague Spring and the reform process in that country, returning conservative leaders to power. Consequently, loyalty toward the party was the main factor determining mobility within the communist party structure. This resulted in the development of a counter-elite, composed of those who had not been absorbed into the system. In Hungary, once decision-making was decentralized, technocrats and party cadres began to be selected on the basis of educational and professional qualifications, rather than political loyalty. Since qualified technocrats and intellectuals were co-opted into the power and management structures, the formation of a vocal and active counter-elite was inhibited in Hungary. In Poland, failure to liberalize elite recruitment prior to 1981 may have contributed to the involvement of intellectuals in the Solidarity movement.<sup>41</sup>

In Czechoslovakia, the reluctance to implement economic reforms and the return of conservative leaders to power after the Soviet invasion

of 1968 resulted in the perpetuation of an old and technically deficient elite, and promoted the formation of a qualified counter-elite. In Hungary, the rate of elite reproduction was highest, possibly due to high elite mobility during socialism. In Romania, the Eastern European country most similar to North Korea during the Cold War, mobility was almost entirely dependent on loyalty to the Ceausescu regime. During his final years, the Romanian dictator surrounded himself with family members. The fall of the Ceausescu regime was abrupt, and the rate of elite reproduction low, although second and third tier apparatchiks did manage to find their place in the post-communist power structure.

If North Korea considered socialist-type economic reforms of the kind implemented in Poland and Hungary in the 1970s, the likelihood of the formation of a counter-elite would be high. Social and economic mobility, including high elite mobility, is still determined by North Korea's social classification system, "Songbun." The Kim regime is likely aware that high elite mobility based on anything other than allegiance to the leader may endanger the very preservation of the regime. Thus, the regime is unlikely to allow such upward mobility. Consequently, if it were to proceed with socialist-style decentralization, such a development would be corroborated with the same lack of high elite mobility. Thus, based on the Eastern European experience, even socialist-style decentralization without privatization could ultimately lead to the formation of counter-elites, a potential threat to the survival of the regime.

### **The Side Effects of Post-Communist Transition: McMafia and North Korea**

When considering the applicability of the collapse of communism in Eastern Europe to North Korea, one should not refer only to the possibility of a Romanian-style collapse scenario, although such a scenario may still be possible as the new leadership of North Korea tries to consolidate the Kim Jong-un regime. The fall of communism in Eastern Europe brought freedom, human rights, free markets and opportunity to the overwhelming majority of those who used to be famished and oppressed prisoners in an expansive gulag extending from the Baltic Sea to the Pacific Ocean, and from the Arctic Ocean to the Black Sea. One of the unfortunate side effects of the fall of the Soviet empire was the emergence of connected criminal groups and corrupt politicians, comprising a Global Shadow Economy.<sup>42</sup>

Beginning in the early 1990s, Eastern Europe witnessed the rise of gifted entrepreneurs, but also the emergence of shadowy characters, who abused newly found freedom to ruthlessly employ disarmingly simple methods to profit from driving state-owned assets and enterprises into the ground. One such simple scheme has been the “Spider Trap.”<sup>43</sup> With the assistance of newly established trade unions, such characters pressure managers of recently decentralized state-owned enterprises to purchase raw materials not from the same suppliers at subsidized prices, but from one of their companies at the world market prices. Instead of selling the end product directly to the consumer, the director of the state-owned company sells it to another one of the “puppet master’s” firms, which would then sell it on the open market. By controlling both entry and exit points and creating a “Spider Trap,” the company is slowly bled to death, and significant gains are extracted in the process. Political support ensures that state subsidies are still provided to keep the company operating at a loss, to ensure that the lucrative scheme is extended as long as possible.

Russia’s price liberalization provides another example of possible relevance to a post-communist country endowed with natural resources. In the early 1990s, during the Yeltsin government, the last commodity whose price was liberalized was oil. In opposition to recommendations by the U.S. Treasury Department and the IMF, the Yeltsin government kept the country on an “oil standard” by continuing to sell oil freely to its citizens and industries at a deflated price, despite liberalizing other prices. Purchasing oil at “Russian prices” and selling it on world markets at “world prices” was a scheme that provided the future Russian oligarchs with substantial seed money to establish their empires before Yegor Gaidar bowed to international pressure and allowed the ruble price of oil to rise.

