

# Korea and the World

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## CHAPTER SIX



# Explaining Economic Order in North Korea

*Sheena Chestnut Greitens*

### Introduction

As North Korea's behavior leads the country to feature regularly in international news, the regime itself has been the subject of continued analysis in policy and academic communities. In the scholarly community, there is debate over the development of the North Korean economy and how best to characterize it. One characterization is of North Korea as a "criminal" or "mafia" state, with a "court economy" powered by the sale of drugs and weapons overseas and prone to importing cognac and yachts for its leadership.<sup>1</sup> A second characterization is of North Korea as a poverty-stricken and struggling society overtaken from below by the black market, a phenomenon often referred to as "marketization from below."<sup>2</sup>

This chapter argues that in fact, two distinct political-economic orders emerged inside North Korea beginning in the early 1990s. They developed in parallel and share a common point of origin: the surrounding international economic environment, which turned sharply negative in the late 1980s and early 1990s. These global changes forced inhabitants throughout North Korea to dramatically alter their economic survival strategies and precipitated domestic transformation at two levels: the level of high politics, and the level of "everyday politics." North Korea's economic trajectory thus proceeded upon two parallel tracks, each based on citizens' pursuit of economic survival and each reliant on illicit international networks to sustain them when domestic mechanisms failed. North Korean elites pioneered one set of transnational links to the outside world to further both their physical

and political survival, while ordinary people adopted and created another set of illicit trans-border connections to survive—in this case physically more than politically.

In pursuing these parallel paths to survival, residents of North Korea from Pyongyang to North Hamgyung also created parallel economic orders *inside* the country. A reasonably extensive literature has focused on a number of different coping mechanisms that exist within the North Korean economy—the evolution of state trading networks abroad<sup>3</sup>; North Korea's participation in illicit activities to raise revenues<sup>4</sup>; and the gradual expansion of market mechanisms and lively black market (or “grey market”) trade in goods, information, and people along the Chinese border.<sup>5</sup> As yet, however, none of these studies has linked back to a structured, comparative analysis of how these different transnational illicit networks have affected subnational variation in the organization of economic and political activity inside North Korea itself. That is the gap that this chapter aims to fill.

The chapter makes two interconnected arguments to substantiate its main claim. First, it argues that elite attempts to cope with economic crisis created a new subnational economic order that was geographically centered on Pyongyang and composed of regime elites who used their access to state resources, positions, and networks to make money. These elites found a comparative economic advantage in transnational illicit activities, such as drug production and counterfeiting, which they then used to generate income that entered North Korea at the top of the political system, similar to other personalist kleptocracies throughout the world. The second order that evolved was geographically centered in the country's northeast, where ordinary people developed bottom-up black-market coping mechanisms and smuggling networks that straddled the border with China to deal with the collapse of the centrally planned economy; these informal market networks have similarities with the shadow economies found in other post-socialist states. Although transnational illicit activity was also used to obtain money and goods in the northeast, the activity was primarily oriented around ensuring the physical survival of ordinary citizens, was conducted much more by women, and relied on social connections and geographic proximity to China rather than DPRK state resources and globally distributed facilities as the primary resources for initiating trade.

These two economic orders emerged in parallel, for a common reason, and both depended in fundamental ways on transnational illicit activity for their development and function. But it is also important to note their major differences, especially in terms of domestic organization and impact. The key actors involved, the type of resources employed, the specific type of trans-

national networks developed, and the social and political relationships that were constructed in these parallel pursuits of survival are all very different. For that reason, it is possible, even expected, that the political and social consequences of these two emerging orders will be different as well. More broadly, the emergence of these two parallel but distinct types of political-economic order inside North Korea helps to excavate and elucidate previously hidden interconnections between geopolitics, sub-state and intra-state transnational economic networks, and state-society relations inside North Korea in the post-Cold War period—and also offers some new suggestions on how these factors might interact to shape North Korea’s future in the years ahead.

This chapter makes the above argument in three main sections. The first section explains the concept of economic order, and outlines its utility as a framework for understanding the potentially contradictory trends and developments in the North Korean economy that have been described by scholars and observers. The second section describes the emergence of an elite-centric, Pyongyang-based economic order, and links its development to the transnational survival strategies employed by members of the North Korean elite to confront economic crisis. The third section examines the alternative economic order that emerged among the ordinary citizens of the country’s northeast, demonstrating that this order resulted from ordinary citizens’ pursuit of physical and political survival under the same conditions of international economic strain and domestic commitment to continued authoritarian rule. Each of these middle sections chronicles the emergence of the specific form of economic order that has emerged, and clarifies the commonalities and differences that exist across the two. The fourth, concluding section examines what has resulted from the accumulation of these parallel strategies over time, and discusses implications for North Korea’s likely future.

## **Economic Order: Understanding North Korea**

What is “economic order”? Why do we use that term to describe and explain what’s happening in North Korea? What is gained by employing this framework?

This chapter employs the term “economic order” following Rithmire (2014), who describes it as “the logic of economic decision-making and patterns of behavior” at the local level. Thinking in terms of economic order allows scholars to move beyond describing variation simply in terms of economic output—a difficult task in North Korea’s case, given that the country doesn’t

release typical economic performance statistics, or even a regular census. Instead, employing the concept of economic order allows researchers and readers to look at the political structures and practices that make up leaders' and citizens' participation in and governance over the economy of a particular locality. Economic order is about whatever variations in relationships and practices structure a particular place's economic activity, whether these factors are local institutions, relationships with the center, long-standing political-historical practices and traditions, material incentive structures, or normative beliefs. Relationships and patterns of authority—whether these patterns are material, social, or political—are therefore central to characterizing economic order and its variation within a particular country.

