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North Korea's political economy: Hybrid economic institutions and the contributions of German order policy (Ordnungspolitik)

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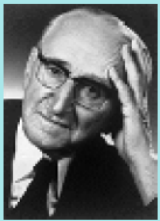
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Ordnungspolitische Diskurse

Discourses in Social Market Economy



Bernhard Seliger

North Korea's political economy:

Hybrid economic institutions and the contributions of German order policy (Ordnungspolitik)

Diskurs 2020 - 2

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Bernhard Seliger

Abstract

The dominant debate about the nuclear crisis often clouded the view of Western and South Korean observers regarding the deep changes, North Korea's political and economic system underwent in the Kim Jong-Un era, from the Soviet socialist system under his grandfather Kim Il-Sung and the military dominance under his father Kim Jong-II. The ideological development from the "military first" doctrine to "byungjin line" (parallel development of economy and nuclear power) to the current "economy first" doctrine made new governance mechanisms necessary. In particular, the larger role of markets and the larger role of market mechanisms in economic policy needed new institutions, which are, however, often lacking. Instead, hybridization of economic institutions spontaneously emerges, leading sometimes to improved economic performance, but hindering the full effect of market reforms. One example are the new special economic zones lacking coordination; even apart from strangling sanctions they are all without success to date. One important question is, how stable hybrid institutions can be. Will they lead to a more "pure" (market type) economic system, as Eucken predicted, or will they create a new form of mixed economy with North Korean characteristics? Also, the core question of the impact on markets on political stability has to be answered.

Key Words:

North Korea, Economic Policy, Economic order, institutional development

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North Korea's political economy: Hybrid economic institutions and the contributions of German order policy (Ordnungspolitik)

Bernhard Seliger

1. Introduction - New Institutional Developments in North Korea in the Shadow of the Nuclear Crisis

For the past 25 years, the world's public attention has been focused on North Korea - but the view has been rather rigid, focused solely on the military threat, and partly on the bizarre excesses of the Kim Dynasty government. The economy was essentially understood as a collapsed central administrative economy and the contrast between "modern military power" and "ailing economy" was repeatedly emphasized. This is certainly not wrong, but it has obscured the view that below the perceptual threshold of the media and many analysts a hybrid market economy system has long since developed in North Korea and that the spontaneous development of this system is also reflected in the official ideology of the country, albeit belatedly and distortedly. This is the only way to understand the transformation of official ideology from the Soviet-style socialist system of his grandfather Kim Il-Sung and the military rule of his father Kim Jong-Il. The ideological development from the inherited "military first" doctrine via the "Byungjin policy" (simultaneous development of economy and nuclear power) to the current "economy first" doctrine makes new governance mechanisms necessary. In particular, the expansion of the markets and a stronger market-economy orientation would have to result in a corresponding institutional development of general economic policy, which, however, is often still lacking.

In order to understand North Korea, it is important to understand the spontaneous development of market mechanisms and the tacit or explicit implementation of such developments through state measures, but also in part the official opposition to market-economy developments. Especially after Kim Jong-Un took office in 2011, it can be seen that although the aggressive military policy of nuclear armament has led to constantly worsening conditions for North Korea's trade, some internal steps have been taken in the right direction. This was expressed, among other things, in the development from a purely resource-based export industry to greater specialization in the area of labor-intensive goods, above all textile exports, often also in the form of direct labor emigration. Import substitution also made sense against the backdrop of two decades of completely collapsed domestic light industry and the strong dominance of

Chinese consumer goods, which accounted for up to 85 percent of goods on markets (Seliger 2019a). Most importantly, since the misguided and failed currency reform of 2009, no stronger intervention in the expansion of the markets has been dared, the tax as a form of intervention has become more important than direct intervention, and the open dollarization of the economy has progressed.

The analysis of the North Korean economy must beware of two mistakes: On the one hand, the ideological "superstructure" of "Juche", "Songun (Military First)" or "Byungjin Line" should not obscure the fact that North Korea's economic system corresponds very closely to the orthodox model of the socialist central administrative economy, albeit with certain Asian characteristics. On the other hand, however, this system has developed further in the last generation; "survival socialism", as in Cuba for example, has long since become a hybrid economic form. And in addition, this analysis has to get by almost entirely without the largely lacking macroeconomic data - the same problem, by the way, that the North Korean planners have themselves, who are simply unaware of most of the data actually required for planning.

