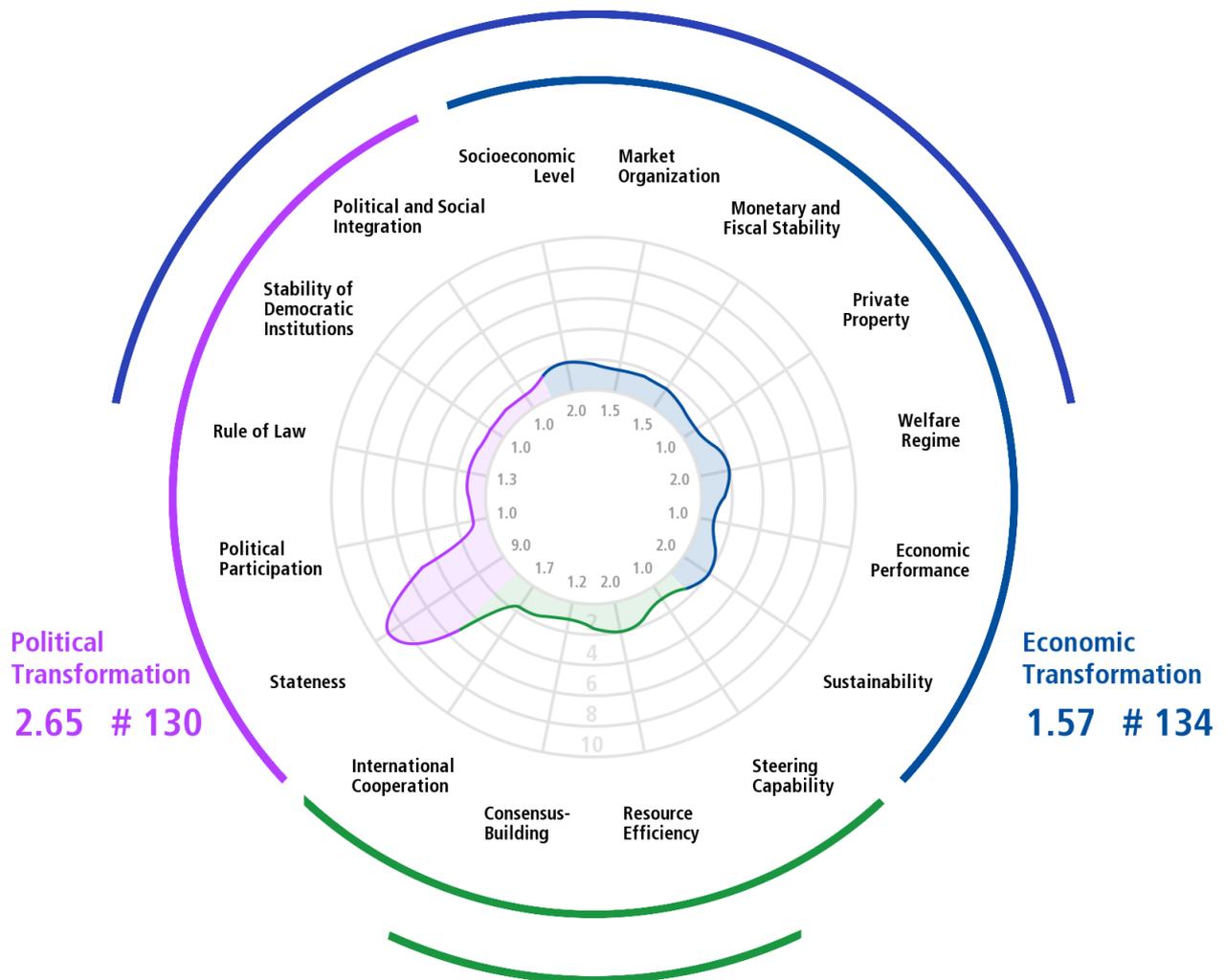


North Korea

Status Index

2.11 # 132

on 1-10 scale out of 137



Governance Index

1.37 # 134

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	25.5	HDI	-	GDP p.c., PPP \$	-
Pop. growth ¹	% p.a.	0.5	HDI rank of 189	-	Gini Index	-
Life expectancy	years	71.9	UN Education Index	-	Poverty ³	% -
Urban population	%	61.9	Gender inequality ²	-	Aid per capita \$	5.2

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

In the 2011 to 2012 period, the Democratic People's Republic of Korea (referred to here as North Korea) successfully managed a second hereditary succession when Kim Jong-un, the son of deceased regime leader Kim Jong-il (in power from 1994 to 2011) and the grandson of regime founder Kim Il-sung (in power from 1948 to 1994) succeeded to power and began to reshape the regime to his own liking. Politically, the key aspects of this process included the rehabilitation of central party institutions, weakening the military's influence over politics and the economy, and the redistribution of trade licenses among power-holding agencies. Members of older generations remaining from the time of Kim Jong-il's rule, including some members of Kim Jong-un's own family, were removed through forced early retirements, abrupt promotions or demotions and purges. Another recent dramatic event was the assassination of Kim Jong-nam, Kim Jong-un's half brother, at Kuala Lumpur International Airport in Malaysia in February 2017. The outrageously public nature of this act shocked the world, as did the fact that he was murdered despite sharing Kim Jong-un's bloodline.

Regarding foreign and security policy, Kim Jong-un has taken a much more aggressive approach than his father. His blunt and brash push for nuclear weapons development has evoked strong and negative reactions from the international community, including punitive measures from the United Nations and bilateral sanctions from numerous countries under the authority of the United Nations. However, in recent years, the country has undergone a major shift in its foreign policy. Following the inauguration of the South Korean President Moon Jae-in in 2017, the relationship between South and North Korea began to defrost. North Korea participated in the 2018 Pyeongchang Winter Olympics, which were hosted by South Korea. In addition, South and North Korea held multiple high-level delegation meetings and three summit meetings (April 27, May 26 and September 18 to 20) over the course of 2018. The Panmunjom Declaration for Peace, Prosperity and Unification of the Korean Peninsula was adopted at the first inter-Korean Summit of 2018.

Moreover, for the first time in the history of the two countries, the leaders of North Korea (Kim Jong-un) and the United States (Donald Trump) held a summit meeting in Singapore on June 12, 2018. The two leaders signed a vague joint statement addressing security guarantees for North Korea, denuclearization of the Korean peninsula and new peaceful relations between the two countries. The two held a second summit in Hanoi, Vietnam on February 27 and 28, 2019, but failed to reach an agreement. Kim and Trump then met again for a one-day summit at the Korean Demilitarized Zone on June 30, 2019, accompanied by the South Korean President Moon. Donald Trump briefly crossed the border and set foot on North Korean soil, thus becoming the first U.S. president to enter North Korea.

In terms of economic policy, Kim Jong-un has taken a permissive attitude toward market expansion since his father's death. Though the term "reform" is not used, North Korea has engaged in reformist measures. Consequently, the scale and extent of commercial business have expanded significantly during the period. Furthermore, corruption has become ever more rampant, playing a double role by supporting the expansion of commercial activities and redistributing profits to agencies loyal to the regime. In April 2018, Kim Jong-un declared the victory of his so-called Byungjin policy, entailing the parallel development of the economy and weapons of mass destruction, and announced a new policy of "socialist economic construction," which aims to focus more on economic development.

History and Characteristics of Transformation

North Korea has undergone a profound transformation since the early 1990s. While the regime has experienced various critical episodes that have called its stability into question, it has not yet experienced a complete regime collapse.

Power transition in dictatorships is regarded as the most dangerous event for regime stability and survival. However, North Korea has successfully managed two hereditary power transitions. During the first period of leadership succession from Kim Il-sung to Kim Jong-il, the country suffered from a sudden and drastic economic deterioration, paired with the "Arduous March" of famine and a series of natural disasters. When the young and inexperienced Kim Jong-un succeeded Kim Jong-il, many observers looked on with doubts. However, Kim Jong-un quickly established himself as a legitimate leader of North Korea, and held the 7th Party Congress in 2016, after 36 years of hiatus, to commemorate his consolidation of power.

Each accession of a new leader has been accompanied by a reorganization of the ruling coalition. After his own inauguration, Kim Jong-il gradually destroyed his father's ruling coalition and established one of his own. The pillar of Kim Jong-il's ruling coalition was the military, which was given an expanded role in the areas of internal pacification and foreign policy alongside its national-defense portfolio and was granted additional economic privileges. Beginning in 2012, Kim Jong-un began to establish his ruling coalition, starting by downsizing the military's roles and privileges. In its place, he has strengthened the central party's Organization and Guidance

Department, the Ministry of State Security, and the General Political Department (a party agency responsible for political surveillance of the military). Thus, at least according to government declarations, central party organizations have been given more political power and were institutionally rehabilitated.

