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North Korea in Transition: Scenarios for Reform

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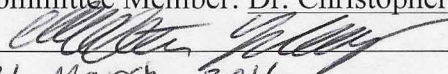
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## Executive Summary

**Title:** North Korea in Transition: Scenarios for Reform

**Author:** Major Matthew A. Seavitte

**Thesis:** The little-reported emergence of private industry is transitioning loyalty and eroding the legitimacy of the Kim dynasty, setting the conditions for economic reform. Continued indirect assistance to accelerate the North Korean illicit economy serves to de-stabilize the regime and also has the fortunate effect of avoiding the Chinese feared social collapse and humanitarian crisis that some scenarios predict. Through analysis, this paper outlines prospects for social-economic reform and explores the probability of possible reform scenarios.

**Discussion:** Kim Jong-Un's ruling days are numbered. Kim's total control over information is impossible to sustain as North Koreans actively seek new and illicit media sources to understand the outside world. Evidence from illicit foreign trade and investments provides insight into North Korea's actual dependence on international assistance. China is a key actor for both North Korea and the international community. Understanding China's communist revolution and its transformation into a socialist market economy provides an important perspective on North Korea's future. Four possible reform scenarios are proposed and assessed (listed from best case to worst case): 1) top-down reform; 2) A middle class revolution; 3) coup d'état; 4) Chinese ultimatum. Each reform scenario uniquely challenges the totalitarian power and socialist ideology, setting the conditions for a transition to a socialist-market economy with demand for a performance-based legitimate government.

**Conclusion:** Kim's political control is weaker as a result of the emergence of the black markets, which are increasingly becoming the source of basic resources North Koreans need to survive. This ideological revolution has the potential to spark the transition to a socialist-market economy, similar to China's transformation, and could end Kim's Dynastic succession. The answer to the problem with North Korea is the North Koreans themselves. They control their own destiny.

## *Preface*

North Korea is an amazing enigma to research. I became fascinated with this rogue nation years back when I first read a collection of defector stories in Barbara Demick's book, *Nothing to Envy*. It took a slice from all levels of the social caste system, from the lowest level "hostile-class" to those elite families within the Worker's Party. A common theme ran through each defector's account of life under the Kim regime. They all had gone through a personal revelation, that they had been living a gigantic lie orchestrated by their own sovereign, designed for one purpose: to keep them in the dark. Each defector's account detailed tremendous acts of personal sacrifice to survive, and escape stories that left me in amazement. North Koreans deserve a chance to live free from tyranny in a society providing self-determination through the preservation of individual liberties already enjoyed by their fellow Koreans in the south.

I'd like to thank the Command and Staff Faculty, particularly Dr. Christopher Yung who has provided critical alternate viewpoints to the field of security studies. I'd also like to thank Major Sang-hoon Baek ROK Marine Corps, who has provided significant insight into a rogue nation held captive. Finally I'd like to thank my mentor, Dr. James Joyner with Marine Corps University who has provided valuable guidance to my research.

I hope this paper provides the audience with new insight for eventual reunification of the Korean Peninsula and cast-off the stigma with a rogue nation held captive by a single totalitarian authority.

## **Introduction**

*“As years pass the North Korean people, already in motion, will fundamentally change their society. As they do so, their leaders should become more benign, moving from the bizarre Kims to ‘a better brand of dictators’ and eventually to representatives in the liberal democratic tradition.” –Gordon G. Chang. Nuclear Showdown, 2006.<sup>1</sup>*

It seems unbelievable in today’s globalization of information that a nation of approximately 25 million people can sustain the degree of isolation being experienced in North Korea. The veil of secrecy held in place by a totalitarian dictator masks a horrendous disaster of humanity. The Kim family dynastic rule has crippled the North Korean economy, brainwashed the population, and created a political stalemate among regional powers, using the threat of nuclear weapons as the primary means for regime survival against intense international pressure.

However, Kim Jong-Un’s ruling days are numbered. Kim’s total control over information is impossible to sustain as North Koreans actively seek new and illicit media sources to understand the outside world. This reality could set off a chain of events leading to the end of Kim’s rule and the opening up of the society, enabling international assistance. This research explores the ways and means by which the Kim dynasty maintains supreme control over nearly every facet of daily life for the North Korean citizens. China is a key actor to consider by both North Korea and the international community. Understanding China’s communist revolution and its transformation into a socialist market economy provides an important perspective for North Korea’s future. Through analysis, this paper outlines prospects for social-economic reform and explores the probability of possible reform scenarios. Four possible reform scenarios

## North Korea in Transition: Scenarios for Reform

are proposed and assessed: A middle class revolution, top-down reform, a Chinese ultimatum, and coup d'état. These reform blueprints challenge the totalitarian power and socialist ideology, setting the conditions for a transition to a socialist-market economy with demand for a performance-based legitimate government.

The diplomatic and military stalemate between North Korea and the rest of the world will eventually end. The question is whether change in North Korea can be peaceful or will inevitably result in war. To remove Kim from power – recovering human dignity and the social contract between citizens and their government – the North Koreans are the solution to their own problem. They control their own destiny.