So what path will North Korea's institutional development take? What is certain is that Kim Jong-Un knows exactly the example of transformation in Central and Eastern Europe as well as in China. Of course, he would prefer an orderly transition to a strongly growing economy with permanent control over the state and the population, as China has tried to do. At the beginning of 2018, another high-ranking party delegation visited South China to see for itself the opportunities for economic development there. Whether this can happen, however, is still uncertain, as it also potentially calls into question North Korea's political power. An important prerequisite for North Korea's integration into the world economy would be the comprehensive and verifiable implementation of the promise of denuclearization. In addition, there is the question of to what extent South Korea, with its dynamic economy and society, is an attraction for North Korea and thus undermines the current political monopoly. We have experienced a similar situation in Germany. What the outcome will be is still open - but this year's summits between North and South Korea and North Korea and the USA are a first important step in the right direction.

In the following, we will first examine how spontaneous market-economy institutions have developed in North Korea and thus hybridized the economy (2.). The third part then discusses how this development has been reflected in North Korea's official ideology and is thus sanctioned or hindered by the state. Finally, one of the most important fields of experimentation will be the many special economic zones, which are poorly coordinated and therefore unsuccessful, even apart from the political obstacles posed by sanctions. They are examined in the fourth part, followed by a brief discussion of the challenges that market-economy institutions pose to North Korea's political stability (5).

2. Markets, market economy and governance

Even the purest forms of the socialist central administrative economy have never managed completely without markets as places of coordination, even though this was mainly used for residual coordination after state distribution. This could range from the existence of farmers' markets for agricultural surplus production, often from private production in private farmer parcels, to a partially market-oriented coordination of consumer goods end markets as in the GDR or Hungary. In many socialist countries, such as the Soviet Union, farmers' markets played an above-average role in supplying the country with goods, even though they only accounted for the production of a very small part of the area under cultivation. In the initial phase of collectivization, attempts had been made to close it down completely, but this had partly catastrophic consequences, such as the famine in Ukraine in the early 1930s.

North Korea had also largely tried to push back markets during the socialist construction phase. The Korean War and the ensuing period of need led to an economic model that was heavily dependent on aid from China and the Soviet Union and relied as far as possible on an expanded public distribution system for goods. As early as the 1980s, the rationing of many consumer goods began to increase again, and in the early 1990s the public distribution system partially collapsed and a subsequent famine claimed hundreds of thousands of lives. The near collapse of the economic system led to the spontaneous growth of markets ("*Jangmadang*"), tolerated by the state, which soon supplied the majority of the population with food. Again and again, however, the state tried to regulate the markets through closures, regulation of opening hours and working conditions (among other things, only women were allowed to work there), price controls and a ban on the sale of certain goods, especially rice. One consequence was that, in addition to the tolerated farmers' markets, which soon sold everything imaginable, mini-markets, so-called "frog markets", were formed, where traders carried their goods only in a suitcase and which disappeared immediately when necessary (whenever the police showed up).

The analysis of satellite images today shows how strongly the markets have grown. In the special economic zone Rason, which is located on the border to China and Russia, the market is now housed in large halls built in cooperation with a Chinese joint venture company and offers all kinds of domestic and imported goods from food and consumer goods to construction materials, musical instruments, medicines and electronics. The proportion of goods originating from China had been estimated at up to 85 percent by about 2015, at least in light industry. Since then, however, it has steadily declined, on the one hand due to a state policy of rehabilitating light industry and promoting import substitution, and on the other hand due to increasing difficulties in paying for imports from China. In particular, the free fall of exports in 2017 in the

wake of stricter international sanctions (ban on exports of textiles, labor, fish and seafood, coal and other raw materials) has led to an increased import substitution.