Why is “economic order” a useful concept? First, because it allows us to look beyond more traditional but narrower indicators and areas of focus like industrial organization or provincial GDP growth, and to replace them with a “broader lens to analyze economic *practice* [emphasis mine].”<sup>6</sup> If we are interested not only in understanding economic performance or outputs, but the *political* rules, organization, and implications of economic activity in North Korea, then the concept of economic order is a useful place to start. It allows us to ask who the important economic players are, how their relationships are defined, what rules govern their interactions, and what the results—social, political, *and* economic—are, rather than taking these things for granted or assuming that the answers are the same in one locality versus another. In the case of North Korea, these are all questions about which some information already exists, and where scholars have focused on empirically establishing one piece or another of how things work on the ground—but where the field lacks an overall framework for organizing and theorizing the data that it possesses.

Second, employing the concept of economic order also provides a way to connect North Korea to some of the broader work on subnational variation that has emerged of late within comparative politics. It might seem odd to speak of regional economic orders within a country like North Korea, typically regarded as small and relatively homogenous or monolithic. In fact, as we show below, subnational variation in economic order has existed in North Korea for some time, but has never been explicitly identified, characterized, or explained as such. In the presence of subnational economic order, North Korea is surprisingly *not* different from other countries studied by comparative political scientists, including autocracies, where subnational analysis of political economic phenomena and even “subnational authoritarianism” have received increased attention of late.<sup>7</sup>

That comparative perspective helps us not only to place North Korea within a broader set of cases across the world, but to refract our analysis of those cases back to the Korean peninsula, to help us more fully understand developments in the DPRK itself. For example, one recent survey of North Korean defectors found roughly equal rates of participation in the informal economy when comparing North and South Hamkyung to other provinces in North Korea<sup>8</sup>; we show below that while many areas of North Korea participate in the informal economy, the type of informal economy they participate in, and the specific modes and patterns of engagement, are in fact quite different, and arguably bear more similarity to global comparative categories than to each other. The final section of this chapter leverages that comparative perspective to think through the implications of our findings for the future of North Korea.

### **Survival at the Top: Illicit Elite Networks and Personalist Kleptocracy in Pyongyang**

This section discusses the elite-centered, Pyongyang-based economic order that arose as the North Korean regime attempted to navigate the economic crisis of the early 1990s. It shows that opportunistic elites, faced with crisis, leveraged access to what would normally be considered state resources—inside North Korea and abroad—to engage in business operations to generate revenue for themselves and for the regime in Pyongyang. Much (though not all) of this business was illicit, in part because of the comparative advantages derived from state-sanctioned illicit activity. The important players in this activity were individuals at high levels of the party, military, and government, typically senior and male, who had access to resources that could be exported for or leveraged to generate hard currency, both for Pyongyang and themselves. As a result, extensive links developed between the North Korean regime and illicit actors across the globe, including criminal organizations. These were concentrated around areas where the DPRK had a diplomatic-commercial presence, and provided revenue from a mix of constantly-evolving sources that flowed from abroad directly into the upper levels of the regime.

North Korea's elite-based survival strategies originated in behaviors that began prior to the economic collapse of the early 1990s. The involvement of DPRK officials, often diplomatic personnel at North Korean embassies abroad, in illicit smuggling operations dates back to the first recorded case in Scandinavia in 1976; elites posted abroad by the government had been accustomed to

having to provide for themselves financially since North Korea's default in the middle of that decade.<sup>9</sup> The economic collapse that occurred at the end of the Cold War, however, catalyzed the employment of these techniques on a much broader scale, with long-term repercussions for the way that the elite economy was organized inside the DPRK.

Elite calculations and the permissiveness of the structure within which they operated both changed with the onset of economic crisis. Nicholas Eberstadt, Marcus Noland, and others have documented the ways in which the loss of Russian and Chinese subsidies in the early 1990s was compounded by natural disaster and agricultural problems that resulted in economic collapse, disintegration of the state-managed economic system including the Public Distribution System (PDS), and widespread famine.<sup>10</sup> Particularly disastrous was the decision of the post-Soviet Russian government to demand hard currency rather than barter payment for the oil that it had long supplied, which produced a steep drop in electricity output. Without fertilizer and electricity, agricultural and industrial output—for both domestic consumption and export—plummeted. Without products to sell, North Korea was unable to earn the hard currency necessary to get the imports to restart production and export processes, creating a downward slide.<sup>11</sup>

As part of its efforts to cope with the crisis, North Korea created a new system for foreign trade. The regime permitted—and often actively encouraged or required—certain institutions within the North Korean system to plan and engage in foreign trade in order to provide for their own survival.<sup>12</sup> As Byung-yeon Kim notes, North Korea's intent in allowing this latitude does not seem to have been liberalization, as ownership and coordination were never devolved or privatized, but rather “to allow these organizations and institutions to seek their own means of securing resources for operation and paying their workers,” and to create a licensing process that would control who could engage in foreign trade, upon what terms.<sup>13</sup> This removed pressure from the center to supply inputs and consumer goods, but it also meant that firms semi-independently engaged in exports to earn the hard currency to obtain whatever imports they and their personnel required—and often, in a role reversal, to send funding home rather than receiving it from the center. It was, in essence, an expansion of the “embassy self-financing” system of the 1970s to organizations based inside North Korea itself.