### **A SOCIAL EXPERIMENT**

#### **Korean History**

The Korean heritage traces back thousands of years with a unique language and ancient culture – *han nara*, or *one people*.<sup>2</sup> North and South Korea are one nation severed through war and political ideology. Following a long and brutal occupation by the Empire of Japan, the hermit nation of North Korea was formally founded in 1948, as the Democratic People's Republic of Korea (DPRK). The separation of North and South Korea along the 38<sup>th</sup> parallel occurred as a result of two super powers (the United States and the Soviet Union) battling via proxy war following the Japanese surrender in World War II. Following reunification failure, Kim Il-Sung established a communist nation in the northern half of the Korean peninsula (DPRK), while southern Korea became the Republic of Korea (ROK).

## **The Kim Dynasty**

North Korea calls itself a Democratic Republic, but any pretense of true representative governance is a façade. With a single political party known as the *Worker's Party of Korea*, elections are coerced by the DPRK and unanimous for Kim. Total power is consolidated into one man – the ruling Kim leader, who dominates the trusting population through brainwashing propaganda and the untrusting population through fear. The Kim dynastic rule has spanned three leaders (Kim Il-Sung, Kim Jong-Il, and Kim Jong-Un), each enforcing the established totalitarian control and presenting himself as a deity in order to maintain persistent and supreme dominance over nearly all aspects of life in this oppressed society.

## **The Ideology**

The guerilla leader Kim Il-Sung, who fought the brutal Japanese occupation that ended in 1945, founded this socialist experiment through a unique ideology known as *Juche* – meaning self-reliance. Following a Marxist ideology with a Confucian tradition, the DPRK system of government attempts to solve the social class struggle seen in capitalist nations with a social-economic system that prevents private ownership. Similar to Mao Zedong's reforms in China, all formal enterprises in North Korea are state-run, farmland is collectivized, and resources and state property are distributed to citizens based on many subjective conditions.<sup>3</sup> North Koreans are organized and rewarded based on political loyalty perceptions. In this hereditary system, a father and mother's lifelong rigorous loyalty to the Kim family is rewarded and inherited by their children and conversely, any perceived disloyalty will severely punish the family for generations.

## **Communism Failure**

Today it is clear that the communist utopia dream has failed. This reality that should be self-evident to those Koreans experiencing terrible famine, and lacking essential resources, is

apparently not enough of a catalyst for change. The regime has beaten down and brainwashed the citizenry through false propaganda, deliberate denial of essential information, a religious worship of the Kim cult, and a twisted system of social loyalty assurances. However, as external media sources leak through Kim's defenses, a growing number of North Koreans are realizing just how bad things are in the homeland.<sup>4</sup>

### **A Militarized Society**

North Korea is the most militarized society on earth, with nearly 40 percent of the population in service, making it the fourth largest military behind China, Russia, and the United States. Shortly after Kim Il-Sung's death in 1994, his son Kim Jong-Il established a political policy called *Songun* (meaning 'Military First'). This policy elevated the Korean People's Army (KPA) to the highest political status with priority access to state resources.<sup>5</sup> Maintaining an enormous military requires nearly total commitment and sacrifice by the citizens of North Korea. The KPA's annual budget makes up approximately one-third of North Korea's gross domestic product (GDP), compared to the roughly 3.5 percent of GDP spent on defense by the United States.<sup>6</sup> This incredible disproportion of resources highlights how a fear-mongering regime maintains its isolation.

### **The Arduous March**

North Korea was hit hard by the collapse of the Soviet Union, and responded by turning inward to disassociate itself from the failed socialist experiments of the Soviet Bloc.<sup>7</sup> The result was an apocalyptic famine where millions of North Koreans starved to death. Kim Jong-Il deflected all blame to the United States and the West, while rallying North Koreans to endure "the Arduous March," a propaganda slogan intended to leverage Korean nationalism as a way to maintain the survival of *Juche* ideology. The vast majority of North Koreans, those that live out-

side the showcase capital of Pyongyang, continue to lack electricity, heat, and running water.

Simple property items such as cars, books, watches, and televisions are scarce. At night, North Korean streets are black. People rely almost exclusively on candlelight, which is itself expensive in North Korea. Televisions (and the unreliable electricity to run them) are provided by the government in return for loyal behavior and are limited solely to state run propaganda programming.