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

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

Internal and external security mechanisms have likewise transformed. Traditionally, internal regime security operated more through ideology and soft coercion of party organizations than by police force and physical punishment. However, since the 1990s, confronted with a serious weakening of the party-state apparatus, expansion of commercial activities due to the fiscal collapse, and the leadership succession, the regime’s dependence on state violence has significantly increased. This has been confirmed by the increased number of public executions (including high-profile officials) and the enhanced role of the police force and state security organizations. Regarding the external security measures, the regime was in pursuit of possession of nuclear weapons and ballistic missiles. With the accession of Kim Jong-un, it has openly accelerated nuclear and missile buildup since 2012. As North Korea’s nuclear capability increases, so has international pressure, sanctions and isolation.

Today, the North Korean party-state can be characterized as very strong in the areas of political domination and military buildup, but very weak with regard to the provision of key public goods. North Korea has become one of the poorest and most isolated countries in the world, with a grave record of human-rights violations, the construction and testing of nuclear weapons and various ballistic missiles and cyberattacks.

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

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force has not been challenged in North Korea since the end of the Korean War in July 1953. Although the party-state was weakened in the 1990s due to economic collapse, it was able to maintain internal order, often by resorting to extreme violence, including public executions. Despite the severe economic crisis and the natural disaster of the "Arduous March" famine in the 1990s, there have been no serious internal challenges. Since Kim Jong-un's accession to power in April 2012, the roles played by party organizations and various internal security organizations have expanded in order to guard against internal challenges.

For more than 1,000 years, the Korean peninsula consisted of one politically unified territory. The separate state-building in North Korea began before the Korean War in 1950. Since then, North Korean politics can be summarized as transitions from multiple faction-coalition-rule to one-faction rule to one-man rule. The current absolute one-man dictatorship was established in the mid-1960s and transferred from Kim Il-sung to Kim Jong-il to the current leader, Kim Jong-un, through hereditary power succession. During this time, the leader/regime identity has become increasingly indistinguishable from state identity. This trend may be reversing since the 1990s due to North Koreans' increased contacts with the outside world. Though occurring only extremely gradually, disparate groups within the population may have begun to question the unity between the regime and state. This said, there is no valid data or sufficient empirical evidence available that would enable a reliable assessment of the extent to which North Korean citizens identify with the Democratic People's Republic of Korea (DPRK) as a separate or – in its own understanding – as the only legitimate Korean state.

Since the inauguration of Kim Jong-un as the supreme leader in April 2012, the identity of the regime has again undergone a transformation. The 7th Party Congress in May 2016, held after a 36 years hiatus, marked the end point of this realignment. The symbolic status of Kim Jong-un was made equal with that of Kim Il-sung and

Question
Score

Monopoly on the
use of force

10



State identity

10



Kim Jong-il in the ideological pantheon of “great” leaders. The leading ideology of the country was renamed to “Kim Il-sung-ism and Kim Jong-il-ism.” The Korean Workers Party has continued to play a central political role for the regime. In addition, the possession of nuclear weapons was given a central place in legitimating both the supreme leader and regime. North Korea was touted as the “strong nuclear power in the East” reliant on “its own independent strength.”

The society has been secular and atheistic, though the cult of personality could appear as quasi-religious. The elements of secular modernity embodied in communist ideologies have been the building blocks of North Korea’s legal and political order. However, other ideological tendencies have intermingled with communist ideology, exerting a very strong influence on the organization of the public sphere, including political institutions. These tendencies include leader worship, the notion of the organic unity of the nation and a chauvinistic emphasis on patriotism. The unique mix of Korean tradition, various strands of communist ideology and indigenous variations of this ideology, as well as the extremely strong personal cult that has included the deification of deceased and living regime leaders, has meant that the regime ideology itself exhibits elements of a religion-like cult – though in its own understanding, it is of course atheistic. Ideological principles are hammered into the psyche of North Korean citizens through various means, including ideological indoctrination, frequent convention of mass rallies and construction of historic monuments. Following the succession of power from Kim Jong-il to Kim Jong-un in April 2012, statues of Kim Jong-il were built either alongside those of Kim Il-sung or independently. Other monuments to the cult of personality that commemorated Kim Il-sung alone were demolished and rebuilt to jointly commemorate Kim Il-sung and Kim Jong-il, constructed through voluntary (or perhaps forced) donations from the population.

As in previous versions, Article 68 of the 13th revised constitution of 2016 guarantees freedom of religious belief; however, it also states that religion cannot be used to draw foreign influence into the country or damage the state order. In reality, North Korea, whose capital, Pyongyang, was once known as the “Jerusalem of the East,” remains one of the most anti-religious countries in the world. Aside from some official pro forma religious organizations and Pyongyang church buildings that are used for receiving foreign guests and propaganda purposes, any sign of autonomous religious activity has been harshly persecuted. For example, in 2019, the United States-based NGO Open Doors ranked North Korea as the worst country globally for the persecution of Christians – followed by Afghanistan, Somalia, Libya, Pakistan and Sudan – for the 17th consecutive year.

No interference of religious dogmas

10



1

From its inception as a separate Korean state in 1948 until the late 1980s, North Korea has maintained a differentiated party-state administrative structure throughout the country based on the Soviet communist model. Though its formal structure has remained intact, its ability to function has deteriorated significantly since the early 1990s. Economic decline meant the state budget was no longer able to mobilize the resources required to supply basic state services. North Korea “officially” abolished taxes in April 1974 and advertises itself as “the only country in the world that abolished the tax system.” Nonetheless, it still collects revenue from its citizens in the form of non-tax payments and mandatory labor on government projects. However, it has become increasingly difficult for the government to generate enough revenues to reestablish its social welfare system. With internal and external security functions monopolizing the bulk of the state budget, other state services have suffered from drastic budget cuts. The party-state, no longer able to fund its constituent agencies, has allowed them to take advantage of their authority to earn revenue through commercial activities. This has resulted in rampant corruption in the party-state administration.

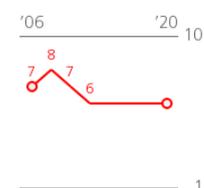
Kim Jong-un’s focus since 2012 in state administration has been somewhat erratic. On the one hand, he continues to grossly fail to allocate resources or take measures for the improvement of basic civil functions of government. Instead, he prioritizes functions and expenditures related to military buildup, political legitimation and social control. On the other hand, while he has not rebuilt the tax system, he has reallocated some monopoly licenses for commercial businesses, the major source of revenue for most party-state agencies, in such a way as to benefit the cabinet at the cost of the military. This has marginally strengthened the fiscal base of the state’s civil and economic functions. In addition, due to the relatively liberal attitude toward market expansion since Kim Jong-un’s inception of power, local jurisdictions have increased their fiscal capacities by collecting fees from merchants at some 500 officially sanctioned marketplaces in the country. Moreover, officials have augmented their meager salaries by demanding bribes at countless unofficial markets and illegal business enterprises.

2 | Political Participation

General elections for the Supreme People’s Assembly are held every five years, most recently on March 10, 2019, but all candidates are selected and nominated by the regime. Elections are monitored and managed by the Workers’ Party of Korea. They are a means for political mobilization of the masses and are regarded as yet another political festival to demonstrate the people’s unified support for the regime and its leader. To guarantee 100% participation, the local police typically ascertain the whereabouts of any absentees, who are persecuted if they fail to vote. Voters gather and march to the voting place. They are presented with a single candidate in their district and can vote either for or against the candidate. The whole process is

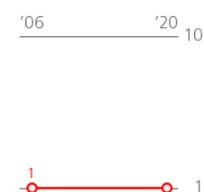
Basic administration

6



Free and fair elections

1



transparent, lacking in any secret-ballot mechanism; thus, voters rarely if ever risk voting against the candidate. The regime usually announces virtually 100% participation and 100% support for the leadership as the result of the vote.

The North Korean political system can be characterized as an absolute one-man dictatorship. The power to govern does not originate from elections or communist ideology, but rather from the “great guidance capacity” of the top leader and power delegation from him. There has never been any veto power to counter the leader’s rule. While the powerless Supreme People’s Assembly (SPA) meets once or twice a year to ratify party-state directives, the deliberative bodies of the central party, such as the Politburo and Central Committee, have rarely been convened. Between 1994 and 2010, these entities were systematically neglected in favor of the personal secretariat of Kim Jong-il. During the same period, the military’s role expanded. The party’s elected bodies were reconstituted with the 3rd and 4th Party Representatives’ Conferences and the 7th Party Congress, respectively in 2010, 2012 and 2016. Several meetings of central party bodies were also held, including the Politburo, Central Committee and Central Military Commission. As in the past, these have been pro forma, and exerted no effective political decision-making power.