Such schemes are numerous, and, in light of the rise of North Korea’s state trading companies, the country may be headed the McMafia way in the early days of Kim Jong-un’s rule. The only licensed provider with permission to operate in North Korea is the Kim regime itself. In parts of the former Soviet Union and Eastern Europe, ruthless schemes designed to predate public funds have ultimately resulted in the states’ losing their ability to maintain public order and provide protection to private citizens. Sitting on their newly acquired fabulous fortunes, Russian and other Eastern European oligarchs have realized that the only groups capable of providing the protection they needed are criminal

groups originating in communist sports associations (primarily of wrestlers, boxers and martial artists). Such sports associations made their first substantial gains by controlling human trafficking and prostitution routes, and expanding their control in Eastern Europe and beyond. The detrimental alliance of ruthless criminal gangs, corrupt politicians and shady oligarchs resulted in the birth of Misha Glenny's McMafia. Could Kim Jong-un's North Korea be headed that way as well?

Although the transition to free market capitalism and democracy has not been easy, EU and NATO membership has been a true blessing for Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Romania, Estonia, Latvia and Lithuania. The reforms needed to gain EU and NATO memberships have ensured a higher degree of transparency and accountability than elsewhere in the region. Nevertheless, problems still persist along with the dark legacy of the communist past, including the presence of the world's most successful cross-border corporation in the post-Cold War period, Misha Glenny's McMafia. A glimpse into the darker side of post-communist transformation in Eastern Europe may yield useful lessons for what may happen under Kim Jong-un's rule in North Korea.

## **Conclusion**

The concept of Kangsung Daegook derives directly from the distinctive features of the totalitarian regime of North Korea: Kim Il-sung's and Kim Jong-il's cults of personality, distorted Confucianism, the partisan guerilla tradition, and the imported socialist model. The perceived, albeit illusory, achievement of the Kangsung Taeguk is to be realized through the further crystallization of such distinctive features: transforming the Workers' Party into the party of Kim Il-sung and the Kim family takes the personality cult to a new stage; North Korea's relentless development of asymmetric military capabilities and brutal military provocations, including the sinking of the *Cheonan* and the shelling of Yeonpyeong Island, are an aggressive continuation of North Korea's partisan guerilla tradition. Attempts to earn foreign currency through both legitimate and illicit operations -- including mineral exports, dispatching workers overseas, and arms and illegal drug sales -- are anti-reformist in essence. Such transactions do not require significant internal reforms and are thus an attempt to maintain the remnants of the imported socialist model, namely North Korea's centrally planned



economy. By boosting its asymmetric military capabilities and engaging in “anti-reformist openness,” particularly through its trade and investment relations with China, North Korea has aimed to ensure the second successful hereditary transmission of power. That process is likely to continue over the short to medium term, as Kim Jong-un’s fragile leadership undergoes consolidation. Given increased economic interaction with China, North Korea will become more dependent on such exchanges with its larger neighbor. The more dependent on economic relations with China North Korea becomes, the less likely China will be to scale down such relations, as this may result in the destabilization of North Korea. Increased Sino-DPRK economic cooperation will help extend the life of the Kim regime under the current leader and the next. The longer the Kim regime stays in power while refusing to reform, the more time North Korea’s state trading companies will have to establish themselves as significant actors, likely to play a major role under post-Kim dynasty scenarios.

As to the realism of achieving “strong and prosperous nation” status, asymmetric power building alone will likely not suffice. Possession of military asymmetric capabilities amounts to barely half of what North Korea would need to become an actual “strong and prosperous state.” The other half, the economic one -- more important than the first-- is unlikely to succeed. Building up and sustaining a powerful military requires a strong economy. In order to stabilize its economy, North Korea would need to give up its “military first policy” and place economic resuscitation at the top of its priority list. To do that, North Korea would need to follow the Chinese model and focus on reform in agriculture, industry, science and technology, and national defense, ideally in this very order. Nevertheless, keen on maintaining its grip on power, the Kim regime will be unwilling to experiment with Deng-style reforms, perceived as potentially eroding its grip on North Korea. Under North Korea’s current circumstances, defined by the second hereditary transmission of power and efforts to perpetuate the reign of the Kim dynasty, economic experimentation of the type and extent introduced by Mikhail Gorbachev, Boris Yeltsin or Leszek Balcerowicz is also hard to anticipate.

## Notes:

---

<sup>1</sup> Nicholas Eberstadt, “Nuclear Shakedown,” *American Enterprise Institute* (July 6, 2006). <http://www.aei.org/article/foreign-and-defensepolicy/regional/>

---

asia/nuclear-shakedown/.

<sup>2</sup> In its turn, “Fukoku Kyohei” originated from a phrase in the ancient Chinese historical work on the “Warring States Period” [Zhan Guo Ce, “Strategies of the Warring States”].