### **Contrasting North and South**

A unified nation only seven decades ago, the divergence between North and South Korea is clear from nearly every measurement possible. Prior to the Korean War, less than 30 million Koreans inhabited the peninsula (both North and South). South Korea now has approximately 50 million citizens, double North Korea's population.<sup>8</sup> The average South Korean can now expect to live approximately eighty-one years compared to sixty-nine years for a North Korean.<sup>9</sup> In North Korea, one-third of children under five do not get enough food and suffer from anemia, and one-fourth of women of reproductive age are undernourished.<sup>10</sup> The night satellite image of the Korean peninsula shows an impressive contrast between simple energy resources. Even the Koreans' physiological features are changing due to decades of malnutrition; the average North Korean is nearly three inches shorter than his South Korean counterpart. Barbara Demick who has organized a collection of defector stories in her book *Nothing to Envy* states, "North Korea is not an undeveloped country; it's a country that has fallen out of the developed world."<sup>11</sup> Recently, South Koreans are enjoying personal liberties similar to any first world liberal nation, but in North Korea personal liberties are essentially non-existent.

## **ORGANIZED FOR TOTAL CONTROL**

### **Social Organization**

Kim Il-Sung created a social engineering system, or caste system, where North Koreans are given rank based on loyalty to the Kim family. A reliability rating, called *Song-bun*, is provided to all North Koreans through methodical background checks.<sup>12</sup> If the grandfather was South Korean, or if the family had Japanese relatives, this would determine the available prospects of the grandchildren (subsequently viewed by the regime as untrustworthy). The DPRK provides resources to North Koreans based on this reliability rating. This oppressive social system is unable to cope with an emerging entrepreneurial class, and will ultimately fracture as a result of the liberalizing middle class.

### **Maintaining Social Order**

North Koreans are organized into “people groups” or cooperatives called *inminban*, allowing the political party to maintain order and discipline through constant social monitoring. Citizens with higher ratings – those that demonstrate unwavering loyalty to the Kim Family – are assigned the role of “minder” within their community. The Worker’s Party requires these “neighborhood spies” to report on any signs of disloyalty. Infractions as insignificant as improperly dusting the portraits of Kim, or saying anything negative about the leadership are enough to have the entire family taken in the middle of the night and sent to a labor camp for “intensive guidance by the Central Party.”<sup>13</sup> Illegal activities, including watching foreign media and more brazen acts such as defection, can result in punishment and even execution.<sup>14</sup> It’s estimated that the DPRK detains between 80,000 and 120,000 political prisoners in four prison camps.<sup>15</sup>

## **Social Ordering and Oppression**

A North Korean's reliability ranking rarely improves, and more frequently diminishes. Those with lower ranks are prohibited from living in Pyongyang or nicer areas of the country. Extreme loyalty brings with it membership in the Worker's Party and potential relocation to Pyongyang as a reward. Those fortunate to live in the North Korean capitol enjoy a living standard that exceeds all other areas. Basic civil resources such as running water, electricity, and heat are provided in the showcase city, although service is still sporadic and unreliable.

The DPRK goes to extreme lengths to deny and deceive both citizens and foreign visitors in order to preserve the regime's ideology and narrative. A North Korean cannot travel from town to town without an official government travel authorization. The few foreigners that are allowed into North Korea are restricted to Pyongyang and are assigned government escorts called "minders" who accompany them every hour during their stay. Demick observes in her book that, "North Korea takes the precaution of assigning two 'minders' to foreign visitors, one to watch the other so that they can't be bribed."<sup>16</sup> Even grocery stores are a façade, showcasing plastic food made to appear real in an effort to demonstrate North Korea's "abundance" to foreigners. The state even severely restricts inter-state travel, requiring written permission from the DPRK to travel between cities.

## **Propaganda**

The DPRK uses intensive propaganda to maintain social order and preserve the Juche ideology. State sponsored billboards depict righteous North Korean soldiers killing hook-nosed American devils, and call on Koreans' sense of duty to continue the Communist Revolution and worship the great Kim leaders. This propaganda envelopment and social brainwashing begins at birth and blankets every aspect of North Korean life. The DPRK requires citizens to pray multi-

ple times a day to portraits of Kim. State controlled media describe, in divine fashion, exploits of the courageous and god-like Kim Il-Sung single handedly defeating whole armies of Japanese during the Empire's occupation. School textbooks and popular stories describe a false reality where North Koreans provide food to the starving Americans and South Koreans, whom they advertise as defeating in the "Fatherland Liberation War" – better known as the Korean War.

### **How North Korea Views the World**

State-run movies reinforce this lie; even children's cartoons show violent warfare of North Koreans defeating vulgar-looking Americans and Japanese soldiers on a mission to rape, pillage, and cannibalize North Koreans. B.R. Myers states in the book *The Cleanest Race*, a collection of DPRK propaganda, "South Korea was originally depicted as a poverty-stricken land, where American soldiers shot Korean children, but by the 1990s, too much information reached North Korea to prevent their learning that South Korea had a higher living standard, and so propaganda admitted it."<sup>17</sup> The DPRK spin on this acknowledgement was to reinforce that South Korea was a place of dangerous racial contamination and longed to be reunited with North Korea under the DPRK's superior social system.<sup>18</sup>

These methods of social conditioning, combined with strict denial of foreign media, enable the Kim dynasty to maintain total control over the population. The extremely few North Koreans that have lived outside the hermit state or have illicit access to foreign media are unable to vocalize this reality out of fear. Kim's *inminban* maintains a fearful hold over those that don't subscribe to the big lie. Even a husband whispering to his wife a negative comment could force a faithful yet paranoid wife to turn him in, thereby saving herself and her children from punishment. In North Korea, everyone is listening, using a system of carrots and sticks to maintain order over a fearful society.