Article 67 of the 13th revised constitution of 2016, like previous versions, guarantees freedom of publishing, assembly, demonstration, speech and association, as well as freedom of the press. However, the reality is that organizations exist solely as part of either the state or the party; autonomous associations are nonexistent in North Korea. The regime controls the population by forced membership in organizations, police surveillance, informant networks, and the threat of imprisonment or exile to the countryside. It is worth noting, though, that there were some reports of small crowd gatherings in various localities in the second half of the 2000s to protest actions by local authorities, including suppression of market activities. The period of power transfer between 2009 and 2011 saw the regime attempting to consolidate its grip on society through increasing campaigns against “anti-socialist phenomena.” Kim Jong-un also promulgated a revision of the “ten principles for establishing unitary leadership” in June 2013 to make his personal rule and control politically absolute.

As noted, Article 67 of the constitution guarantees freedom of speech and of the press. The reality is that mass media outlets are run by either the party or the state and are completely controlled by the political authorities. There is no need for censorship of dissenting media because there are no independent media to censor. Channels for independent information and horizontal communication have increased somewhat since the mid-1990s with the expansion of market activities and cell phone usage, foreign contact via smuggled media (e.g., DVDs and USB sticks), and clandestine access to foreign radio and television programs. In response, the regime has set up regular and ad hoc bodies comprised of multiple internal security agencies to monitor and suppress the circulation and usage of foreign information (and the devices that carry them into the country). While the risk of political persecution is still high, some

Effective power to govern



Association / assembly rights



Freedom of expression



citizens criticize the regime in private. With the apparent decision to designate Kim Jong-un as the hereditary successor to Kim Jong-il in 2009, the internal security agencies appear to have been strengthened. Kim Jong-un has more vigorously employed internal security agencies such as the Ministry of State Security (secret police), Ministry of Public Security (police), and the party's General Political Department (Bureau), which spies on the military. Some minister-level officials in their 60s and 70s were reportedly publicly executed for disrespectful behavior toward the young Kim Jong-un.

3 | Rule of Law

By the mid-1960s, the North Korean political system had evolved into an absolute one-man dictatorship. Since then, at least officially, the population has been prescribed to live with “unitary thought and leadership” centered on the Great Leader. As in the past, all power is concentrated and centralized in the leader Kim Jong-un, who inherited the neo-patrimonial system from his father Kim Jong-il in 2012. The unity of power around the leader does not preclude a relatively clear separation of roles and institutional differentiation between the party, the military, the cabinet, the People's Assembly, the judiciary and the security organizations. The leader stands above the law. He delegates powers and functions to members of the political elite and agencies and rewards them with privileges or punishes them through purges. There is significant competition among and within party, state and military organizations for a greater share of power and privileges from the leader. Each organization competes in a zero-sum game for an increased allotment of power and rent opportunities by demonstrating its loyalty and contributions to the leader.

With the start of his reign in 2012, Kim Jong-un seemed to have more or less established political order among the organizations to his own liking. The Organization and Guidance Department within the central party and the Ministry of State Security seem to have gained greater dominance over other regime agencies. Accordingly, their competences and prerogatives have been expanded at the cost of those other agencies. In addition, there is also a generational shift taking place among the party, state and military elites such that the older generations are being replaced by the younger generations in their 40s and 50s.

North Korea has maintained a pro forma institutionally differentiated judiciary, although it has never been independent. There have been two major changes in the judiciary since the 1990s. The first concerns its place in the power structure: although no more independent than before, the declining role of party organizations has expanded the judiciary's contribution to the regime's control over society. Until the end of the 1980s, the North Korean regime retained control largely through the political surveillance function of party organizations in all areas of life. Since the late 1990s, the regime has noticeably strengthened its internal security institutions and

Separation of powers



Independent judiciary

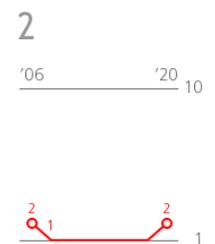


sought to differentiate and reinforce penal law. With the expansion of the market in the 2000s, North Korea created new economic regulatory laws and updated old ones, although it still has no legislation covering property protection and contract enforcement for private businesses, which is understandable given that private ownership remains technically illegal.

The second major change came with the increase in corruption. No longer able to fund the judiciary through its budget, the regime gave tacit consent for it to raise its own revenue by “selling” justice. Judges and prosecutors have been the greatest beneficiaries since the market crackdown in the second half of the 2000s when bribes became commonplace. These officials are usually regarded as “the richest” by their neighbors, according to North Korean refugees interviewed in South Korea. There has been no noticeable change regarding the function of the judiciary since the start of Kim Jong-un’s rule in 2012.

Office abuse is systemic up and down the bureaucratic ladder. Traditionally, North Korean authorities have criticized the problem of bureaucratic red tape by party-state officials and their “arrogance and undue exercise of authorities.” The traditional narrative of the problem has been that the supreme leader’s good intentions are distorted by lower officials for their private gain. North Korean authorities have seldom adopted the expression of “corruption” or “bribe taking.” Nevertheless, the rampant corruption could not be concealed since the early 1990s. Due to the fiscal collapse in the early 1990s, the primary response from both at the organizational and individual level has been to take advantage of public positions for organizational and/or private gain. Since the late 1990s, the regime has frequently sent special inspection groups to lower-ranking units to fight “anti-socialist phenomena” including excessive corruption. However, these groups have been more interested in taking bribes themselves than in stamping out corruption. Though high-level corruption has been intermittently prosecuted, this has generally been done for the aim of political purges rather than for anti-corruption purposes. During and after the transfer of power to Kim Jong-un, many high-ranking officials were purged, most of them under the pretext of corruption. On several occasions since early 2015, Kim Jong-un has talked about the need to eradicate corruption among lower officials. Since then, some deterrent measures have been taken, including party inspections, public executions and the inhibition of corruption through “unbounded loyalty to the leader.” Most recently, Kim Jong-un said in his 2019 New Year’s address that party and government organs and working people’s organizations “should eradicate abuse of power, bureaucratism and corruption.”

Prosecution of
office abuse



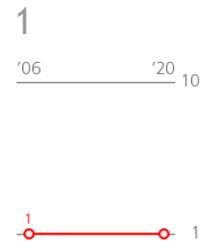
Chapter 5 of the constitution guarantees basic civil rights. However, in reality, the regime ignores civil rights and carries out repression when presented with even the most insignificant political resistance from the population. Traditionally, law enforcement has been applied discriminately depending on the individual's political affiliations, such as his or her membership in the party or strength of personal patronage network, and, more recently, his or her ability to provide bribes. When it comes to discrimination based on gender, North Korea officially prevents “all forms of discrimination against women” based on the Law on the Protection and Promotion of the Rights of Women. However, discrimination based on traditional gender roles still seems to directly or indirectly constrain women in exercising their basic rights.

In addition, public executions and sudden deportations without due process persist. Also, mistreatment and torture at labor and prison camps are still widespread. The Korea Institute of National Unification, a government-funded research institute in South Korea, estimated in 2013 that about 80,000 to 120,000 people were detained in such camps.

Foreign nationals continued to be arrested and detained. In January 2016, U.S. national Otto Warmbier was arrested for attempted theft of a propaganda poster and was sentenced to 15 years of hard labor. While suffering from a severe neurological injury from an unknown cause, he was freed in June 2017 and repatriated to the United States, only to die six days after his return. A coroner's report released noted no obvious evidence of torture, but also did not rule out its possibility.

Freedom of movement is heavily restricted and requires official permission (or the payment of bribes). In particular, control of the border with China has tightened significantly since the inception of Kim Jong-un's reign, and those caught attempting to flee the country are usually sent to labor or prison camps. Finally, with the drastic increase of corruption since the 1990s, law enforcement has become a kind of private business both for officials and organizations involved in public and state security, as well as prosecution and judicature. The U.N. General Assembly has passed resolutions on human rights violations in North Korea for 14 consecutive years (2005–2018).

Civil rights



4 | Stability of Democratic Institutions

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

When it comes to the welfare of the population, the regime suffers from chronic policy failure and permanent crisis. Among the government's most conspicuous failures have been its response to the great famine and the virtual collapse of state administration in the mid-1990s. However, despite widespread hardships, the regime has to date succeeded in keeping the society docile by completely banning civic organizations and by turning a blind eye to corruption and the illegal market economy, which provide a small sphere of independent activity, and may serve to ameliorate the people's suffering to some degree.

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

5 | Political and Social Integration

The North Korean regime is based on one-party rule by the Workers' Party of Korea. In practice, by the 1960s the Workers' Party had lost any semblance of political function in the articulation, aggregation, and arbitration of interests, instead transforming itself into an instrument of personal rule. Beginning in the mid-1970s, the party was instrumentalized by Kim Jong-il to consolidate his personal ascension as designated successor. In this context, the party's dominance over other regime agencies and its capacity to exert political and ideological control of individuals in their homes and workplaces significantly increased. In the mid-1990s, however, the party was confronted with a crisis regarding its traditional status and function in the political system. With the collapse of the planned economy, the party has lost a significant amount of control over the population. As the party became less essential

Performance of democratic institutions



Commitment to democratic institutions



Party system

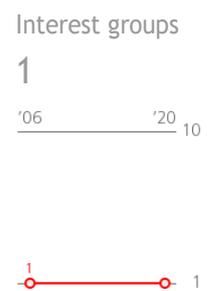


for the survival of the regime at the beginning of the 1990s, Kim Jong-il promoted the military over the party as the main pillar of regime survival.