<sup>3</sup> Sarah Yun, “Unity under Songun: A Look Into North Korea’s New Year’s Editorial,” *The Peninsula – Korea Economic Institute* (January 2012). <http://blog.keia.org/2012/01/unity-under-songun-a-look-into-north-koreas-new-years-editorial>.

<sup>4</sup> His aunt, Kim Kyong-hui, and her husband, Chang Song-taek, were also given the rank of general, signaling the intent to further consolidate the power of the Kim clan.

<sup>5</sup> Korean Central News Agency, “January 2011 Joint New Year Editorial,” *Korean News* January, 2011. <http://www.kcna.co.jp/index-e.htm>.

<sup>6</sup> Scott Snyder, *Negotiating on the Edge: North Korean Negotiating Behavior* (Washington, D.C.: United States Institute of Peace Press, 1999).

<sup>7</sup> “Preamble of the North Korean Workers’ Party Platform,” in *Compendium of North Korea* (Seoul: Research Institute on Peace and Unification, 1986).

<sup>8</sup> *White Paper on Human Rights in North Korea*, (Seoul: Korea Institute for National Unification, 2000), 69-70.

<sup>9</sup> David I. Steinberg, “Understanding Regime Dynamics in North Korea: Contending Perspectives and Comparative Implications,” in *Human Rights in North Korea: A Reinterpretation*, Chung-in Moon, ed. (Seoul: Yonsei University Press, 1998), 244.

<sup>10</sup> “The Failed State Index 2010,” *Foreign Policy* (June, 2010). [http://www.foreignpolicy.com/articles/2010/06/21/2010\\_failed\\_states\\_index\\_interactive\\_map\\_and\\_rankings](http://www.foreignpolicy.com/articles/2010/06/21/2010_failed_states_index_interactive_map_and_rankings).

<sup>11</sup> Bruce Bechtol, Jr., *Defiant Failed State: The North Korean Threat to International Security* (Washington, D.C.: Potomac Books, 2010).

<sup>12</sup> Yoshi Yamamoto, *Taken! North Korea’s Criminal Abduction of Citizens of Other Countries* (Washington, D.C.: The Committee for Human Rights in North Korea, 2011), pp. 132-38.

<sup>13</sup> Larry A. Niksch, “Korea-U.S. Relations: Issues for Congress,” *CRS Report for Congress* July 25, 2008. <http://www.fas.org/sgp/crs/row/RL33567.pdf>.

---

<sup>14</sup> Siegfried S. Hecker, “A Return Trip to North Korea’s Yongbyon Nuclear Complex,” *Center for International Security and Cooperation – Stanford University*. [http://keia.org/Communications/Programs/Hecker/Hecker%20Program\\_KEI%20Posted%20Paper.pdf](http://keia.org/Communications/Programs/Hecker/Hecker%20Program_KEI%20Posted%20Paper.pdf).

<sup>15</sup> Richard Finney, “North’s Missiles Raise Concerns,” *Radio Free Asia*, October 13, 2010. <http://www.rfa.org/english/news/korea/missiles-101322010181348>.

<sup>16</sup> Blaine Harden, “North Korea Swiftly Expanding Its Special Forces. Commandos Trained in Terror Tactics in Effort to Maintain Military Threat,” *Washington Post Foreign Service* October 9, 2009. <http://www.washingtonpost.com/wp-dyn/content/article/2009/10/08/AR2009100804018>.

<sup>17</sup> Center for Strategic and International Studies – Office of the Korea Chair, “Record of North Korea’s Major Conventions Provocations since 1960s.” May 25, 2010, [http://csis.org/files/publication/100525\\_North\\_Koreas\\_Provocations.pdf](http://csis.org/files/publication/100525_North_Koreas_Provocations.pdf).

<sup>18</sup> *Ibid.*

<sup>19</sup> *Joint Investigation Report on the Attack against ROK Ship Cheonan* (Seoul: Republic of Korea Ministry of National Defense, 2010).

<sup>20</sup> Jaeho Hwang, “Can ROK-PRC Strategic Cooperative Partnership Survive?,” *MCSS News Briefing*, January 31, 2011. [http://www.mcsstw.org/www/print.php?article\\_id=607&keyword=mcss\\_briefing&keyword=Jaeho%20Hwang](http://www.mcsstw.org/www/print.php?article_id=607&keyword=mcss_briefing&keyword=Jaeho%20Hwang).