This newly permissive environment, combined with increased economic stress, altered the calculations of those members of the elite with some sort of international access, whether that access was from being physically stationed abroad at a DPRK embassy, or having relational or logistical connections to various international networks. The Korean Workers' Party (KWP), the mil-

itary, and various government ministries all appear to have established their own trading companies to engage in revenue-generating activities abroad, using whatever resources, relationships, or organizational assets they could.<sup>14</sup> For example, the Ministry of the People's Armed Forces established companies to engage in foreign trade, mining, and farming, drawing particularly on their transportation and infrastructural assets to move goods for export; the KWP, which had established the Daesong Trading Group under Office 39 in the 1970s, expanded these operations using its personnel stationed in the DPRK's diplomatic outposts around the world.<sup>15</sup>

Members of the North Korean elite therefore began to try to earn money in a variety of areas where they had access to something to sell or offer. Given the poor state of the North Korean economy, however, their options were generally limited. The production and distribution (usually wholesale) of illicit goods was one area in which the North Korean regime enjoyed—and leveraged—atypical comparative advantages.<sup>16</sup> In the early and mid-1990s, for example, North Korea was implicated both in distributing high-quality counterfeit U.S. \$100 bills and in the production and distribution of unusually pure heroin and methamphetamines. The country has also been linked to the production of high-quality counterfeit cigarettes and pharmaceuticals. Official assessments from U.S. government agencies at the time and afterward concluded that this activity was likely state-sanctioned and officially encouraged, if not state-directed.<sup>17</sup>

Both currency counterfeiting and drug production, in particular, drew on clear comparative advantages for North Korea. For example, evasion of law enforcement authorities, or bribery of them, is often a major cost incurred by criminal enterprises worldwide. North Korean authorities, however, *were* the law enforcement—meaning that domestic production of illicit goods proceeded unhampered. In other cases, state support was not merely in lack of enforcement, but in the actual direction of the activity itself. State resources and production facilities, as well as high-level personnel, were the key actors in both drug and counterfeit currency production, according to numerous accounts from defectors and refugees in interviews with this author and others; the government established opium farms, repurposed otherwise non-operational pharmaceutical factories in Hamhung and Chongjin for methamphetamine production, and reportedly ran a printing plant in Pyongsong responsible for generating counterfeit currency.<sup>18</sup> This kind of operational subsidization by the state, as well as reduced costs from evading law enforcement, provided clear comparative advantages to the North Korean government in engaging in certain forms of illicit activity.

State support also explains the high quality of the goods produced, improving their marketability and the profit margins obtained. Counterfeit currency linked to North Korea was so good that the Secret Service referred to it as “Supernote,” and experts judged that no-one other than a government was capable of creating notes of that standard.<sup>19</sup> North Korean-made methamphetamine was chemically distinct from equivalent amphetamine-type stimulants produced elsewhere, perhaps because of the involvement of state laboratories and highly trained state chemists, and became known abroad for its unusually high purity and sophisticated packaging. North Korea’s organizational assets—its diplomatic stations worldwide, and in some cases its military transportation inventory—were used to hand off products to distributors. North Korean military and merchant vessels were associated with drug drops at sea for Japanese criminal organizations to pick up, often with ethnic Koreans as intermediaries, and with transport of drugs directly to and from Japan; DPRK embassies were named in indictments related to currency distribution as well as drug seizures.<sup>20</sup> State support, in other words, provided the DPRK with a quality as well as a cost advantage.

Not all of North Korea’s money-making operations were illegal, though some became so because of North Korea’s frequent attempts to engage in the import and export of otherwise-legal goods without paying the requisite duties or customs fees. The director of the Zokwang Trading Company—a company that had been implicated in counterfeit currency distribution in Macau in the mid-1990s—described the company’s operations as exporting herbal supplements for the Chinese market and textiles to other parts of the world.<sup>21</sup> Other North Korean companies were involved in exporting textiles, foodstuffs, natural resources, and other commodities.<sup>22</sup> North Korea’s weapons trade was also a source of income—sometimes legal, sometimes covert, as with the diplomatic exchanges in 1993–1994 that culminated in a 1995 agreement for North Korea’s (specifically, the Korean Mining and Development Corporation (KOMID) subsidiary company, Changgwang Sinyong) to provide Pakistan with missiles, missile components, and related training.<sup>23</sup>

The basic overseas trading system established at this point in North Korea’s history remains in use. That system has been continually modified, and has evolved as sanctions have exerted intermittently-increased pressure on state-run trading networks. Over time, this has forced changes to lines of production/activity, partner organizations, the structure of collaborative arrangements with partners, and key markets.<sup>24</sup> Cyber-crime, for example, is a new area of revenue-generation activity for the DPRK: the Lazarus Group, believed to be affiliated either with Office 39 or with the Reconnaissance General Bureau (North Korean intelligence), has been linked to cyber-crime

operations ranging from a theft from the Bangladesh Central Bank to the Wannacry ransomware attack in the UK to attempted bitcoin heists in as many as 18 different countries worldwide.<sup>25</sup> The use of front companies and other disguise mechanisms has also increased as US and international sanctions on DPRK-based entities have outstripped sanctions on the third-party actors that enable their continued transactions.<sup>26</sup> As it relates to the organization and function of the North Korean political-economic system, however, the basic structure of these operations—and, particularly relevant for this chapter, their relationship with the North Korean political system—appears to be essentially unchanged. A variety of organizations under state, party, and military auspices engage in entrepreneurial commercial activity abroad, sometimes licit and often illicit, using whatever state resources are most advantageous to leverage at that time, to generate revenues that flow back into elite coffers—either at home in Pyongyang, or in overseas bank accounts where they are more readily transferrable to wherever a purchase might be necessary.

This part of North Korea's international trading profile remains elite- and regime-dominated; money flows from the various sources described above into the top of the North Korean system, where it is used to further elite political survival. It helps explain, for example, why high-ranking officials have been consistently able to purchase consumer goods that were unavailable to ordinary people, at exclusive state shops that require political connections (or at least good political standing and access to Pyongyang).<sup>27</sup> These networks arose from elite efforts to continue to earn money in a changing global economic and enforcement environment. Faced with a deliberately permissive structure established by the center for its own benefit, opportunistic elites leveraged access to state resources and international networks to forge relatively long-standing patterns of economic activity that accrue benefits both personally and for the regime. Note that up to this point, this account of North Korea's economic coping strategies has left ordinary citizens virtually untouched; this is an ecosystem that involves members of the North Korean elite in Pyongyang and abroad, and one that is socially and geographically distinct from what ordinary citizens created to survive.