The rise of Kim Jong-un since 2009 has been accompanied by attempts to weaken the dominance of the military and promote regime agencies. Non-military roles (e.g., economic business privileges) have been redistributed in favor of the party and other agencies. In this context, the organizations and procedures of the central party have been, at least pro forma, rehabilitated. Among others, the Organization and Guidance Department of the central party recovered its old status as the core agency of the regime. Local party organizations have de facto replaced the top government agencies as the main implementation structures and play a dominant role in exercising government power and collecting fiscal revenues for the central government. On the whole, the party under Kim Jong-un has not rehabilitated the traditional mechanisms of totalitarian control over the individual, but has been able to restore its political dominance and has maintained itself as the top local governing agency.

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

The intensity and effect of segmentation have increased since the 1990s, as each bureaucratic agency has been required to finance itself by participating in commercial activities. The most powerful domains include the Kim family and the party, the military, the “Second Economy” (which administers weapons production), the Ministry of State Security, the Ministry of Public Security and the Presidential Security Unit. Each domain, in turn, comprises several subsidiary domains or segments. Traditionally, the most powerful has been the domain of the Kim family and the party. With the enhanced role of the military during the period of the “military-first” policy, the relative position of the military improved. Under Kim Jong-un’s rule since 2012, however, it seems that the most important domains have been the Kim family, the central party’s Organization and Guidance Department, the Ministry of State Security and the central party’s Commission of the Second Economy (in charge of nuclear-weapons development and missile production).



No survey data on support for democracy is available in North Korea. The regime has attempted to convince the population that political life in Western democracies is undesirable and even disastrous. In any case, the only way most North Koreans would know anything about such a life would be second-hand (e.g., through viewing smuggled videos). However, there are indirect and vague indicators related to the issue of approval of democracy. In annual surveys conducted by the Ministry of Unification in South Korea, two-thirds of the refugees from North Korea cited “economic difficulties” as the most important motivation in leaving their country before 2001. The frequency of this response fell to 12.1% between 2014 and 2016. Instead, whereas “yearning for freedom” motivated just 10% of respondents before 2001, this response was identified by 35% of refugees between 2014 and 2016. In the later period, as many as 18% even expressed “discontent with the system.” In the 2018 Settlement Survey of North Korean Refugees in South Korea, an annual survey conducted by the Korea Hana Foundation (North Korean Refugees Foundation), a non-profit public organization established by the Ministry of Unification, “seeking freedom” was identified as the most important motivation for defecting from North Korea by 25.3% of respondents, followed by “food shortage,” selected by 22.5% and “better living environment for the family,” selected by 12.5%.

Approval of democracy

n/a

'06 _____ '20 10

n/a _____ 1

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

Social capital

1

'06 _____ '20 10

1 _____ 1

Three social capital issues in North Korea since the 1990s should be noted. First, the overall level of surveillance by the party-state remained very high, even if the increase of activities outside the party’s purview since the 1990s has reduced the effectiveness of political surveillance. This surveillance impedes trust among individuals. The second factor is the rise of spontaneous market arrangements that encourage trust between individuals, albeit a trust that is precarious and rudimentary in nature. For example, private merchants have (illegally) established a national network to exchange information regarding commodity prices. Similarly, even though these services are unstable and primitive, private merchants organize regional transportation, parcel services and money transfers in networks. These market functions, which are taken for granted in most countries, are a novelty in North Korea. The third factor is corruption, which has become rampant; North Korea is considered one of the most corrupt countries in the world. This works against a general sense of solidarity and trust among individuals.

II. Economic Transformation

6 | Level of Socioeconomic Development

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

First, the “songbun” system determines the bulk of life opportunities of individuals. An individual is given a place in the system through the overall assessment of the person’s presumed degree of loyalty to the regime, taking into account the individual’s relatives as well. The main framework of the system consists of three major “songbun” groups and 51 categorizations. According to a 2014 report by the U.N. Commission of Inquiry on Human Rights in the Democratic People’s Republic of Korea, “the ‘songbun’ system used to be the most important factor in determining where individuals were allowed to live; what sort of accommodation they had; what occupations they were assigned to; whether they were effectively able to attend school, in particular, university; how much food they received; and even whom they might marry.”

Second, with the expansion of the market since the early 1990s, the regime has favored ruling agencies and loyal individuals in the distribution of profitable opportunities, with this calculus driven by the recipients’ importance for regime maintenance. On the one hand, new opportunities outside the direct purview of the party-state have ameliorated the rigidity of the “songbun” system through the expansion of market activities. On the other hand, the regime’s politically motivated distribution of business licenses in favor of individuals loyal to the regime has in a sense preserved the “songbun” system in another form. One example is the fact that the majority of workers sent abroad to earn foreign currency are members of the party and residents of Pyongyang, which means that they are already in a more privileged position than ordinary people. In the end, the tighter the connection one has with the regime, the better chance one will have to access powerful or profitable opportunities.

Question
Score

Socioeconomic
barriers

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Economic indicators		2015	2016	2017	2018
GDP	\$ M	-	-	-	-
GDP growth	%	-	-	-	-
Inflation (CPI)	%	-	-	-	-
Unemployment	%	3.5	3.4	3.3	3.3
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-	-	-	-
Public debt	% of GDP	-	-	-	-
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	-	-	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Since the introduction of a “management responsibility system for socialist firms” on May 30, 2014, North Korea’s economic system can be characterized as a state-controlled mixed economy based on commercially operated state firms. There are at least three sectors, not counting military industries: the (comparatively independent) state businesses, the relatively large private businesses operating under the guise of state businesses, and the tens of thousands of small businesses that interact with the state mainly in the form of small bribes paid to local officials. With this system, the state’s direct management of state firms through obligatory plan directives was abrogated and autonomy in the management of state firms has increased. Nonetheless, even without direct intervention, the state’s vast authority with regard to the management of the national economy and state firms remains overwhelming. For instance, the state maintains the right to appoint managers in every firm. The state also has a monopoly on banking functions. In addition, it holds the licensing authority for almost every significant commercial activity, prohibits private firms and employment, and retains the capacity for arbitrary political intervention in the economy.

The benefit of the de facto market mechanism is acknowledged by the state, but private entrepreneurs are not. Even though private investment has become widespread, it can only be acknowledged under the official guise of shared participation in state firms or commercial subsidiaries of state agencies. Moreover, this type of private investment remains illegal and highly corrupt. Though the size and extent of commercial businesses have gradually expanded, with such entities now found in almost all economic sectors including mining, transportation and real estate, severe constraints in terms of market-based competition remain. The award and possession of business licenses is basically decided by the top leader, and such allocations frequently fall prey to interest competition between regime agencies. In addition, all commercial activities remain informal, as they have not yet been integrated into the official economic system. Free market entry and competition have been most robust among merchants selling small daily necessities in local markets; about 500 such markets existed in late 2018.

Kim Jong-il sponsored and bequeathed to Kim Jong-un a large variety of monopolies as a means of both raising revenue and maintaining loyalties through a political distribution of rent opportunities. Among these, the most important opportunities are export and import licenses as well as other domestic business licenses. The supreme leader has a monopoly on the right to assign and distribute them to major agencies of the party, the military and internal security agencies. Trading companies affiliated with these groups are given monopoly licenses for export and/or import for certain goods, which enable them to take advantage of huge gaps between domestic and international prices. Their export goods have mainly consisted of natural resources and extractive products such as minerals, timber, seafood, mushrooms and various herbs.

Market
organization

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Competition policy

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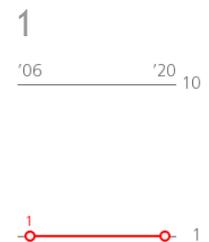


Regime agencies also take part in monopolized businesses through their commercial subsidiaries, including commercial distribution networks for imported goods, amusement parks and privileged restaurants. In addition, the party-state bureaucracy intervenes extensively in the domestic economy to lower the threat posed by new entrants, and to favor regime-sponsored monopolies. At the same time, the regime has selectively tried to purge non-regime-friendly merchants from the market. Through such sponsoring of regulated monopolies and overwhelming political intervention, the regime can strongly influence the emerging structure of commercial economic activities, as well as the agents participating in them. The rampant corruption does not harm the regime's capacity to direct the development of the market economy nor the regime's survival, because the chain of corruption ultimately favors the more powerful. With the transition of power from Kim Jong-il to Kim Jong-un, nothing basically changed except for the fact that the distribution of monopoly economic rights has shifted in favor of Kim Jong-un's personal court, the party and the cabinet, at the expense of the military.