<sup>21</sup> John Grevatt, “Analysts Reveal ‘Real’ North Korea 2009 Defense Budget,” *Jane’s Defense Weekly* January 29, 2011

<sup>22</sup> Central Intelligence Agency, “North Korea,” *CIA World Factbook*. <https://www.cia.gov/library/publications/the-world-factbook/geos/kn.html>

<sup>23</sup> Jonathan D. Pollack, *No Exit: North Korea, Nuclear Weapons and International Security* (London, UK, and New York, NY: Routledge, 2011)

<sup>24</sup> Balasz Szalontai, “The Prospects of Economic Reform in North Korea: Comparisons with China, Vietnam, and Yugoslavia,” *Europe—Asia Studies*, Vol. 64, No. 2, 2012. pp. 227-246.

<sup>25</sup> Hungary, the Czech Republic and the Slovak Republic are the three Eastern European OECD members

<sup>26</sup> This term was coined by Dr. Hyeong Jung Park, Korea Institute for National Unification (KINU), in his paper titled “Analysis and Prospects of North Korea’s Marketization: A Comparative Analysis with Former Socialist Regimes.”

---

<sup>27</sup> North Korea made an official request for humanitarian aid for the first time in August 1995, which officially marks the beginning of the *Arduous March*, or the great famine of the 1990s

<sup>28</sup> Kim Kwang-jin, visiting researcher, U.S. Committee for Human Rights in North Korea.

<sup>29</sup> John S. Park, “Gaining Insights into North Korean Regime Stability from Recent Commercial Activities,” *USIP Working Paper*, April, 2009.

<sup>30</sup> *Ibid.*, 13.

<sup>31</sup> Hyeong-jung Park, “Analysis and Prospects of North Korea’s Marketization: A Comparative Analysis with Former Socialist Regimes,” Korea Institute for National Unification (KINU).

<sup>32</sup> Chosun Ilbo, “Markets Booming in North Korea,” October 14, 2010. [http://english.chosun.com/site/data/html\\_dir/2010/10/14/2010101401305.html](http://english.chosun.com/site/data/html_dir/2010/10/14/2010101401305.html).

<sup>33</sup> *Ibid.*

<sup>34</sup> John Everard, “The Markets of Pyongyang” in *On Korea: Academic Paper Series 2011*, (Washington, D.C.: Korea Economic Institute, 2011).

<sup>35</sup> Abraham Kim, “Pyongyang Has an App for That: Sanctions and Luxury Goods in North Korea,” *Korea Insight* (August 2011). <http://www.keia.org/publication/pyongyang-has-app-sanctions-and-luxury-goods-north-korea>.

<sup>36</sup> Kim Tae Hong, “Orascom Cracks 1 Million Mark,” *Daily NK* (February 3, 2012). <http://www.dailynk.com/english/read.php?cataId=nk00100&num=8761>.

<sup>37</sup> Chico Harlan, “North Korea’s Super-Size Hotel Is Set To Open – 23 Years Behind Schedule,” *The Washington Post*, February 7, 2012. [http://www.washingtonpost.com/world/asia\\_pacific/in-n-korea-an-iconic-hotel-is-set-to-open--23-years-behind-schedule/2012/02/07/gIQAih7z0Q\\_story.html](http://www.washingtonpost.com/world/asia_pacific/in-n-korea-an-iconic-hotel-is-set-to-open--23-years-behind-schedule/2012/02/07/gIQAih7z0Q_story.html).

<sup>38</sup> In order to join such agencies and qualify for international development assistance, North Korea would undoubtedly also have to reduce its staggering military budget.

<sup>39</sup> Lin Shi, “The Mineral Industry of North Korea,” *USGS 2009 Minerals Yearbook*, (October, 2010). <http://minerals.usgs.gov/minerals/pubs/country/2009/myb3-2009-kn.pdf>.

<sup>40</sup> Victor Cha, “DPRK Briefing Book: North Korea’s Economic Reforms and Security Intentions,” Testimony for U.S. Senate Committee on Foreign Relations, March 2, 2004.

---

<sup>41</sup> Kalman Miszei, "Privatization in Eastern Europe: A Comparative Study of Poland and Hungary," *Soviet Studies*, Vol. 44, No.2 (1992), 283.

<sup>42</sup> Eric Hanley, Petr Mateju, Klara Vlachova, and Jindrich Krejei, "The Making of Post-communist Elites in Eastern Europe," *Social Trends* (1998), <http://www.sda.soc.cas.cz/stwp/984.doc>.

<sup>43</sup> Misha Glenny, *McMafia—A Journey through the Global Criminal Underworld* (New York: Vintage Books, 2009)