Elites, who earn the money to support themselves, also win political points by sending revenue home; the center benefits both from the direct revenue it obtains, and from having satisfied the material demands of a key group of supporters. In that sense, the system has maintained its equilibrium—a political equilibrium referring to the balance of power and alignment of incentives within the regime elite—since it first took shape in the 1990s. This part of North Korea's economic order, therefore, resembles a personalist

kleptocracy, in which the ruler exploits national resources for personal and political benefit and obtains buy-in from politically critical actors by implicating them in that system and providing them with its spoils. Moreover, in North Korea's case, the state resources that are used are employed not just for lavish and narrowly distributed personal consumption—think Congolese dictator Denis Sassou-Ngesso's mansions in Paris—but to generate revenues abroad that flow back into the North Korean system at points controlled by the regime, to be shared amongst the elites as well as distributed downward in whatever way the regime sees fit. Literature in comparative politics suggests that this kind of equilibrium will, while it lasts, be conducive to regime survival; other states where regime leadership maintain access to and control over revenues generated abroad have proven to be more long-lasting and durable than ones in which elite fortunes depend upon domestic extraction of resources.<sup>28</sup> One of the key survival techniques that North Korea learned, therefore, was to harness foreign-earned income to prolong its rule, and to manage its own elites, in part, by embedding them into the processes that generate and distribute foreign income.

Finally, it is worth noting that these dynamics emerged from historical trends that form a recurring theme in this volume. North Korea's adoption of drug production was the result of opportunism by elite agents, but it also drew on historical legacies that were the unintended consequences of foreign intervention on the Korean peninsula: the fact that Japanese colonialism left Korea's chemical-industrial base in the northeast largely untouched allowed factories there to be repurposed decades later for production of drugs—many of which were then exported back to Japanese shores for consumption there—while Japan's own role in state development and use of methamphetamine provided important material for North Korea's elite opportunists to work from in their pursuit of survival forty years after the war's end.<sup>29</sup> North Korea's dramatic involvement in the drug trade, therefore, is also one part of a larger story about the history of drug production and drug use in Asia that spans multiple regions and links Asia's imperial experience with its post-colonial history and contemporary security challenges.

### **Coping by Ordinary Citizens: Cross-Border Smuggling, Black Markets, and the Birth of a Post-Socialist Shadow Economy Inside North Korea**

As elites drew on official connections and leveraged state resources in their search for hard currency, ordinary citizens were left largely to their own

devices to manage the challenges of the same period of economic hardship, often referred to as the Arduous March or March of Suffering (고난의 행군).<sup>30</sup> Ordinary citizen survival strategies during this time created a different economic order, one that was geographically centered in the country's northeast and made up of (largely female) citizens who were ordinary residents of North Korea, rather than privileged members of the elite.

This order bears some resemblances to the elite-based order. Like the elite order, the economic order that emerged among ordinary citizens relied on transnational links—although in this case, the links that mattered were interpersonal relationships across the Chinese border, including family connections to ethnic Koreans or other contacts in China's northeast, rather than the more globally-distributed, official relationships upon which the elite order evolved. Likewise, many of the citizens involved in illicit trade initially began by trying to leverage whatever assets they could obtain—though these were generally personal or smaller-scale assets like access to copper wire at one's workplace, rather than whole factories or diplomatic postings. Additionally, like the elite order, this citizen-based organization of the economy mixed trade in licit products with trade in illicit ones like drugs—although in this case, North Korea's own formal strictures on market activity during this period made transactions that otherwise would have been considered normal business into formally “illicit” operations.

Close scrutiny also reveals other important distinctions. First, the social identity of the actors involved was quite different: in contrast to the elite order, which was predominantly male and high in political-social class standing, a large percentage of the key players in this bottom-up economic order were middle-to-lower class and largely female. Second, this order pulled money into North Korea at the bottom of the social-political structure, rather than the top; it decoupled political status from economic resources and reordered social relationships at the local level as a result. Traders rose in socioeconomic status (and sometimes in political status), while bribery and corruption of lower-level officials became commonplace. Local officials responded by trying to exploit the illegality and profit structures of this new trade to extract resources for themselves, becoming more reliant on predation and extraction from below and changing the state-society relationship at the local level in ways that appear never to have been reversed. The two types of economic order, therefore, have important social and political differences, and may well have different implications for North Korea's future.

By now, the overall story of the famine's impact on ordinary citizens in North Korea is relatively well-known: that the southern half of the peninsula produced a majority of food and consumer goods prior to division; that the DPRK was not fully self-sufficient in food production before the crisis of the

1990s, relying instead on foreign subsidies; that the cessation of that external aid, combined with natural disasters, produced a crisis in both the agricultural and industrial sectors that further tanked the country's ability to export and earn hard currency; and that under these strains, the Public Distribution System that people relied on to obtain basic items—most importantly food—broke down.<sup>31</sup> Most accounts of the famine center either on estimations of the impact of these processes on total mortality, or on ethnographic accounts of how individuals and families living inside North Korea experienced the famine process and the social dislocations and personal tragedies that accompanied it.<sup>32</sup>

Extant work hints at, though does not fully explore, subnational variations in the famine and its impact inside North Korea. Only recently have scholars gained access to enough systematic data—quantitative economic statistics, historical documents, or interview evidence—to understand how differently various provinces in China experienced famine during the Great Leap Forward and afterward<sup>33</sup>; as yet, no such work appears to be possible for North Korea. Scholars attempting to calculate mortality have generally assumed that the northeastern provinces, mountainous and politically disfavored, were the “hardest hit” by famine. One well-known study, for example, estimated that around 12% of North Hamkyung's population died between 1995 and 1997.<sup>34</sup> Similarly, Sandra Fahy's ethnographic account of the famine notes that individuals in the northeast placed the start of hunger, death, and dislocation a year or several years earlier than those in Pyongyang or elsewhere in the country; her interviewees pointed to food shortages and problems with the PDS emerging as early as 1991–1992 in the northeast, but not until 1996 or so in Pyongyang.<sup>35</sup> In short, thanks to two factors—the regionally-specific experiences of famine and the availability of coping strategies—a new and different social-political order arose in that part of the country over time.