## **CHALLENGING THE SOCIALIST IDEOLOGY**

*“[North Korean] black markets are too big and entrenched for the government to shut down. And as ordinary citizens scrape together a living, outside information is stirring intoxicating feelings about what’s possible.” --Heesun Wee. CNBC 2014.*

### **Enlightenment**

The natural question is how does such an oppressed society in an affixed downward spiral of totalitarian control collectively lift the veil of lies together? The answer is a struggle of erosion to the inevitable enlightenment of the North Koreans. Time seems to be the only thing on their side. As the generation gap widens from those that remember life under the “Eternal President” Kim Il-Sung, the less salient the worship of each Kim becomes. The commercialization of information makes continued restricted access more difficult for the DPRK to sustain. Images of foreign countries with traffic jammed streets, healthy and happy-looking people talking on cell phones in front of vending machines continue to erode the forced lie held in place over North Korea.

The light-speed commercialization of information offers interesting predictions as to how its effect penetrates the black hole in North Korean society. Nearly one in eight North Koreans now has access to a mobile phone.<sup>19</sup> However, Internet access to private citizens is virtually non-existent. DPRK’s total control over information access even extends to personal radios all of which must be fixed on domestic radio stations, prohibiting foreign broadcasts.<sup>20</sup> Once North Koreans learn of the outside world, they can’t unlearn it. Kim’s challenge is maintaining his propaganda fog over a society that is growing a mind of its own.

### **A Touch of Capitalism**

A black market is simply an underground economy where goods and services are sold illegally. Since all goods and services are formally supplied by the state in this communist system based on one's reliability ranking, this makes the formal presence of markets (not established and maintained by the state) illegal. Kongdan Oh and Ralph Hassig, contributors for the *Asian Survey Journal*, state, "Pyongyang has freely admitted that it must deal with the market economies in order to replace its lost social trade relations at least until its economy reaches the point of self-sufficiency, which remains the ultimate goal in the line with the country's guiding Juche ideology."<sup>21</sup> The fact that North Koreans are willing to overtly exercise elements of capitalism in the most socialist state on earth is evidence of desperation and a fracturing communist ideology.

Following the catastrophic famine in the 1990s, the DPRK implemented modest economic reforms. The DPRK allowed North Koreans to develop private markets to offset the insufficient state-run food rationing systems. Individual citizens from both upper and lower classes began making up the difference through private gardens (largely illegal but selectively tolerated), illicit trade of services, and corrupt sale of state property. Heesun Wee of CNBC observes that a younger generation of budding capitalists is emerging: "Grassroots, free-market activities, bubbling and propagating amid widely looped footage of famine, rallies and nuclear weapons proliferation."<sup>22</sup> This sudden reliance on private enterprise sparked a new illicit black market in the 1990s that continues today.

### **Monetary Inflation**

In the 1990s, as a result of the famine that followed the Soviet Union's collapse, North Korea experienced near hyperinflation of its official currency, the *won*. In 2015, a Reuters re-

porter was allowed to roam through a store with government minders and noted the price tags were in both U.S. dollars and won. A simple television set cost 11.26 million won (\$1,340 if paid with dollars); light bulbs sold for 42,000 won (\$5); but these prices are the black market rate. The true exchange rate from won to dollars is eighty times higher than black market rates, making the television “officially” cost \$100,000 and the light bulb \$400.<sup>23</sup> Experts say Kim Jong-Un “has essentially accepted the ubiquity of the black market rate and widespread illicit economy.”<sup>24</sup> Today, shoppers openly pay and receive change in U.S. dollars or Chinese Yuan—at the black market rate.

### **DPRK’S Response to Inflation**

The DPRK haphazardly erased a few zeros from the official exchange rate in response to inflation (as if inflation wasn’t reality) and forced citizens to accept payment or wages at the DPRK’s desired value. The result is a population craving foreign currency over their own. Pearson tells of a ride in a North Korean taxi; the Reuters passenger paid the \$4 fee with a \$20 bill, but insisted on receiving his change paid in North Korean won. Reuters noted the “driver’s reluctance to hand over won was because of the inconvenience, not because he was afraid of being caught” even in the presence of government minders; an inconvenience to make a transaction that would take twenty-six won bills to complete.<sup>25</sup> This encounter highlights how routine the use of foreign currency has become, while overtly challenging the DPRK’s control over free markets in North Korea.