North Korea maintains the principle of state monopoly of foreign trade. In reality, this prerogative is exercised solely by the supreme leader. He strictly monitors and controls foreign trade, as it is the most important source of the foreign currency, which is indispensable for the regime's survival. In addition, distributing trade licenses to regime agencies is one of the most powerful means of maintaining the regime elite's dependence on the leader. However, trade licenses are frequently resold or passed from stronger agencies to weaker ones, even though it is illegal to do so. The agencies and individuals engaged in foreign trade have been intensively monitored by the Ministry of State Security with regard to foreign contacts and foreign currency embezzlement. The regime periodically loosens and strengthens its control over foreign trade and redistributes licenses among regime agencies.

Since the inauguration of Kim Jong-un in April 2012, the military's share of trade licenses has been reduced in favor of the cabinet and his personal court. Although Kim Jong-un has succeeded partially since 2010 in strengthening border control in cooperation with China, the country's indispensable trading partner, smuggling activities along the border of North Korea and China remain very active. The amount of smuggling has been observed to be significant; however, it has not been counted in trade statistics on North Korea by the (South) Korea Trade Association, United Nations and IMF. North Korea's trading activities have been greatly constrained by sanctions imposed by U.N. Security Council resolutions. The most recent such set was contained in UNSC Resolution 2397, which was adopted in December 2017 in response to North Korea's launch of a Hwasong-15 intercontinental ballistic missile in November 2017. The sanctions usually cover a wide array of goods, products, and services for export and import, from the procurement of arms and related materials to the import of luxury goods and the international flow of funds and economic resources.

Liberalization of
foreign trade



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

The state banking system has been virtually useless in mobilizing domestic and foreign money within North Korea for productive investment. State banks accept personal deposits but generally do not return them, which ensures that most people avoid banks altogether. Since the catastrophic confiscatory denomination measures in November 2009, foreign currencies including the U.S. dollar and Chinese yuan have substantially replaced the North Korean won even for small daily transactions. With the imposition of sanctions, the regime has actually used this laissez-faire policy of dollarization as an opportunity to compensate for the lack of foreign currency.

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

8 | Monetary and fiscal stability

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

After the redenomination measure in November 2009, in which KPW 100 under the old system were replaced by KPW 1 under the new measure, North Korea experienced a period of hyperinflation between early 2010 and late 2012. According to Daily NK reports, the exchange rate with the U.S. dollar skyrocketed from below KPW 1,000 to about KPW 9,000, and the price for a kilogram of rice rose from about KPW 500 to above KPW 6,500. During this period, dollarization rapidly accelerated, replacing the North Korean won with the Chinese yuan or the U.S. dollar. Since early 2013, both the exchange rate and price of rice have shown a downward stabilization.

Banking system

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Monetary stability

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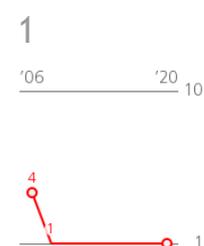
The analysis from Daily NK indicates that as of August 2019, the exchange rate was KPW 8,400 per dollar, and the price of one kilogram of rice was KPW 4,550.

The hyperinflation from early 2010 to late 2012 could perhaps be explained by a drastic increase in the money supply for the purpose of funding the power succession from Kim Jong-il to Kim Jong-un, including monumental construction projects commemorating “opening the gate of a strong and prosperous nation” in 2012. The downward stabilization since early 2013 can be explained by the fact that North Korean authorities have stopped printing more money. The regime must have realized that given the deepening dollarization, it made no sense to print more North Korean won.

With the collapse of the planned economy in the 1990s, North Korea’s fiscal system also fell into disarray. The regime has suffered a drastic reduction in revenue and allowed agencies to pursue fiscal independence. The cabinet, party, military, and security agencies have advanced as the major domains of fiscal self-sufficiency with off-budget revenue from privileged commercial activities. As the cabinet drastically reduced public services, the leader turned his payoffs into monumental buildings and weapons of mass destruction, despite lasting economic stagnation. This practice has not changed even with the power transition from Kim Jong-il to Kim Jong-un. In addition, the fees collected from granting permits for commercial activities at official marketplaces, about 500 of which had been issued by early 2019, have contributed to fiscal stabilization at least at the local government level. According to U.N. Comtrade, about 80% to 85% of North Korean exports have consisted of coal, iron or similar products since 2011. Therefore, official external trade is strongly affected by the current level of sanctions.

In March 2013, Kim Jong-un announced the so-called Byungjin policy, which focused on the parallel development of the economy and weapons of mass destruction. This weakened the previously exclusive status of the military by putting a similarly high priority on the task of economic development. In April 2018, at the 3rd Plenary Meeting of the 7th Worker’s Party of Korea Central Committee, Kim Jong-un declared the victory of Byungjin and officially ended the policy by saying that the country’s nuclear and missile program had advanced to the point that they did not need further tests. He then announced a new strategic line of “socialist economic construction,” which could be seen as a shift in national focus toward economic development.

Fiscal stability



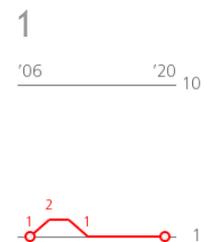
9 | Private Property

Under the principle of state ownership of means of production, any private property beyond daily consumer goods is still officially banned in North Korea. However, the spread of commercial activities and rampant corruption mean that the real picture is more complex. Some individuals have accumulated private wealth in the past 20 years of market expansion and taken part in joint-ventures with state agencies as private investors, arrangements which are now widespread but still officially illegal. In essence, everything can be sold privately in North Korea, including real estate, production equipment and materials, party membership, government positions, university places and trading licenses. These kinds of private ownership and transaction are not guaranteed by the law, as they are officially illegal. This means that the regime can act against private ownership whenever it chooses to. For example, charges against most of the high-ranking officials purged recently, including Jang Song-thaek, focused in part on their illegal possession of large amounts of foreign currency.

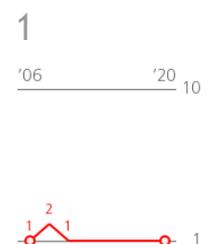
The regime's disregard for the property rights of its people was demonstrated by the money exchange measures in November 2009, which essentially confiscated private wealth kept in the form of domestic currency and caused unusually high levels of social discontent. Most Chinese and South Korean private investment in North Korea has failed, and failures can typically be traced back to the country's disregard both for the property rights of foreign investors and the enforcement of contracts. Since there are no guarantees regarding the legal enforcement of private contracts, disputes have frequently escalated to physical fights among individuals and agencies. Internal security and inspection organizations have often taken advantage of this illegal nature to extract bribes.

Since the mid-1970s, when Kim Jong-il started operating Bureau 39, doing commercial business has been a prerogative of the regime's agencies. However, with the expansion of the market economy since the early 1990s, the number of private individuals participating in commercial business has exploded. Some commercially talented among them have become cash-rich individuals called Donju. In reality, they have become one of the main pillars of the North Korean economy, though their existence and activities remain illegal. In the case of larger investors, their individual participation has been realized in the form of de facto joint-ventures with party-state agencies. That is, they are hired by the latter as public employees to contribute investment and business talent, while the organizations provide business licenses, labor, facilities and political protection. Smaller investors and businesses operate as independent entrepreneurs and must pay their own bribes to state officials. The extent and scale of both joint-ventures and private businesses have rapidly expanded under the laissez-faire policies of Kim Jong-un. All these private business activities remain

Property rights



Private enterprise



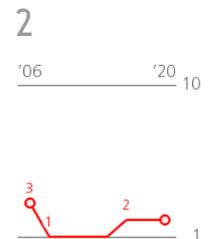
illegal, requiring businesspeople to maintain good relations with agents of the party-state in order to protect their businesses and stay out of jail.

Over the years, there have been several attempts by North Korea to attract international joint-venture investments, especially from South Korea and China. However, the North Korean partners, usually affiliated with trading companies of the party or the military, have been notoriously unreliable and often downright dishonest. North Korea also hosted South Korean private firms in the Kaesong Industrial Complex and the Geumgang tourist zone, both on North Korean territory, with ventures taking the form of monopoly contracts between Kim Jong-il and South Korean chaebols. The two projects, which were not economically viable without support from the South Korean government, were unable to withstand the political strains of inter-Korean relations. The Geumgang tourist zone was closed in 2008, and the Kaesong Complex closed in 2016. In 2018, amid the easing of tensions that led to inter-Korean Summits, the issue of reopening the Kaesong Complex and the Geumgang tourist zone was one issue under discussion.