As food shortages worsened and hunger grew more acute, private citizens responded by engaging in trade.<sup>36</sup> According to witnesses and participants in North Korean life during this period, initially many people tried to barter or sell whatever resources, assets, and property they already possessed, in what they viewed as a short-term coping mechanism to get through a temporary crisis.<sup>37</sup> Informal markets arose in northeastern cities and towns, where famine hit residents the hardest (urban residents lacking access to fields and farms where they could access alternate food supply) and where a segment of the population had surplus cash and goods in sufficient quantities to make barter trading possible. Marketization, therefore, was a local-

ized urban phenomenon in its origins in the northeast, but gradually spread beyond that.<sup>38</sup>

When their resources-on-hand ran low, people began to steal from others, or from their workplaces, to obtain items to sell. In some cases, citizens were allowed to trade whatever they could gather or otherwise procure, but in other cases they were punished for it. Lee Hye-jin recounts the first execution she witnessed during this period: two miners who had stolen wiring and attempted to sell it at Sinuiju, the border town across from Dandong, and farmers who'd stolen grain from the town's threshing floor.<sup>39</sup> As the PDS stopped supporting even local officials, those who had access to state resources that could be sold for a profit—for example, the manager of a factory whose equipment and supplies could be cannibalized after the factory stopped running—could look for a place to sell that equipment, even if it was for scrap metal (the usual destination was China). Families were also permitted—sometimes with the explicit encouragement of local officials—to forage or create informal plots to produce extra food to substitute for the PDS deliveries that had ceased.<sup>40</sup> Traditionally strict constraints on internal travel were relaxed or simply unenforced, and memoirs of that period commonly recount travel to a more urban location, a border crossing, or a relative's house in search of food.

North Hamkyung Province lies across the Tumen River from China's ethnically Korean Yanbian Ethnic Autonomous Prefecture (located in Jilin Province), and connections with China became a lifeline for citizens in the northeastern part of the country during this period. Account after account of the famine period includes statements like “those who had close family in China, who would send things from China, those people lived well,” or “those who had something to eat had family or friends in China.”<sup>41</sup> Individuals who lived close enough to China to be physically capable of making the trip to the border (not something to take for granted, as many inhabitants were physically depleted by the time they seriously considered a strenuous journey over difficult terrain), or who had kinship or other connections on the other side, began to cross into China to forage, find work, or appeal to relatives for help.<sup>42</sup> In some cases, these individuals ended up returning to North Korea; in many others, they stayed for extended periods or eventually defected to live in South Korea. In other cases, individuals who remained in North Korea began to take items to border towns or border checkpoints to trade, either bartering for food or bartering for money that they then could use to purchase food.

Thus the rise of North Korean markets was heavily intertwined with cross-border smuggling to and from China. Family members who lived inside

China, or family members who had crossed in search of work, provided goods and sometimes capital that flowed back into North Korea, carried by North Koreans who were voluntarily returning to their families or by a system of brokers and couriers. This trade mixed licit exports and trading with illicit activities. On the licit side, Sun-hi Bak recounts women using the term “doing the laundry” in the Amnok River near the border town of Hyesan as a euphemism for selling precious metals to China in order to buy food.<sup>43</sup>

On the illegal side, trade in methamphetamine (often referred to even in North Korea by its Chinese name, *bingdu*) blossomed.<sup>44</sup> Chinese suppliers provided precursor chemicals, most commonly ephedrine hydrochloride, to (increasingly local, smaller-scale) manufacturers in North Korea who then sent the finished product back across the river for export and resale by ethnically Korean Chinese middlemen. Other effect of this localization of the drug trade was a rise in the mid-2000s in domestic methamphetamine consumption in North Korea, again concentrated in North Hamkyung Province, with a spillover effect into China that was so strong that authorities in Jilin and elsewhere mounted law enforcement campaigns specifically targeted at it.<sup>45</sup>) Bribery was commonplace: North Koreans who crossed to seek work<sup>46</sup> or who needed to get goods across the river for sale bribed border guards to look the other way, and these same guards often assisted in moving goods covertly back into North Korea in exchange for a bribe or a cut of the profit. By sometime in the 2000s, a majority of consumer goods on the North Korean market had their origins in China. The restrictions on cell phone usage in North Korea during much of this period—and the availability of Chinese cell phones that worked within a certain range of the border—contributed to an increasingly deep set of connections between the two sides.<sup>47</sup>

One of the other effects of this concentrated cross-border trade was the increasing use of foreign (Chinese) currency rather than the North Korean one. Again, this development shows both similarity and difference when placed alongside the elite order in Pyongyang: both orders conducted transactions denominated in foreign currency, but the foreign currency in use was different in different parts of the country. Chris Green, in exploring the relationship between economic shocks, marketization, and foreign currency, observes that the dollar is “beloved by elites in Pyongyang,” while the ordinary citizens of the border areas rely on Chinese renminbi.<sup>48</sup> Studies done in 2013 and 2017 corroborate his finding: they suggest that over \$2 billion in foreign currency (in an economy worth \$21.5 billion) was circulating inside North Korea, that individuals who had defected to South Korea reported storing as much as 90% of their assets in foreign currency, and that dollars were the preferred foreign currency in Pyongyang and “non-border areas,”

while the Sino-North Korean border areas predominantly employed Chinese renminbi.<sup>49</sup> Differential use of foreign currency, then, is another indicator of regional variations in the organization and structure of illicit cross-border economic activity inside North Korea.