### **Collapse of the Government Food Distribution System and Individual Enterprise**

In 1996, in a rare time when Kim Jong-Il acknowledged the widespread famine, he took a hard line against the growing movement toward individual enterprise when he stated, “In a socialist society, even the food problem should be solved in a socialist way. Markets and peddlers

create egoism among people.”<sup>26</sup> Demick’s collection of North Korean refugee stories during the famine articulated this movement toward a market economy: “Just when things were hitting rock bottom, with deaths reaching the hundreds of thousands, a new spirit of enterprise was born.”<sup>27</sup> Citizens understand the futility of further implementing socialist solutions to a problem that was the direct result of a failed socialist system. Once the socialist food distribution system failed, citizens turned to individual enterprise to survive, starting informal markets and a bartering system to earn income. The result is a gradual loss of faith in the socialist system, as citizens walk a fine line between showing faith in the socialist system while practicing capitalism out of necessity.

### **Opportunity of Private Markets**

The collapse of the socialist food distribution system presented an opportunity for private business. People had to buy their food somewhere, and somebody had to supply it to them. Starving people who once relied on the state to provide all resources (most important being food) now had to adapt and develop true *self*-reliance, proving that the socialist experiment had failed the stress test. North Koreans knew nothing of business other than what the state taught them – all private business was egoistic. Out of hunger and desperation, they were creating their own illicit free-market economy.

### **Economic Reform and Trade**

In 2002, the DPRK attempted a comprehensive economic reform package aimed at reducing the price gap between peasant markets and national stores, mitigating the distorted pricing systems. Because the won was near worthless North Korea ended the use of foreign exchange-coupons while U.S. dollars traded at a higher value than the official exchange rate.<sup>28</sup> Additionally, the DPRK increased the average wage of common careers to match the official in-

flation rates; however, the increase in wages is not a recipe for reform but rather a quick fix to limit the reliance on foreign currency and illicit market prices. In 2005, as the nation slowly began to recover from the famine thanks to illicit capitalist practices, the Kim regime was worried about losing its political grip on the economy and reinstated the former food rationing system, in attempt to reverse the private market trend.<sup>29</sup>

### **Ideology Dilemma**

Kyung-Ae Park and Scott Snyder conclude in their book, “North Korea in Transition: Politics, Economy and Society”, “Defector’s testimonies suggest that economic decline has led to a weakening of ideological controls and a decline in the general belief in the system.”<sup>30</sup> The difficulty with the *Juche* ideology of self-reliance is its limited ability to allow for fundamental economic reforms. A society that prides itself on isolation from international interdependence has difficulty making the necessary changes required to modernize its markets through foreign investments and trade. This special brand of socialism is only further limiting the North Korean potential for wealth and prosperity. The DPRK realizes this dilemma, although unwilling to alter its hypocritical *Juche* narrative for fear of losing the only true control method keeping the population from enlightenment: the ideology that sustains Kim’s legitimacy. It is difficult to understand to what extent ordinary North Koreans truly believe in the *Juche* ideology. The challenge that Kim Jong-Un faces is one of information control in a society that is loosening its loyalty to the revolutionary narrative from an understanding that reform is necessary for survival.

### **Seeking Foreign Investment**

Today, however, Kim Jong-Un is modestly willing to seek greater foreign investment to spark the North Korean economy with foreign currency it cannot earn through trade.<sup>31</sup> Foreign investments and trade remain challenged due to international sanctions in place. Kim’s tactics of

using provocation to demand foreign concessions only further limits his ability to achieve economic reform; assuming that reform is the objective may be too far a stretch for Kim. Real foreign investment comes through illicit market methods, smuggling, corruption, and foreign family ties. China, the DPRK's only ally, provides the hermit state with just enough foreign assistance to survive.

### **China's Investment and North Korean Dependence**

North Korea relies on China for basic resource needs. China is North Korea's most important trading partner, accounting for nearly 70% of its total foreign trade – mostly energy related: oil, coal, and electricity account for nearly 90% of North Korea's energy imports.<sup>32</sup> In return, China has made significant mining investments into North Korea's vast mineral and coal deposits. In recent years, more Chinese manufactured goods are flowing into North Korea through informal (black) markets.<sup>33</sup> China, conversely, depends on the Kim regime to maintain social stability within North Korea. A potential refugee crisis along the shared border could further destabilize China's fragile internal security concerns that result from political unrest and corruption.

China is unwilling to openly acknowledge the ongoing human rights violations in the DPRK, and goes to great lengths to support Kim through financial assistance, diplomatic networking, and nuclear technology intended to balance the growing U.S.-led counter offense against China's objective of Asian-Pacific hegemony. However, China's relationship with the DPRK has cooled in recent years in part due to China's desire to diplomatically distance itself from Kim's bizarre diplomatic behavior. Chinese President Xi Jinping has not met face-to-face with Kim Jong-Un since the dictator consolidated power in 2012.<sup>34</sup>

## **International Sanctions and Effects**

Kim's provocation has brought retribution against the DPRK by the international community for cyber-hacking (United States),<sup>35</sup> taking hostages (Japan),<sup>36</sup> hostile border fire into South Korea,<sup>37</sup> and the global threat from Kim's development of nuclear weapons. These aggressive actions by the DPRK have led the United Nations to implement financial and trade restrictions against North Korea. However, punishing the DPRK with sanctions has done little to marginalize Kim's legitimacy or deter his terrible international behavior, but rather provides Kim a scapegoat to direct grievances. Additionally, sanctions seem to stifle only the lower and emerging middle class North Koreans.