Under Kim Jong-Un in particular, the nature and strength of government intervention in the markets has changed. Whereas in the past direct intervention in the markets was the order of the day, now the focus is more on regulation based on tax revenues through stall fees. Ideologically, this is not without difficulties, as North Korea still describes itself as "the only country where taxes have been abolished". However, the markets are not pure market institutions, but hybridized. One reason for this is the official lack of private ownership of means of production. In fact, therefore, formally state-owned or collectively owned economic units produce for the markets. Agricultural products come either from the (though still very small) official private gardens, or from the mountainside economy, which has been tolerated since the early 1990s, albeit unofficially. Added to this is the surplus production of the official collectives. It is difficult to say exactly how the distribution takes place. In 2012 a distribution of 70 percent (for the state distribution system) to 30 percent (for the private supply, including possible surpluses) was probably decided (the so-called measures of 28 June), then in 2014 the measures of 30 May, which provided for a radical change in distribution (60 percent private versus 40 percent state) (Lankov 2014). It is unclear whether this was really carried out nationwide and on what basis (of planned production or actual production) and whether the more and more reduced agricultural production teams are really free to decide what they grow on their land. The state's influence on agricultural production remains strong. Undeniably, however, the reforms, especially the downsizing of the work teams, which now practically comprise of one or two families, have created a much greater incentive for private initiatives. However, the general problem of shifting resources from the more productive state fields to the less productive but privately used mountain slopes (which also entail a variety of ecological problems such as erosion and damage to the water balance) and the systematic underestimation of official production results remains.

Hybrid organizations can also be found in the service sector and in the consumer goods industry. This takes place through the "cold privatization" of means of production, such as military trucks (for private haulage companies) or machines of state-owned companies (for production sold on markets). In part, this simply stems from the need for companies to create their own investment funds to modernize often decades-old equipment. But it also has important distributional aspects, which are also known from the first "wild" phase of the privatization of other socialist countries; the former nomenclature is usually also in charge of the new market economy. There are now a number of studies on the growth of a new middle class, the "money people" (Donju). However, these are not generally to be understood as potential opponents of the state authorities, rather they are largely identical or at least closely linked to them. In each of the new production units, the party, military and security services are closely involved, in the

form of bribery or personal identity, in order to ensure that production runs as smoothly as possible. At least some of the executions and cleansing waves under Kim Jong-Un can probably also be explained by distribution struggles for lucrative markets and monopolies (especially in the trade sector).

While the service sector (e.g. restaurants and transport, but also private education, e.g. for language learning) is already strongly interspersed with market economy elements, which are also increasing more and more in the light industry, the heavy industry remains the domain of the state economy. But even here, the decoupling of individual production units for private profits can be observed, for example in the country's chemical industry.

All in all, the country's supply situation has improved considerably as a result of the spontaneous emergence of a market economy and its ever-increasing tolerance, especially since Kim Jong-Un took office. Typical problems of the central administrative economy, such as post-harvest losses in agriculture, have thus been reduced.¹ However, these reforms remain piecemeal and the markets fragmented. They cannot unfold their full effect. This is due not least to the fact that a new system of governance for the markets must be found, that the political monopoly of the Kim dynasty must be guaranteed, and that a reasonably comprehensible ideological interpretation must be allowed so as not to lose the trust of the loyal class of functionaries. While no one in North Korea believes in "socialism," or the "central administrative economy" anymore, the fiction of national wealth and the unified state remains an important element of leadership in creating loyalty. The ideological development based on this will be examined in the next section.

3. Ideological developments and governance - from Juche and Songun via Byungjin to "economy first"

After gaining independence from Japan in 1945, the North Korean economic system was mainly enforced by Soviet advisors and therefore largely resembled the economic system of the Soviet Union. Especially with the de-Stalinization of the mid-1950s, North Korea's strongly idolized leader Kim Il-Sung felt compelled to support his continued personalized rule with his own ideological system, the so-called "Juche" ideology, an ideology strongly based on economic self-sufficiency, military defense, and political independence². The political leadership in the Juche system was tailored entirely to the unrestricted, deified leader and was enforced by the dual control of party cells and functional units (such as work teams or military units) also known from other countries.

¹ For an overview of agricultural reform see Ward (2018).

² For an introduction see Seliger (2002).