The identity of the actors who engaged in this cross-border activity was markedly different from the identity of those who were the key actors in the Pyongyang-based order, and their participation in trade began to revise typical understandings of socioeconomic class inside the DPRK. Traders in the northeast were predominantly the less privileged—in terms of pre-famine status—members of North Korea’s social and political class system. Eunsun Kim, for example, recounts:

My family paid dearly as a result of our “privileged” status and our blind loyalty to the state system. We never imagined that the regime would allow us to die of hunger. We depended entirely on government rations to feed us, and thus succumbed more quickly than others who had learned to develop alternative methods of survival.<sup>50</sup>

Other accounts note the same correlation, though it was far from universal: loyalists were more likely to die waiting for food, rather than engage in “anti-socialist” market activity that was seen as political betrayal. Loyalty, in this context, meant an embrace of sacrificial suffering and a deferral of one’s needs even to the point of death; death was loyal, market trading was political deviance. As one commented, “Who do you think would die first? People who worked the hardest [and] who were devoted to the Workers’ Party... Why? Because the Worker’s Party didn’t distribute food. These good people who trusted the government still went to work hungry thinking, ‘Eventually the Worker’s Party will distribute.’”<sup>51</sup>

The economic survival and relative success of these “less privileged” citizens had long-term ramifications for North Korean social order. Because China was a source of both goods and capital, those who could obtain these items became economically and socially important. The emergence of cross-border trade, then, weakened—and over time, actually inverted—the tight link that had previously existed between political status and economic welfare. It created a new class of influential people whose power in North Korean society derived not from their loyalty to the regime’s edicts, but from their willingness to interpret them flexibly—or defy them outright. Political deviance now meant survival.

Second, these market activities were pioneered by and largely conducted by women, though men also participated in the mechanics of cross-border

trade and in the important permissive role played by border guards.<sup>52</sup> The predominance of women was largely due to previous labor and employment patterns that made women more flexible and available for market participation: women, who were less likely to be expected to appear for factory work, were relatively more able to trade during the day, and to travel if it was required, without their absence from home being detected.<sup>53</sup> One woman recounted:

When they used to give the relief tickets, the men would get them and go stand in line to get the food, but that wasn't happening. Women were in the markets selling. Women knew how to talk to sell the stuff. Women did that. In North Korea, there is an expression that men are like daytime light bulbs. In the daytime you have no use for a light bulb, do you?<sup>54</sup>

The rise of this kind of trading activity—and the reliance of many families on it for sheer physical survival—also began to reorder social relations inside North Korea. As Sung Kyung Kim describes it, “North Korean women became the main agents for household economy.”<sup>55</sup> Women became the primary breadwinners—one study found that they earned 70% of the household income in North Korea, the majority through trading—and also developed separate economic and social networks based on their participation in the market, while men were required to report to factories that sat idle. Their increased willingness to break from previous social norms around gender roles also were reflected in the decisions of some to cross the border into China, which sometimes was a strategic use of gender and marriage in search of a better life, but which also rendered them vulnerable to trafficking, exploitation, prostitution or forced marriage, and sexual violence.<sup>56</sup>

The rise of broader people-smuggling networks (not just those that trafficked women) likewise contributed to the reordering of economic and social relations inside North Korea. As the number of escapees who made it to South Korea rose, professional brokers began to arrange for the extraction and transmission of family members to the south, with key actors in the network typically located across the border in northeastern China. Because of China's view that North Koreans were “economic migrants” rather than refugees, the illegal status and consequent vulnerability of any North Korean who crossed into China created economic opportunity in the form of either bribery or outright profit from the sale of human beings, accruing resources to those on both sides of the border who were willing to participate in these activities.

But the rise of these cross-border networks had other effects within North Korea as well. In addition to the much-described role that some of these net-

works play in providing information to North Koreans,<sup>57</sup> there was a direct economic effect as well. In many cases, those who had family in the South, but had not yet decided or been able to physically leave North Korea, experienced an increase in their economic security and in many cases their social standing as well. An individual who had relatives sending remittance money from South Korea could joke about being well-off thanks to the “Halla-san line” (a play on the “Paektu-san line” that describes the Kim family).<sup>58</sup> The capital sent via the remittance process could be used to buy food, or even to start a small business, stabilizing entire families in the process. The majority of these remittances from the south (81%) travel through ethnic Koreans in China to family in North Hamkyung. The eventual *desirability* of a connection to individuals in the southern half of the peninsula, who had previously been a political liability, is yet another example of how citizens’ search for survival along the Chinese-North Korean border, and the trans-national marketization processes that resulted from their survival strategies, reordered social relationships and re-patterned economic activity throughout the northeastern part of the country.

That reordering has continued as both state and society have adjusted to the partial marketization of the country, and as the regime has sought ways to manage that marketization without losing political control.<sup>59</sup> One of the key consequences of the economic order that arose in the country’s northeast was that it created a way for money to enter North Korea at the bottom of the political hierarchy, produced by trading arrangements that are neither directed nor controlled by the regime. This is a fundamentally different political issue than the more controlled, even directive arrangements upon which the elite order relied, where income was captured abroad and brought in at the top to distribute downward. For the regime to benefit from—and not be challenged by—this ground-level, independently-created income, it had to find a way to extract that income and siphon it upward. The regime has tried to tap that income, usually via mechanisms that are more similar to rent-seeking than taxation.<sup>60</sup>

The regime’s efforts to limit, control, and benefit from existing market activity have led local actors to respond strategically—with the effect again being an adjustment of state-society relations and of the political order that governs economic activity inside North Korea. The requirement that those engaging in market activity mitigate the risks of the legally grey areas in which they operate has helped to structure a new set of potentially consequential relationships between traders and local members of the North Korean political system.<sup>61</sup> To make the arrangements that arose in crisis sustainable and profitable for the long-term required a symbiosis between

officials and individual holders of capital (or eventually, creators of private enterprises): political connections help business flourish, and business activities benefit political actors. As a result of private traders' self-protective efforts to co-opt lower-level local officials, those officials often now share stronger economic and social ties with market traders in their geographic area than vertical ties to political superiors in Pyongyang.<sup>62</sup> Even intermarriage between the two groups (traders and officials) is said to be on the rise.<sup>63</sup>

These partnerships take a variety of forms. Some involve the use of the black or grey market to prop up the formally state-controlled economy, as when government factories or farms rely on the market to obtain inputs (seed, fertilizer, parts) to operate effectively. More common, however, is the use of some state resource by private actors to engage in money-making activity where at least three actors benefit: the private entrepreneur or business, the government official (in their institutional capacity), and the government official (personally). A factory manager might, for example, "rent" their transportation equipment to someone who wants to send goods to the border, and accept a rental fee in exchange.