Businessmen, those in either black or grey markets, are severely limited without access to foreign markets. Few North Korean officials can travel or possess large foreign bank accounts. Instead, the DPRK earns hard cash through illicit sales of military technology and narcotics. The U.S. Treasury recently acknowledged that sanctions against North Korean organizations would have limited effects.<sup>38</sup> Regardless, sanctions allow the international community to overtly punish DPRK provocation without resorting to lethal force. Regardless of the second-order effects sanctions are having on the lower and middle class citizens, the international community has an obligation to protect itself against a hostile regime. One thing is clear: North Koreans are not the enemy. Sole blame rests with their totalitarian dictator, Kim Jong-Un and his dynastic legacy.

## **AN EMERGING MIDDLE CLASS**

### **Personal Wealth**

Illicit individual enterprise in North Korea has sparked the emergence of personal wealth and property not "earned" through official state distribution methods. The result is a population

that is making overt moves toward economic reforms similar to China's socialist-market economy. However, unlike China, political reform is not in step. The goal of any communist society is the eradication of a class system, where socialism attempts to lower the class wealth gap. The DPRK officially recognizes itself as socialist, but the political and social intentions are more important than what it's called. North Korea acknowledges a political class system based on loyalty to Kim, where citizens are segregated through reliability rankings, Worker's Party membership, and military affiliation<sup>39</sup>. Upper class North Koreans are heavily favored by the state and rewarded with higher paying wages.<sup>40</sup> This distribution of wealth reinforces these social and political affiliations into economic classes seen in capitalist societies.

### **Social Class Gap**

The upper class, typically members of the Worker's Party and senior military officials, make up a very small fraction of North Korean society and are largely consolidated in Pyongyang. Thus, a quarter century ago following the famine, the lower class made up the vast majority of citizens as essential state resource distribution was triaged to flow only to the upper class party loyalists. However, as the survivors of the "Arduous March" moved toward individual enterprise to provide themselves things not provided by Kim, a middle class society began to emerge. A challenge to the growing consolidation of a North Korean middle class is that anyone with the means to jump the sinking ship is likely to, slowing the momentum for reform. However, the opportunity to defect is severely limited as a result of the hyper-vigilance contained within Kim's totalitarian architecture and the persistent threat of retribution of defectors to their entire family.

## **Defectors**

Those brave enough to defect largely cross into China along the Yalu River, which can be forded by foot in the winter. Once defectors reach China, they are still in significant danger. If captured in China, they are immediately deported back to North Korea since China does not recognize North Korean refugee status. Defectors instead covertly travel, with the help of a small underground liberation network in China, into Thailand where they are allowed refugee status. Once in Thailand, they have the option to relocate as desired. Many choose South Korea to reconnect with lost family members, others to Japan, and a few as far as Canada. Those fortunate souls detained by Japanese coastal patrols are immediately deported back to the only Korea Japan officially recognizes...South Korea.

## **‘Black Market’ Generation**

Today’s younger generation appears more individualistic than their parent generation who remember a more stable regime. Therefore, the millennial generation is less likely to buy-in to the regime’s propaganda. Yeonmi Park, a defector who sold her items on the North Korean black markets states, "My generation, they're not really worshipping the Kim regime sincerely, just pretending. That's what we call the black market generation."<sup>41</sup> This younger generation is heavily exposed to illicit South Korean bootleg movies and TV shows depicting a western lifestyle full of social taboos. It’s only a matter of time before North Koreans openly acknowledge the well-known fact that even the lowest-class South Koreans live better than most in the North, further eroding confidence in the socialist ideology.

The catalyst for this generational gap has come largely from the porous 880-mile border with China, where a variety of illicit foreign media infiltrates this closed society. As the younger generation becomes aware of the outside world, North Koreans will eventually part with the

DPRK's communist dogma and begin a new age of self-determination. Reports in 2014 estimated average state wages in North Korea were between 4,000 and 8,000 won per month, the equivalent of \$4-8 dollars at the current exchange rate.<sup>42</sup> Al Jazeera correspondent Fragkiska Meralou points out even though food rations and housing are subsidized, the majority of North Koreans try to supplement their income in the informal private sector.<sup>43</sup>

### **Pyongyang's Privileged**

Conditions in Pyongyang are far from the national average in North Korea. Those fortunate loyal citizens, many aspiring Worker's Party Members, enjoy the "superior" lifestyle when compared to those living outside of the DPRK's showcase capital. The further outside Pyongyang, the greater contrast between the expanding middle-class and the rest of the population.<sup>44</sup> While Pyongyang is intentionally held at the highest aesthetic standards to maintain Kim's propaganda appearance (particularly to foreign visitors), regions outside Pyongyang lack all these luxury investments. However, this has only fueled a black market reform where state food distribution has long been restricted, further forcing citizens to make a living on their own –without reliance on the state. These private enterprises today account for nearly 80% of North Korean family income.<sup>45</sup>