The near-collapse of socialism since 1990, which began with the end of heavily subsidized energy and fertilizer supplies from the Soviet Union, i.e., the end of "socialist economic relations," also required an ideological upheaval. While North Korea tried to isolate itself as far as possible from the transformation virus, for example by recalling all foreign students, the collapse of the Soviet Union and its satellite states in North Korea did not go unnoticed. However, the economic situation was so catastrophic that most North Koreans were fully occupied with survival and simply could not afford the luxury of more far-reaching political demands. The death of Kim Il-Sung in 1994 shattered North Korea's political system. The handover of office to his son Kim Jong-II, which had been in preparation for twenty years, went smoothly, but the fear of a coup d'état could still be felt. During a visit to an army unit in early 1995, Kim Jong-II spoke for the first time that North Korea's survival could only be ensured by a strategy that put the military before all other concerns - the "Songun" ideology ("military first ideology") was born³. This literally meant that the military, which now became the pillar of Kim Jong-II's power - for twenty years Kim Jong-II had been a key figure in the party apparatus and had appointed all generals, of whom there are about 6,000 in North Korea - always had first access to resources.

Kim Jong-II thus secured the loyalty of the military. It began with the development and expansion of his economic capacities, especially in the monopoly areas of foreign trade, including the arms trade and trade in illegal goods such as drugs. To this day, many current and former export companies, for example in the fisheries and seafood sectors, are under military control. This does not necessarily have to be bad, since - as in the case of China - it can also mean stronger support for peaceful politics (which potentially generates higher profits). However, unlike in China (see e.g. Bickford 1994), this did not lead to the emergence of market-oriented export companies, but rather to an interest in monopoly rents protected by permanently exclusive rights. In practical terms, the "military first" doctrine not only led to the continued privileging of the military ruling class and deprivation for the civilian population, but also to the cementing of ambitious military programs, first and foremost North Korea's nuclear program.

This also changed North Korea's government structures. Already in the last decades of Kim Il-Sung's rule, the role of the party, especially the formal party organs, had steadily declined. North Korea's last party conference before 2016 took place in 1980. Instead, the military decision-making bodies were given priorities, above all the National Defense Commission, which under Kim Jong-II became North Korea's highest decision-making body. The influence of this organization on North Korean politics is difficult to assess. While on the one hand the toleration of the markets already began during this period and reforms were initiated that remind of the

³ For discussion see Vorontsov (2006), Hoare (2012). In order to increase the legitimacy of the Songun ideology, the development of the Songun ideology was officially set for 1960, when Kim Jong-II visited an army unit at the age of nineteen.

time of the Liberman experiments in the Soviet Union (Seliger 2005), on the other hand the military was particularly concerned about changes that affected the monopoly of power of the ruling class in North Korea. At the same time, the period of famine was glorified as a "heavy march to socialism. The perseverance slogans, however, were the opposite of what Kim Jong-Un wanted, who said when he took office that the time of "belt tightening" was over. This was probably based on the right realization that Kim Jong-Un, who surprisingly quickly had to be brought into position as the successor after the stroke of Kim Jong-Il in 2008, did not have the support of the population to claim further victims. Under his rule, projects were also pushed forward that were supposed to strengthen the loyalty of the new middle class through new consumption opportunities: new buildings in Pyongyang, including many upscale apartments, a waterpark, other amusement facilities, etc.

The leadership of the country by military decision-makers changed slowly after Kim Jong-Un took office, who gradually sought a stronger role for the party and whose most important leadership body became the party's organizational and leadership department. After a long period of time he convened a party congress again (the 7th since the foundation of North Korea), strengthened the party committees against the military and gradually replaced military leaders in several waves of cleansing. Finally, in 2016, the previously omnipotent National Defense Commission was abolished (Panda 2016).