10 | Welfare Regime

Government-funded social safety nets have been virtually nonexistent since the early 1990s, although minimal assistance is provided to residents of the capital. As the state sector crumbled in the wake of economic collapse, women were officially dismissed from state employment in 2002 and instead allowed to engage in commercial activities in markets, while men were required to report to their places of work every day, even if they had nothing to do (although they were able to temporarily “buy out” their work contracts). Since then, the income raised by female family members in commercial activities (mostly selling goods in local markets) maintains families, preventing a repeat of the widespread starvation of the mid-1990s. The family also functions as a safety net for the malnourished men who return from military service, which typically lasts more than 10 years. Since the early 1990s, some North Koreans – especially those living within reach of the Chinese border – have traveled illegally to China in search of food or short-term employment. Some continue to South Korea to apply for citizenship. In addition, North Korean refugees in South Korea, who numbered around 33,000 as of June 2019, have sent money to relatives in North Korea. According to the U.S. State Department, remittances from South Korea have totaled between \$10 million and \$12 million per year since 2011. These remittances are spent mainly on families’ living costs and in some cases as seed money for the creation of private businesses.

Social safety nets



There are two major barriers to opportunity in North Korea. The first is deep-rooted gender inequality. On the positive side, opportunities for primary and secondary education and economic employment are roughly equal for men and women. On the negative side, the enduring patriarchal tradition still puts women at a disadvantage. Women are also rarely represented in top management positions within the government, party and firms. Female employment is concentrated in lower pay sectors, where “female” characteristics are thought to be appropriate (e.g., nursing and teaching). Confronted with economic collapse, the state officially dismissed women en masse in 2002 and allowed them to participate in commercial activities while continuing the employment of men. This “discrimination” faced by women in fact turned into an advantage, as their status improved in the country’s strongly male-centered families. It meant that only women were able to earn enough to sustain a family, while their husbands and sons in state employment brought little home to the family.

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

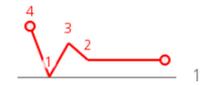
Additionally, the spread of corruption favors the politically powerful and those with the right political connections. The school system, though still nominally free, has been maintained solely through contributions from students and parents since the mid-1990s, resulting in a new type of discrimination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

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

Equal opportunity

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11 | Economic Performance

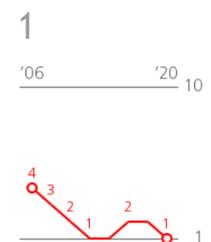
State budget figures issued by the government are extremely unreliable. There is no reliable system of tax collection. Revenue collection for the party-state has remained fragmented. Outside of the state's official tax collection, the leader and individual party-state agencies have engaged in their own independent and predatory collection of revenue from the population and from commercial activities.

The Bank of (South) Korea estimates that after four consecutive years of positive growth (0.8% in 2011, 1.3% in 2012, 1.1% in 2013 and 1.0% in 2014), North Korea's growth contracted in 2015 by 1.1%. In 2016, positive growth of 3.9% was estimated; however, one year later in 2017, the country experienced yet another contraction in GDP of 3.5% and again of 4.1% in 2018, which was the lowest such number since 1997 (-6.5%). The active nuclear and missile testing in 2016 and 2017 produced a forceful response in the form of increased sanctions by the international community, which possibly played a significant part in the economic slide. In terms of specific industries, growth rates in the mining (from 8.4% to -11%), manufacturing (from 4.8% to -6.9%), and electricity/gas/water supply (from 22.3% to -2.9%) sectors, all of which were positive in 2016, all turned negative in 2017. The growth rates continued to be negative in 2018, except for the electricity/gas/water supply sector, which showed positive growth from -2.9% to 5.7%.

Total external trade volumes amounted to about \$5.55 billion in 2017, a 15% reduction in comparison to \$6.53 billion in 2016, and the lowest volume since 2011. China continues to account for almost 95% of this trade, firmly retaining its status as a non-competitive dominator. Total exports amounted to \$1.77 billion, a decrease of 37.2% compared to the year before. North Korea has failed to achieve a trade surplus since 1990, and the trade deficit fluctuated around the \$1 billion mark from 2005 until 2017, when it amounted to \$2 billion, the highest such volume since 1990.

The economic situation remains essentially stagnant. The military-industrial complex remains the dominant sector of the economy, monopolizing the bulk of the country's resources and workforce. While Kim Jong-il's generally poor economic policies and massive investments in heavy industry, chemicals and housing construction triggered hyperinflation, Kim Jong-un has to date been successful in stabilizing prices and exchange rates. Officially, there is no unemployment in North Korea. All male workers are still required to report to their places of work every day, although some pay bribes to leave and take up employment in the burgeoning informal sector.

Output strength



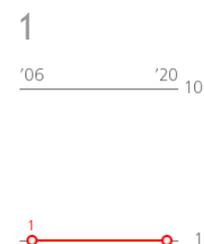
12 | Sustainability

North Korea has pursued resource-intensive industrial growth, failing to take environmental concerns into account. The situation has been significantly aggravated since the mid-1990s. Confronted with starvation, the population cultivated all seemingly arable land, with private plots reaching the tops of mountains. The environmental consequences have been disastrous, as rain has washed out the fertile soil from the depleted mountains, polluting and silting up rivers. Natural resources including timber and seafood have been excessively exploited to meet short-term goals of increasing exports. Even industrial waste has been imported in exchange for foreign currency. At the same time, the very low level of industrial activity, about 20% to 30% of capacity, may have mitigated environmental problems somewhat.

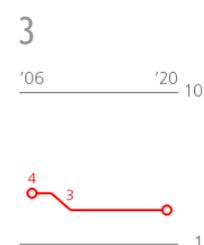
Environmental degradation and lack of coping capacity have made North Korea critically vulnerable to various natural disasters, especially flooding. Though not followed by effective measures, Kim Jong-un acknowledged the serious environmental degradation with declarations in 2012 of a “Policy for National Territory Management” and “10 Year Plan for Reforestation.” These policies have not been supported by realistic measures to resolve the regime’s failure to supply enough food and fuel to the population, the root causes of deforestation. Since 2012, there have been efforts to intensify mass mobilization for tree planting, a practice that is older than the North Korean state; this is usually forced upon local populations and accompanied by abrupt bans on the cultivation of private plots on mountain hillsides. In his 2019 New Year’s address, Kim Jong-un urged the population to implement the second stage of the forest-restoration campaign, and to take proactive actions against environmental pollution.

With the onset of economic hardship in the early 1990s, North Korea’s education and research system virtually collapsed, with the exception of a few model schools in Pyongyang and institutions for developing weapons of mass destruction. Facing the threat of starvation, teachers, students, and researchers left to scavenge for food or to participate in commercial activities. Conditions improved somewhat in the 2000s, although schools are still required to support themselves; though nominally free of charge, they levy donations and mobilize students to provide free labor under a variety of pretexts. Due to this lack of state support, teachers have effectively been paid privately by parents in exchange for various forms of favoritism. In 2012, the regime announced it would extend the period of compulsory education from 11 to 12 years. In connection with this announcement, the regime said it would increase its national education investment and make classroom facility improvements, though it is likely that this promise was not fulfilled. The 12-year compulsory education system was implemented in 2014 and has been fully in force since 2016.

Environmental policy



Education policy / R&D



One major objective of North Korea's education system is to cultivate subjects who are obedient to the leader and committed to the preservation of the socialist system. This is achieved through the emphasis on the study of political ideology, such as the revolutionary activities of Kim Il-sung and Kim Jong-il. In recent years, the regime has shifted its core education focus to nurturing talented young elites with decent technological knowledge, especially in the field of information technology, who are committed to fulfilling the task of national defense and development.

North Korean authorities emphasize the importance of scientific R&D investments. In particular, with the start of his reign in 2012, Kim Jong-un boosted attention and investments in the technical advancement of the asymmetric military capacities of the country. There has also been some progress in the field of information technology. North Korea has intermittently hacked South Korean and other countries' servers since 2009 for disruptive purposes and for financial gain. Among other events, the December 2014 cyberattack against the U.S.-based Sony Pictures Entertainment was traced to North Korea by the FBI and NSA.

Governance

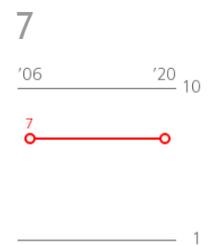
I. Level of Difficulty

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

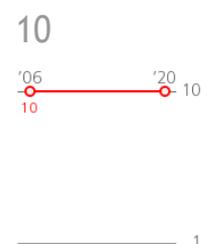
Constraints on the initiation of development are seemingly infinite, but many are the result of deliberate political behavior rather than of unfavorable geography, demography, "culture," weather, or other "structural" conditions. State-related and administrative constraints include state capture by an autocratic leader and his loyalists, overgrown political and security institutions, rampant corruption and weak institutions, and persistent underinvestment in the state's capacity for provision of public goods. In the economy, the constraints include: overgrown defense and military-industrial sectors, the collapse of infrastructure for manufacturing and employment, lack of protection for property rights, lack of third-party contract enforcement, depreciation in human resource capacities and depredation of institutions needed for nurturing human capital. In social terms, constraints include: a wide gap between rich and poor and between the privileged and the powerless, prolonged neglect of basic human needs, a lopsided structure of opportunity and human capital in favor of regime loyalists, generalized social distrust and lack of faith in meritocracy, and widespread patron-client networks for individual favoritism.