The most common variant seems to be not use of physical state resources, but monetization of government approval, which as the state has moved to reassert control over economic life has become a necessary condition for a business to survive and profit. Officials now issue foreign trading licenses, stamp travel permits for domestic or cross-border travel, approve permits for space in a sanctioned public market, or register private businesses as state ones—with a loyalty fee that benefits them as both an office-holder and an individual.<sup>64</sup> Many of these arrangements are more predatory than voluntary: bribery is common, and coercive power is used to force unwilling participants to play the game. Not for nothing, police are the most commonly-cited bribe-takers in North Korea today.<sup>65</sup> It is clear, however, that this diversity of arrangements centers around a fundamental fact that much of the economic activity in northeastern North Korea—illicit or otherwise—operates under a hybrid arrangement that benefits both private economic actors and government officials, and that may have begun to blur the distinction between the two.

In short, the economic order that has emerged in the northeastern provinces of North Korea developed in parallel to the elite economic order in Pyongyang, for a similar reason: the pursuit of economic survival in the face of crisis. Moreover, both orders depended on some form of trans-national illicit activity to generate that survival. In other ways, however, the two orders are very different: the class and gender of key actors, the locations and types of international networks they employ, and the financial mechanisms that they utilize are all different. Not surprisingly, the economic and po-

litical results have differed sharply as well: the black-market ordinary-citizen economic order of the northeast has more in common with the “shadow economies” of other post-socialist states than the personalist kleptocracy on display in Pyongyang.<sup>66</sup>

## Conclusion

Precipitated by dramatic changes to North Korea’s international economic environment and the crisis that the country experienced in the early 1990s, North Korean elites and ordinary citizens each attempted to survive by looking outside the country: finding connections abroad to facilitate their physical and sometimes political survival. Many of the activities that these transnational networks conducted were illicit, either as a result of North Korea’s own legal restrictions on otherwise normal market activity, or because the operations were illegal in the countries where they occurred (such as drug trafficking and counterfeiting). As a result of sustained engagement in these activities over a period of years, two parallel but distinct economic orders emerged inside North Korea.

A Pyongyang-centered, elite-based order pioneered the use of largely illicit transnational activity, conducted by senior male diplomatic and state-trading personnel, to generate new sources of dollar-denominated hard currency from abroad. The income flowing in from these operations was used for the benefit of the small group of regime elites who kept the Kim family in power. At the same time, desperate lower-class citizens, many of them female, drew on social connections and geographic proximity to northeastern China to develop cross-border smuggling networks. These networks facilitated the survival of ordinary families inside North Korea and led over time to the emergence of a very different type of bottom-up, black-market (or, at various times, grey market) economic order centered in the country’s northeastern provinces and denominated largely in Chinese renminbi. While these two economic orders shared common origins and developed in parallel over time, the key actors, practices, international networks, and social-political dynamics that constitute are in fact quite different.

This depiction of two parallel and separate economic orders is, of course, an oversimplification: the above depiction has been stylized to clarify the distinctiveness of the processes and structures that emerged. As the last paragraphs of the preceding section describe, these complementary economic orders increasingly appear to be moving toward symbiosis. In particular, North Korean elites appear increasingly—as sanctions have led to pressure on their external networks—to rely on domestic extraction of hard currency income

to facilitate elite and regime survival, and to have decided to co-opt private capital rather than trying to banish it altogether.<sup>67</sup> As a result, today, the elite Pyongyang-based economy is less insulated from the citizen economy grounded in the northeast than it was for most of the period described in this article. North Korea increasingly looks like neither an all-powerful criminal totalitarian state nor a failed state whose desperate citizens smuggle with impunity across its borders, but a crony capitalist system: one in which economic and political power have become heavily intertwined. As the two orders become interdependent, the differences between them also become less pronounced.

North Korea's is an evolving and uncertain balance. Other researchers have noted previously that the mere presence of market mechanisms is unlikely to be sufficient in isolation to destabilize North Korea.<sup>68</sup> And the regime itself appears to be avoiding conscious overdependence on the trend toward domestic extraction; the export of human labor abroad and cyber-crime are both recent revenue-generating activities that could be seen as efforts to develop new lines of income that lessen this domestic dependence. The domestic effects of these new and still poorly-documented forms of illicit international economic engagement are far from understood. What the remaining presence of two somewhat contradictory forms of economic order inside an evolving crony-capitalist system does suggest, however, is that the sources of North Korea's political vulnerability may be somewhat misunderstood. North Korea, like the Soviet Union, may be most vulnerable not so much to revolution from below, or stalemate and defection at the top, but a hollowing out from within, based on individual opportunism.<sup>69</sup> If this chapter's assessments are correct, that opportunism is already well-developed inside North Korea, and the hollowing out process has already begun.

Identifying and understanding the development of these two parallel but distinct types of political-economic order inside North Korea, therefore, helps to excavate and elucidate previously hidden interconnections between geopolitics, sub-state transnational economic networks, and state-society relations inside North Korea in the post-Cold War period, and to suggest how these factors might interact to shape North Korea's future in the years ahead. One possible next step for researchers is to think about what this new understanding of the internal workings of North Korea, combined with what we know of the fate of other countries that have exhibited at least partly similar dynamics, tells us about North Korea's likely future. The challenge for policymakers, on the other hand, is to consider how this revised understanding of what's happening domestically inside North Korea might affect the policy options before

the United States and the international community as they seek to address a continued national security challenge and human security tragedy.