Ideologically, the "Songun" policy was never formally abolished, but it became less and less important, like the "Juche" idea under Kim Jong-Il before it. Instead, Kim Jong-Un spoke of the "byungjin" line: it meant the simultaneous strategy of military deterrence by nuclear weapons and economic development, quasi "cannons and butter". While this ideology can be interpreted as a kind of balance between the military elites, which insisted on further armament, and the new economic elites, the line was virtually unviable. The nuclear policy was preventing new economic initiatives such as the special economic zones, which were supposed to attract foreign investment, from functioning. And the greater the threat posed by North Korean nuclear weapons became, the greater became the anxiety not only of the Americans, but eventually also of Russia and China, who finally agreed to far-reaching sanctions in mid-2017, including a ban on the import of coal, fish and seafood, and the export of North Korean labor, so that ultimately it posed a serious threat to the stability of the North Korean economy, especially its ability to earn hard currency. After a duel of words with the new American president, North Korea launched a surprising peace offensive in early 2018. This, too, was accompanied by a new ideological reversal: Now that the world has been shown that one is a fully-fledged nuclear power, one can concentrate fully on the country's economy. "So "economy first" is North Korea's new motto.

All in all, North Korea under Kim Jong-Un has made a complete ideological turnaround, from "military first" to "economy first". This has also been achieved in organizational terms by strengthening the civilian (party) organization vis-à-vis the military. However, it is still completely unclear whether credible denuclearization will be achieved, leading to corresponding international opening decisions. For sustainable economic development however, this is a necessary, if not sufficient, condition. In addition, far-reaching reforms in the economy itself are needed, which will be discussed in the fourth part using the example of the special economic zones.

4. Special economic zones and economic administration of North Korea

The establishment of special economic zones based on the model of China dates back to the early 1990s - in 1991, under Kim Il-Sung, the special economic zone "Rason" was formed from the districts of Rajin and Sonbong on the border with China and Russia, established today as a "special city" with relatively far-reaching autonomy for North Korea, e.g. in visa matters. According to Kim Il-Sung, it was to become a "Singapore of the East", but the zone initially sank into a state of hibernation for one generation. Only China's forced regional policy in Manchuria (northeast), including the expansion of express roads and trains to the border, made Rason more interesting again. Some competition with Russia developed when China modernized the road from the Chinese-Korean border to Rajin (capital of the zone) and Russia modernized the railway there. Nevertheless, investments, almost only in the form of Chinese-North Korean joint ventures, remained an exception, e.g. in the area of textile production, a cigarette factory, and fish and seafood. Rason has a mixed Chinese-Korean management committee with which China can directly influence the administrative development of the zone. However, this was inactive from the end of 2015 due to North Korea's nuclear development.

Table 1: Selection of new laws for Special Economic Zones 2012-2016

조선민주주의인민공화국대외경제중재법 – 2014.07.23
DPRK Foreign Economy Arbitration Act
조선민주주의인민공화국세관법 – 2012.04.03
DPRK Customs Act
조선민주주의인민공화국출입국법 – 2013.07.10
DPRK Entry and Exit Act
조선민주주의인민공화국무역법 – 2012.04.03
DPRK Trade Act
조선민주주의인민공화국수출입상품검사법 - 2013.07.10
DPRK Import & Export Commodity Inspection Act
조선민주주의인민공화국저작권법 – 2012.11.13.
DPRK Copyright Act
조선민주주의인민공화국상표법 – 2012.11.13.
DPRK Trade Mark Act
조선민주주의인민공화국환경보호법 – 2013.04.27.
DPRK Environmental Protection Act
조선민주주의인민공화국경제개발구법 – 2013.05.29.
DPRK Economic Development Zone (EDZ) Act
경제개발구관리기관운영규정 – 2013.11.06
EDZ Management Agency Operation Regulation
경제개발구기업창설운영규정 – 2013.11.06.
EDZ Business Establishment Operation Regulation
경제개발구개발규정 – 2014.03.05.
EDZ Development Regulation
경제개발구로동규정 – 2013.12.12
EDZ Labor Regulation
경제개발구환경보호규정 – 2014.02.19
EDZ Environmental Protection Regulation
라선경제무역지대기업창설운영규정 – 2013.09.12
Rasun Special Economic Trade Zone(SEZ) Business Establishment Operation Regulation
라선경제무역지대개발규정 – 2013.09.12.
Rasun SEZ Development Regulation
라선경제무역지대외국투자기업로동규정 – 2013.09.12.
Rasun SEZ Foreign Investment Company Labor Regulation
라선경제무역지대도로교통규정 – 2013.06.06.
Rasun SEZ Road Traffic Act
라선경제무역지대인민보안단속규정 – 2013.02.06
Rasun SEZ Peoples' Security Regulation