North Korea's historical trajectory has shown no trace of civil society development. North Korea's population has successively experienced periods of feudal domination, Japanese colonial rule, and idiosyncratic communist totalitarianism. While there have been some positive changes since the early 1990s, none of these have yet provided ground for autonomous social groups. One of those changes is the regime's fiscal deterioration, which has weakened its Stalinist methods of societal penetration and control. Market expansion has also encouraged horizontal economic connections. In addition, North Koreans' contact with the outside world increased with the beginning of international humanitarian assistance in 1995. Communications between defectors and their families, taking place through a host of electronic devices, but primarily cell

Structural
constraints



Civil society
traditions



phones via China, also enable external relations with the outside world. Finally, South Korean and other international human rights NGOs have stepped up efforts to influence the North Korean people's attitude toward the regime since the second half of the 2000s. However, the regime has tightened countermeasures in tandem with these developments, strengthening internal security organizations, enforcing an atmosphere of fear and mistrust, increasing the frequency of punishments for contacts with foreign cultural influences, and revitalizing border controls. In sum, the regime has been forced to strike a balance, loosening its social controls somewhat so as to increase productivity, while tightening other controls in order to ensure regime survival. The regime has so far been successful in navigating between the two poles while relying on various social control methods to prevent the emergence of civil society.

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

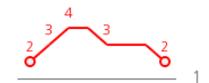
Regarding the first dimension, between regime and society, North Korea usually resorts to brutal repression to prevent outbursts of open conflict. Since the inception of Kim Jong-un's rule in 2012, his pro-market policies have eased tensions between the regime and the population. However, he returned to mass labor mobilizations in 2016, accompanied with intensified repressive measures.

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

Conflict intensity

2

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II. Governance Performance

14 | Steering Capability

The North Korean regime has shown a remarkable capacity for maintaining its core strategic priorities over extended periods of time. However, these policies are not designed with the intention of initiating transformation toward democracy and market economy. Following his rise to power, Kim Jong-un seemed to take some positive steps in this direction, introducing economic reform measures, showing more toleration than his father for market-based activities, and making intermittent mention of “love for people.” However, such measures proved to be comparatively superficial, and resulted in no meaningful change in overall regime policy.

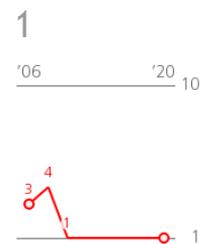
It appears that, especially since 2005, the North Korean regime has been focusing on five main strategic objectives. First, to proceed with the acquisition of nuclear and missile capabilities; second, as a nuclear power, to normalize relations and sign a peace treaty with the United States; third, to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

After Kim Jong-un took over the leadership from his father, he announced the so-called Byungjin policy in 2013. This was predicated on a dual focus, on developing the economy and on developing weapons of mass destruction at the same time. In April 2018, after five years of this policy, he declared that the Byungjin policy had been successful and was thus being brought to an end, announcing the “socialist economic construction” policy in its place.

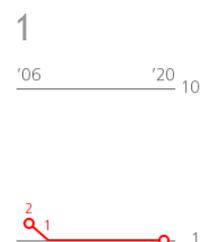
Aside from the policies required for regime survival, the regime’s policies for promoting economic reforms and the people’s welfare have never been pursued with real sincerity or determination. In North Korea, priorities and policy implementation are organized strictly hierarchically. Paramount priorities include the maintenance of the top leader’s political status and extravagant living practices. These must be implemented without hesitation, and without any regard to expenditure concerns. Their implementation is guaranteed by the leader’s personal court and the party, the two most powerful institutions beyond the top leader himself. The next most important priorities are related to arming the regime so that it can defend itself against internal and external challenges. The implementation of this goal is guaranteed by

Question
Score

Prioritization



Implementation



the party-dominated weapons-production sector and by the military itself, under the top leader's careful direction. The regime's most neglected priorities include management of the civilian economy and the public infrastructure. Implementation of these priorities is carried out by the cabinet, a comparatively weak institution in terms of power, prestige and resources. Even when officially declared to be top priorities by the top leader himself, policies overseen by the cabinet are routinely sidelined by other priorities thanks to the naked coercion of the top leader, the party or the military.

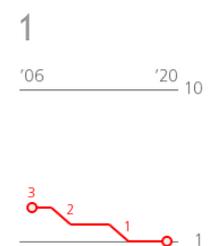
This power dynamic has remained valid under Kim Jong-un. He indeed promised to relieve hunger during his inaugural address, talked frequently about "love for people" and introduced some economic reform measures. Nonetheless, he has never mentioned contradictions or a need to revise the top regime priorities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

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

Nevertheless, there are signs that North Korea has learned from policy failures. With its money exchange measures in November 2009, North Korean authorities tried to confiscate savings from the population and significantly weaken the market forces at large in the national economy. The results were economic collapse, extreme hyperinflation, unusually high levels of political discontent, and full-scale dollarization (or yuanization) of the economy. Since then, North Korean authorities have taken a much more permissive attitude toward market forces and have become far more cautious with regard to economic policy.

There have, however, been structural limits to this learning. Whenever it contradicts the need for internal political stabilization and coercive resource mobilization for political legitimation and military buildup, the learning has been ignored. This has been the norm rather than the exception.

Policy learning



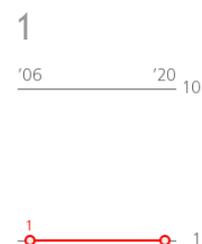
15 | Resource Efficiency

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

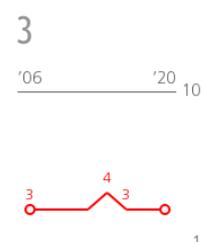
In addition to corruption, the characteristics of the fiscal system should also be mentioned. Essentially, the state has lost its monopoly on taxation. Each party-state agency is allowed to earn its own revenue by leveraging its respective powers, thus forming largely autonomous fiscal domains. After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

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

Efficient use of assets



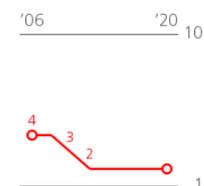
Policy coordination



Corruption is rampant in North Korea. Corruption within the bureaucracy has been used by the regime as a systemic device to extract rents from the populace while simultaneously securing loyalty and revenues for the regime. State officials are paid below subsistence-level wages, leading them to corruption in order to make ends meet. Anti-corruption campaigns have been carried out not in order to reduce corruption, but for the purposes of enhancing political discipline and regaining control. The supreme leader and higher-level officials capture a greater part of illicit revenue through threats to either redistribute the rent opportunities or through threats to dismiss disloyal lower officials on the pretext of corruption. In addition, authorities maintain an extensive surveillance capacity and constantly send special teams on inspection tours, allegedly to punish “anti-socialist phenomena.” Rampant corruption does not mean that the authority of the supreme leader and the regime has broken down. Since the beginning of Kim Jong-un’s reign in 2012, tens of high-ranking officials have been accused of taking bribes and purged. In addition, Kim Jong-un used his 2019 New Year’s address to issue disciplinary threats and declaring that the regime would “eradicate both serious and trivial instances of abuse of power, bureaucratism and corruption” among party-state officials.

Anti-corruption policy

2

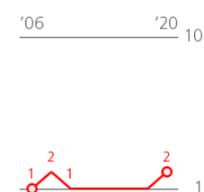


16 | Consensus-Building

In reality, in North Korea, there is no voluntary civic consensus on goals whatsoever, though on the surface, absolute unanimity is the rule of the country. Enthusiastic support for both the leader and national goals remain the façade of the system and are demonstrated and choreographed in public remarks as well as in diverse cultural forms.

Consensus on goals

2



There is no strategic consensus on democracy in North Korea. It can only be assumed that many North Koreans, including some members of the elite, privately hold political views different from those publicly expressed. That is, they must maintain and express absolute loyalty to the regime to survive politically and physically, while constantly transgressing official policies and privately wishing for more efficient and humane arrangements. The most recent example among elites is ex-Minister Tae Young-ho, whose main task over more than 10 years at the North Korean embassy in London was to defend the superiority of the North Korean system. After he defected to Seoul in 2016 with his family, he became an ardent and systematic critic of the North Korean system.