## **CHINA'S TRANSFORMATION**

*"The late Kim Il-Sung would not recognize his country's economy today. Politically, the regime still cracks down on dissent and issues meaningless edicts about the evils of capitalism. But it must know: Juche has died, and markets are on the rise."*

*–Yeon-mi Park, North Korean Defector*

### **How China Transformed into a Socialist-Market Economy**

At the end of 1978,<sup>46</sup> China implemented economic reforms under Deng Xiaoping, transforming into a socialist-market economy based on a combination of state-owned sectors and open-market capitalist policies, often referred to as state capitalism. China's brand of market reforms continues to be challenged by direct and indirect state sector control policies, such as limits on privatization, mandatory output quotas, and a state-run financial system that stifles healthy open-market competition. However despite China's reluctance to openly accept capitalism, the selective capitalist policies have transformed China's economy into the second largest behind the United States. Once comrades in communism, China and North Korea have taken very different paths towards modernization. Without openly acknowledging communism's defeat, North Korea is learning lessons from its only ally on economic reform policies.

### **Parallels with China's Reform and North Korea**

The challenge in North Korea is still its ideology of self-reliance that avoids foreign economic entanglement, but informally acknowledges North Korea's singular reliance on foreign energy imports. Once this dogma is worn out of the DPRK's narrative, the sooner North Koreans can achieve significant open-market opportunities, generating a social and economic boom with the potential to create the highest standard of living yet seen in North Korea. China's reform history is fairly young itself. Chairman Mao Zedong orchestrated a communist revolution in 1949 and created the People's Republic of China. Chairman Mao's brutal domination and unique ability to remain in power through the social manipulation of young generations of Chinese (Cultural Revolution) shaped lessons learned by his fellow dictator in North Korea – Kim

Il-Sung. However, with Chairman Mao's death, Chinese reformists eventually purged Mao sympathizers and began to shape their economy into a socialist-market system.

### **China's Reform Blueprint**

The model introduced by Deng Xiaoping walked a fine line between socialism and market capitalism, all based on profit sharing. It loosened procurement targets and allowed contracting of individual pieces of land to farm households, dramatically reducing the role of the collective.<sup>47</sup> Under Mao's communist system during the Great Leap Forward, a farmer's entire crop was taken by the state and placed into a commune to be distributed by the state. A middle management tier was established to organize dispersal of resources in accordance with state priorities under this communist system. However, Deng's proposed socialist-market reforms allowed the farmer to keep a considerable cut to sell for profit, a policy aimed toward increasing competition and thus increasing production.

The downside to communist sympathizers, particularly those middle managers under Mao's system was the marginalization of communist officials under these new reform policies. Therefore, Deng proposed that each middle manager be entitled to a protected cut, thus ensuring the communist sympathizers could live with the socialist reformation. However, not all industry is left to the private sector. China continues state monopolized sectors such as banking and defense industry.<sup>48</sup> The end result is a dramatically improved but imperfect economic system, where corruption is rampant. The upside is a system more effective than Mao's oppressive brand of communism. Additionally, China was able to strike a balance in its civil-military relationship<sup>49</sup>. Deng acknowledged the powerful political influence of the Central Military Commission, a challenge that North Korea must face to achieve reform similar to China.

This example of Chinese reform in a nation with over a billion people is an oversimplification of a process that is still continuing today. China is fighting through systemic corruption as a result of the transition from communism to a socialist market economy. The path to reform for North Korea takes will take generations to recover from the current system. There are other former communist nations that are struggling to make this transition, Cuba for example that have made modest profit-sharing policies but are still plagued with political oppression and corruption.

### **China's Encouragement for North Korean Reform: Letters to Kim**

It is clear today that China desires a similar reform for its annoying neighbor, using the same recipe to ease the transition away from communism. China also desires the United States to stop political saber rattling with the North Koreans via inflammatory military exercises that encourage a paranoid dictator to continue expending resources to increase his military deterrence. China's diplomatic policy with North Korea seems to be one of necessity, which enables Kim to stay in power, not wanting to risk rapid social collapse that could trigger a massive refugee crisis on China's doorstep. This doesn't mean China is not providing Kim with carrots and sticks to enable a mutually beneficial reform. The question then comes down to Kim: is he able to reform in a way in which he remains in power?

### **A Challenge for Reform**

Unlike the Arab Spring movement, North Koreans have little capacity to rebel against their government. Unemployment rates in North Korea are virtually non-existent. Citizens are preoccupied with coping mechanisms for survival. For example, a factory worker reports to work in the morning, punches his time card, and bribes his supervisor to spend the day fishing or foraging scrap metal to sell on the black market.<sup>50</sup> A significant international effort during the

Arab Spring movement was to promote this “youthquake” into North Korea. While North Korea does have a large literate youth population, they are consumed with the five to twelve-year obligatory military service and daily survival, not rebellion.