(Source: own compilation)

As part of the détente policy with South Korea, two further tourism and industrial zones were established in Kumgangsan and Kaesong, which were fully developed by the South Koreans through the construction of hotels and leisure facilities in Kumgangsan and an industrial park in Kaesong. The development company in both cases was Hyundai Asan, part of the Hyundai conglomerate. These, strongly supported by the South Korean state, paid large sums directly to North Korea, which led to international and national criticism because of the nuclear crisis. After the shooting of a tourist, Kumgangsan was closed in 2008 and Kaesong, the last remaining cooperation project of the "Sunshine Policy", was finally closed in 2016. The government is currently working on the reopening, but this is very difficult because of the now very stringent international sanctions. Kumgangsan and Kaesong were important opening projects but were always understood by the South Korean side as political projects, not economic projects. This was understandable from the South Korean perspective but led to the illusion in North Korea that similar investment projects could also be carried out with other states. The subsequent expansion of the special economic zones, first at other locations on the Chinese-Korean border, such as on two islands in the Yalu River, then at 16 other locations in the country (which had different names such as export zones, industrial zones, etc.), shows that North Korea has a great interest in foreign investments, but has not understood how these can function (Seliger 2019b). While there is now an impressive new set of special zones rules covering all possible aspects such as land lease, labor markets, tax payments and even road traffic regulations, a number of serious shortcomings mean that none of the new zones have any success in attracting foreign investment. And this is true regardless of the fact that because of the nuclear crisis it is currently impossible to attract significant investment, not least because of the threat of secondary sanctions from the US for companies investing in North Korea.

First, North Korea does not understand that it cannot hope to be paid directly by companies for investments without the infrastructure development of the zones. Many of the new zones are simply rice fields (such as the one in Hamheung) without water, electricity or transport infrastructure. If companies were to settle here at all (which is hard to imagine anyway - a partial investment in existing companies, such as the chemical industry in Hungnam, would be much more conceivable!), then a general contractor (such as Hyundai Asan in Kaesong) would first have to develop the country completely. Payments would then only be made if, as a result, actual manufacturing companies settled in the zone. The prospect of rapid disbursement has always been more important to North Korea than long-term investment in the country.

Secondly, this is related to the insufficient track record of investments. Every investment made to date (the largest of which is probably the Egyptian telecommunications company Orascom) in North Korea has to struggle with the fact that after a few years North Korea is trying by all means to force its foreign partners out of the country, namely when profit payments are due for it. This was the case in telecommunications, but also in many other smaller companies,

from the first joint venture for the Internet with a German company in the early 2000s to car production by "Pyongwha Motors" affiliated with the Moon cult in South Korea and South Korean companies in Kaesong. As soon as the investments have been made and thus become "sunk costs" that cannot be transferred out of the country without further ado, the change of relevant rules, the introduction of new and increased prices has begun.

Thirdly, the communication costs and rules in the Special Economic Zones are prohibitive. For most international companies, it is simply unacceptable for telephones and computers to be searched by government agencies when entering the country, for free communication with North Korean employees not to be allowed, and for e-mail traffic to be extremely poor, and for calls from the country to outside to be difficult to make and not possible on one's own telephone. Particularly in view of the many opportunities for investment in neighboring China, Vietnam and other Southeast Asian countries, there is hardly any economic reason to invest in North Korea. This is true even when advantages such as low labor costs and an absolutely compliant workforce are taken into account. Compared to other countries, it is above all the additional layer of control by the state, e.g. on the labor market, that stands out negatively. A free choice of workers is not possible, for example, unlike in the Chinese special economic zones as early as the 1980s.

Fourthly, the administration of the special economic zones is also inadequate. Initially, a special committee was set up in Pyongyang, consisting of many young officials, to deal with investments in the zones. This has since been dissolved. Where Kim Jong-Un pays special attention to development, especially in the "Wonsan-Kumgangsanzone", so to speak his home, a double structure of well networked Pyongyang functionaries has developed in the "Administration of the Special Economic Zone", which has only loose contact with the actual local administration (Inmin Uiwonhae)⁴.