## Notes

1. Chestnut 2007; Greitens 2014; Kan, Bechtol, and Collins 2010; Kim 2011; Kelly 2016.
2. Haggard and Noland 2011; Smith 2015; Kim 2017; Sullivan and Kim 2017; for a somewhat different perspective on marketization, see Park 2016.
3. Park, 2009; Hastings 2016.
4. Chestnut 2007; Greitens 2014.
5. Haggard, Lee, and Noland, 2012.
6. Herrigel, 1996.
7. On subnational analysis, see Snyder 2001; Tsai 2007; Tsai and Ziblatt 2010. On subnational authoritarianism, see Gibson 2013; Giraudy 2015; Hiskey and Bowler 2005; Mickey 2015.
8. Kim 2017, 101.
9. Chestnut 2007.
10. Noland 2000; Eberstadt 1999.
11. Kim 2017, 47.
12. Author's interview, Seoul, summer 2013.
13. Kim 2017, p. 50; see also Hastings 2016.
14. For background on the organization of North Korean elites, see Oh Hassig et al. 2004.
15. On Office 39, see Chestnut 2007; Kan, Bechtol, and Collins 2010.
16. This paragraph and the section that follows draw on Chestnut 2007, Greitens 2014.
17. JIATFW 2000; DEA 1999.
18. For one of the latest defector interviews specifically on Office 39's role in illicit activity, see Carney 2018.
19. United States v. Sean Garland et al, 30 August 2004, <http://www.mcclatchydc.com/latest-news/article24174742.ece/BINARY/Indictment%20against%20Garland,%20various%20persons%20for%20counterfeiting>
20. JIATFW 2000; also discussed in Hastings 2016.
21. Lintner and Yoon 2001.
22. See, for example, Carney 2018.
23. Squassoni 2006; Bermudez 1999.
24. On the camouflaging effect of sanctions, see particularly the detailed analysis in C4ADS 2017.
25. Barker 2017; Bossert 2017; C4ADS 2017.
26. The best source on this evolving process is the series of reports issued by the UN Panel of Experts; for an analysis of the 2018 report, see Berger and Cotton 2018.
27. Lankov 2007, 2014.

28. Ahmed 2012.
29. Edstrom 2015.
30. For one of the best and most detailed accounts of how citizens perceived what was happening, see Fahy 2015.
31. Kim 2017.
32. Robinson et al., 1999; Fahy 2015.
33. On how death tolls varied by province, see Yang 2013; econ papers. On the way that Great Leap Forward and famine experiences shaped long-term economic trajectories, see Yang 1996.
34. The study noted that it lacked the data to systematically examine and compare other provinces. Robinson et al., 1999.
35. Fahy 2015, pp. 108–111, among others.
36. This section draws on interview research previously conducted by the author with North Korean refugees and defectors. Interviews were conducted in Seoul and the United States, from 2005 to 2017. Where other sources corroborate the author's accounts, I include a reference in the footnotes below.
37. Smith 2015, especially pp. 207–215.
38. My thanks to Yang Mun-su for making this point in conversation. It is also true that markets existed in North Korea before the economic crisis; for an English-language review of important work on this by Choi and Koo, see <https://sinonk.com/2014/05/27/before-the-collapse-the-micro-foundations-of-marketization-in-north-korea/>
39. Execution recounted in Fahy 2015, pp. 116–117; on toleration of this activity, see Haggard and Noland 2011; Smith 2015.
40. By the early 2000s, an estimated 60–70% of food and other consumer goods came from market sources. Smith 2015; Lankov 2007.
41. Fahy 2015, pp. 70, 75.
42. Greitens 2014; see also Smith 2005; Kim 2012, pp. 49–51.
43. Fahy 2015, p. 75.
44. Much of this paragraph is drawn from author's interviews, previously summarized in Greitens 2014, pp. 80–93.
45. Greitens 2014, pp. 92–93.
46. Eventually a legalized work permit system arose that allowed citizens to get approval to enter China for work purposes, but this happened later than the period I focus on here. Lankov 2007.
47. Greitens 2013; Greitens 2014.
48. Green 2016.
49. Mun and Jung 2017; SERI 2013.
50. Kim 2012, pp. 42–43.
51. Recounted in Fahy 2015, pp. 43–44.
52. Greitens 2014.
53. Lankov and Kim 2008; Lim 2005.
54. Quoted in Fahy 2015, p. 100.

55. Kim 2016.
56. Kim 2014; see also HRNK 2009.
57. Kretchun and Kim 2012.
58. Author's interview, Seoul, July 2013; also cited in Greitens 2014, pp. 58–61.
59. For a good series of reviews of work on how marketization has evolved since the period described here, see <https://storify.com/SinoNK/peter-ward-s-north-ko-rean-contemporary-economic-hi>
60. I have elsewhere used the term “informal taxation” to describe these practices, because in some cases they are relatively institutionalized. The 2009 currency reform has been largely interpreted by economists as an unsuccessful attempt to cut back the power of the market; in the aftermath, the regime has sought less dramatic and less unpopular ways of regulating and benefitting from market activity. Kim 2017.
61. Greitens 2014.
62. Author's interviews, Seoul, summer 2013.
63. Ward 2013.
64. Lankov et al., 2017.
65. As one former trader recounted, “Officials can pick a fight over goods on sale or accuse traders of selling without the right permission. They pocket the fines for themselves. Those who can't pay the fines have their goods confiscated, and these are then sold off to other traders [by officials, for personal profit].” NFI 2013; on bribery, see Kim 2017, pp. 186–187.
66. For a slightly different disaggregation of “parallel economies” in North Korea in an earlier period, see Habib 2011.
67. Greitens 2013, 2014; for recent defector corroboration, see Carney 2018.
68. Kim 2017 examines the potential cross-cutting effects of bribery; for an examination of the shadow economy's potential contribution to either authoritarian resilience or corrosion, see Dukalskis 2016.
69. Solnick 1998.

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