There is no strategic consensus oriented toward developing Western-style market economy in North Korea. However, increasingly there seems to have appeared a vague conviction that people’s lives would improve with a market economy. The problem for the regime has been that its push for earning foreign currency revenue through commercial activities has lowered ideological taboos on capitalism. In this respect, it seems that Kim Jong-un is more adamant to take risks than his father, Kim Jong-il.

There are no political actors advocating for democratization who are able to counter or co-opt anti-democratic powers. The completion of the second hereditary succession from Kim Jong-il to Kim Jong-un in April 2012 once again confirmed the elite's willing or unwilling submission to the continuation of the status quo. Though there was a reorganization of the regime through selective purges, rebalancing of power-relations among regime agencies and generational changes, the political character of the regime remains basically unchanged. There were some economic reform measures implemented between 2012 and 2014, but they have stalled. This may be because they were backed by Jang Song-thaek, who was purged in December 2013. Furthermore, the regime is not afraid to carry out its ruthless acts outside its own borders, as seen in the assassination of Kim Jong-nam at Kuala Lumpur International Airport in Malaysia in February 2017.

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

There is no civic participation in the process of governing or decision-making. Instead, the leadership presumes to act on behalf of the people. There are no autonomous civil organizations. Elections and political meetings are regularly held, but without any participatory purposes in the political process. People are urged to participate in elections, mass rallies and meetings at job sites and residences to express their enthusiastic and unending support for the regime. In general, the ostensibly deliberative units of the state and party (e.g., the People's Assembly, Central Committee, and Party Congress) are powerless.

The regime considers about a quarter of the population to be members of “hostile classes,” treating them as potential enemies of the state. The regime has also maintained political concentration camps since 1947. According to recent North Korean defectors' testimonies, public executions are still conducted in North Korea, with key onlookers forced to witness them. There have also been numerous cases of purges, extra-judicial arrest, torture, confinement and deportation. History is constantly rewritten in order to justify the Kim family's status; this entails blaming others for injustices and mobilizing the masses against internal – and especially external – political enemies. Several cases of murder involving private citizens taking vengeance against low-ranking internal security officers have been reported in recent years.

Anti-democratic actors



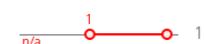
Cleavage / conflict management



Civil society participation



Reconciliation



There has been no reconciliation between the DPRK and other nations. The official media harshly denounce the Japanese and Americans for committing egregious historical crimes against Koreans. In 2018, there seemed to be a shift in this regard when – for the first time in history – the acting leaders of North Korea and the United States conducted a summit meeting in Singapore. In addition, family reunions between South and North Koreans, which had been suspended for almost three years due to the hostile relationship between two countries, resumed in August 2018 following a decision made during the South-North Korea Summit in April 2018.

17 | International Cooperation

The three Kim regimes could not have run the country as they have without economic assistance, initially from the former Soviet Union and the Eastern Bloc, and now primarily from China. Along with the Chinese political support in the international arena, this aid is a necessary part of North Korea's long-term strategy. This is not necessarily a development strategy, but rather a survival strategy.

The regime has additionally allowed an inflow of international assistance in the form of knowledge transfer, capacity-building and other cooperative undertakings only insofar as these measures have not endangered the regime's existence. The terms for delivering food and other goods for humanitarian purposes have also always been strongly and politically contentious issues between North Korea and international donors. Even with the implementation of monitoring with reference to international standards, there has always been a strong suspicion that aid was being diverted to the military and the regime. Though the country has a history of engagement with international assistance organizations stretching back to 1995, North Korea's level of cooperation has remained at the most elementary level, focused on intermittent emergency humanitarian assistance and small-scale experiments in developmental aid.

The above also applies, in the main, to Chinese aid. The difference is that Chinese aid has mostly been given directly to the North Korean regime to ensure its survival. Consequently, so far as we know, there has been less contention over delivery conditions between the two countries.

Relations between the North Korean regime and the international community have always been characterized by mistrust. The regime fears that increased contact with the outside world will undermine its own internal security. It has persistently tried to limit and manipulate engagement with the international community to its own benefit. However, other countries have largely refused to accept North Korea's demands, which have contravened international norms and principles of engagement. The mistrust between North Korea and neighboring countries has increased since 2009 particularly on security-related matters due to North Korea's refusal to denuclearize, its accelerated development of nuclear weapons and ballistic missiles, and its military

Effective use of support

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Credibility

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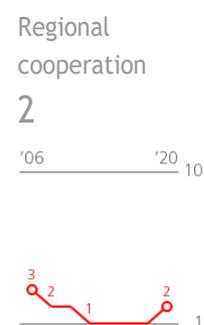
and political provocations directed against South Korea. With some reluctance, China has consistently agreed with the implementation of increased sanctions against the regime each time North Korea has carried out nuclear or long-range missile tests.

During the inter-Korean Summit in April 2018, the two leaders jointly adopted the Panmunjom Declaration for Peace, Prosperity, and Unification of the Korean Peninsula. According to the declaration, the leaders of the two Koreas agreed to eliminate military tension and to establish a permanent peace on the Korean peninsula. As a follow-up measure, North Korea announced the closure of Punggye-ri nuclear test site in May 2018 and invited selected journalists to witness the destruction. Nevertheless, there is ongoing suspicion that North Korea has not stopped its nuclear and missile-development programs.

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

Following South Korean President Moon Jae-in's inauguration in 2017, the relationship between the two Koreas seemed to have defrosted again. In 2018, South Korea hosted the Pyeongchang Winter Olympics; at the opening ceremony, South and North Korean players marched together. The two Koreas also formed a united women's ice hockey team. In addition to cultural exchange, the two Koreas held multiple high-level delegation meetings and eventually conducted three summits (April 27, May 26 and September 18 to 20) over the course of 2018.

North Korea's link with China remains stable and even stronger. China's rapidly growing demand for raw materials and North Korea's desperate need for foreign currency have stimulated trade between the two countries. With regard to the relationship with the United States, Kim Jong-un of North Korea and Donald Trump of the United States held the two countries' first top-level summit meeting in Singapore on June 12, 2018. They signed a very vague joint statement focusing on security guarantees for North Korea, denuclearization of the Korean peninsula and the prospect of new peaceful relations between the two countries. The two leaders met again on February 27 and 28, 2019 in Hanoi, Vietnam but failed to reach an agreement. On June 30, 2019, Kim and Trump held a one-day summit at the Korean Demilitarized Zone. After being invited by Kim, Trump briefly crossed the border and set foot on North Korean soil, which made him the first sitting U.S. president to enter North Korea. They held about an hour-long private meeting inside the Freedom House.



Strategic Outlook

As the year 2019 began, Pyongyang faced a dilemma. It had to decide whether to continue with the previous year's mood of reconciliation, or to return to a policy of nuclear and missile provocations.

In April 2018, Kim Jong-un announced that his Byungjin policy, based on the parallel development of the economy and weapons of mass destruction, had ended. In its place, he announced a new strategic economic path that he called "socialist economic construction." He claimed that the Byungjin policy had achieved its goals and that the country's nuclear weapons and missiles no longer needed to be tested. This implied that North Korea was headed for some kind of economic reforms, even if minor ones.

The country's nuclear and ballistic-missile provocations had led to increasingly strict international sanctions in recent years. These sanctions have sought to deepen North Korea's international diplomatic isolation; drastically reduce the regime's foreign-currency earnings by imposing obligatory limits on mineral imports from North Korea and by making it difficult to hire North Korean workers; and exclude North Korea from the international financial system, by prohibiting banking relations and designating it as a major money-laundering state. Ultimately, these sanctions were designed to pressure North Korea to return to denuclearization talks and to abandon its nuclear weapons. In May 2018, amid the easing of tensions and following the inter-Korean Summit, North Korea closed the Punggye-ri nuclear test site. Nonetheless, there is ongoing suspicion that North Korea has not in fact halted its nuclear and missile-development programs.

Some changes were observed in Kim Jong-un's 2019 New Year's address. Not only had the style and format of the delivery changed, but the speech also failed to mention Kim Il-sung or Kim Jong-il, and even lacked symbolic references such as "Suryeong" (Supreme Leader). As there have always previously been some references to the former leaders in New Year's addresses, this was quite surprising. One possible reason for the change is that Kim Jong-un may want North Korea to be regarded as a "normal" country within international society. However, the regime's leading ideology is still Kim Il-sung- and Kim Jong-il-ism.

North Korea is and has always been an unpredictable actor. Even if the state of perpetual tension was somewhat alleviated in 2018 through the revival of talks with South Korea and following the first-ever summit with the United States, there is no guarantee that this atmosphere will last. Although Kim Jong-un suggested a willingness to freeze the nuclear program and to extend cooperation with other countries, he also mentioned that he is not afraid to "find a new way" to defend the country's sovereignty. In conclusion, the essential nature of the North Korean political system has not changed, and Kim continues to play a dangerous game as he attempts to protect and preserve his regime.