Access to the zones is marketed exclusively through these officials, which in North Korea involves corruption and bribery at the same time. If these conditions in the special economic zones do not change, it will not be possible to see how major foreign investments in North Korea will be made in the foreseeable future, even if the nuclear crisis is resolved, which is by no means foreseeable. One problem is the North Korean administration's lack of understanding of market economy thinking. The University of British Columbia in Canada, the German Friedrich Ebert Foundation with explicit reference to developments in Vietnam, the Hanns Seidel Foundation for Rason and the Singaporean organization Choson Exchange, amongst others, have already provided initial training. But this is not enough for real understanding;

⁴ For example, when investor seminars for the Wonsan-Kumgangsanzone were held in 2015 and 2016, the local administration was practically not informed at all.

massive numbers of young functionaries would have to be sent abroad to study, a step North Korea has not yet dared to take.

5. Outlook - The Interdependence of Order and Political Stability in North Korea

At this point, the main discussion so far has been about the change in the economy and the economic administration that has actually taken place and is necessary for positive economic development. The spontaneous development of market-economy mechanisms that has taken place so far and has only been tolerated by the state has led to advances in productivity but has reached narrow limits everywhere. These borders are mostly understood abroad as "ideological borders", for example as conflicts between the socialist economic system and contrary market-economy coordination mechanisms. This is no surprise, since North Korea itself often refers to the continuing socialist economic order as a priority over private interests in such conflicts. In fact, however, the conflicts are less ideological than a consequence of the state's monopoly of power, which is increasingly being called into question by the market economy.

While this does not yet affect the political system as a whole - there are no dissidents or oppositions in North Korea, as it was the case in the socialist states of Eastern Europe and the Soviet Union - the monopoly of power is being undermined in many ways. Thus, theoretically, there is only the allocation of housing and no real estate markets. In fact, markets have long since formed through barter and now also more or less open sales by brokers. These in turn undermine the political principle that only "loyal classes" are allowed to inhabit certain districts, especially Pyongyang. The close control of domestic travel (in principle, citizens only have residence permits for one circle, analogous to the old Soviet system, and have to register every trip beyond that) has long since collapsed due to the system of traders and nationwide job seekers. Bribes to undermine existing formal regulations are widespread. The possession of foreign currencies, especially Chinese renminbi, is also widespread and, despite several drastic attempts at control, most recently due to the failed currency reform of 2009, can no longer be fully controlled by the state. Last but not least, the state's monopoly on information has become fragile. More border trade with China led to a boom in dealing with illegal South Korean information carriers with music, soap operas and films. In other words, there are growing discrepancies of the state-led economy and the spontaneous markets. As already Walter Eucken (1990) pointed out, there is an interdependence of various order systems and a tendency to transit from "impure" forms of order, where planning and ownership mechanisms are contradictory, to more pure forms. North Korea in the past several times tried to suppress the markets it had tolerated to grow, e.g. when abandoning trial market reforms in 2005 and with a botched currency reform in 2009. After Kim Jong-Un rose to power, there has been no more attempt to

suppress markets. This, however, in the medium run should lead to more pressure to come from timid, tolerating market reform to full-scale reform.

The current erosion of state power is still taking place under conditions of extremely timid attempts by the state to open up or to tolerate it. But successful market reforms for North Korea would have to go much further. These include, for example:

- Massive sending of young officials and students abroad to study (analogous to China or Kazakhstan)
- Approval of international communication and introduction of the Internet
- New travel regulations for domestic and foreign destinations
- New rules for communication between foreigners and nationals, e.g. for training, in joint venture companies etc.
- Free labor markets at least in the special economic zones

In other countries (China, Vietnam, etc.), such measures have led to undreamt-of productivity gains and thus great wealth. For North Korea, however, they would be highly dangerous from the point of view of political decision-makers. One reason is the massive attraction which South Korea already exerts on North Korea, but which would be much stronger in relation to the individual and which completely eclipses what Hong Kong and Taiwan, for example, represent from the counter image of the People's Republic of China. This problem situation best illustrates North Korea's current policy, which consists of a mixture of small reform efforts with simultaneous increases in control mechanisms (e.g. border fortifications). However, the pressure in the boiler increases and it is not possible to say to what extent it potentially leads to a risk of explosion...

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