### **Why Strategic Patience is the Best Approach**

President Obama’s policy of “strategic patience” is the correct approach with North Korea over the previous “Hawk Engagement” policy under the Bush Administration. Strategic patience is a policy that recognizes time is available to pursue moderate bi-lateral diplomacy with North Korea along side multi-national talks with regional Asian powers like Japan, South Korea, and China. In contrast, the previous administration’s Hawk Engagement policy had a more cynical outlook on negotiations with North Korea with strategy to achieve regime change<sup>51</sup>. Allowing the growing shift toward capitalism to spread into a socialist-market economy sets the course for North Korea to shed the Kim Dynastic rule as it searches for government with performance-based legitimacy. Additionally, the United States must continue to sustain and improve the military deterrence on the Korean peninsula and to continue to work with the “Six-Party Talk” members (China, Japan, North Korea, Russia, South Korea, and the United States) to address North Korea’s nuclear program, its ballistic missile deliver capability, and its continued provocation of its neighbors.<sup>52</sup>

### **BLUEPRINTS FOR NORTH KOREAN REFORM**

The goal of this section is to explore reform prospects through four distinguishable scenarios that would lead to an end of totalitarian control and the persistent threat posed by Kim to the international community. Through analysis of these blueprints, assessments are made as to

the feasibility of each scenario and reviewed through a United States foreign policy lens. These scenarios are ordered from best case to worst case.

### **Scenario #1: Kim's Top-Down Reform**

It is possible that Kim sees the dilemma between the communist ideology and the capitalist policies required to jump-start the North Korean economy. Through modest reform policies that allow limited privatization while turning a blind eye on the ever-growing black markets in North Korea, Kim could be heading in the right direction toward a socialist-market economy. However, North Korea requires help in the way of lifting current sanctions authorized by the United Nations (enforced by the United States) on imports and exports aimed at disrupting the DPRK's nuclear weapons program. Cooperation between China, South Korea, and the United States enables the lifting of sanctions in return for socialist-market reform policies, monitored by China using agricultural, industrial, and civic lines of effort to improve the North Korean economy.

**Assessment:** This scenario is likely to be the best case for all nations, including North Korea, as it offers the most internally stable reform mechanism and the lowest risk of war. Given the current U.S. foreign policy of "strategic patience" combined with the DPRK's continuous failure to comply with nuclear disarmament, it is unlikely that the United States can make a strong enough argument to the American people to lift sanctions against a brutal totalitarian dictator, which constantly threatens his neighbors with force and defies the United Nations ban on nuclear testing. The U.S. foreign policy on North Korea is centered on nuclear weapons, not economic reform.

## North Korea in Transition: Scenarios for Reform

A giant leap of faith is required for the U.S. to conclude that Kim is capable of top-down reform. For nuclear disarmament to occur, conditions must be reversed if the North Korean economic system is to fundamentally change the status quo and delegitimize Kim Jong-Un, mitigating his nuclear weapons threat. More importantly, the likelihood that Kim voluntarily agrees to such an agreement and upholds his contract is severely low. Kim Jong-Un's only motivation is to retain power. Any agreed conditions that limit his authoritarian control are unlikely.

Top-down economic reform away from the Juche communist ideology would undermine Kim's social control mechanism, making Kim's days in power numbered. Kim – through decades of dynastic communist ideology – has tied his fate to the state control mechanisms designed to maintain the social and political architecture for the sole benefit of dynastic succession. Although top-down reform could ultimately retain elements of Kim's power, it is unlikely Kim Jong-Un will part ways with the communist ideology handed down by his fathers for the sake of his countrymen. However, there is evidence of modest liberalization effort by Kim Jong-Un to spark the economy through an increase in North Korean labor heading to Africa and Southeast Asia, as well as North Korean official studying aboard to learn about how to transition a controlled economy into a market economy. This scenario, while the least violent solution to North Korean reformation methods, has the moderate odds of occurring.

### **Scenario #2: A Middle Class Revolution**

This reform scenario is likely the most difficult to accomplish for this oppressed nation – a social revolution. One can strongly argue the growing middle class, gaining momentum through an embedded black market, is the base for a revolution. The fact that capitalist trade patterns are becoming routine in North Korea is evidence of a loosening with the Juche ideology. As time passes and the North Koreans further progress their society, trading state-reliance for

true self-reliance, North Koreans will see their own standard of living increase, with reformed government collaboration policies. Capitalism does breed entitlement, but it can also encourage the belief that North Koreans are entitled to self determination, with a right to keep what they have earned, no longer needing to submit their efforts back to a brutal dictator.

**Assessment:** Grassroots revolution is extremely difficult considering the oppressive social control mechanisms in place in North Korea. The *inminban* civil spy network combined with the unavailability of unemployed rebels makes the grassroots revolution a long shot without significant international assistance. A social revolution requires heavy foreign influence to fan the capitalist flames for social-economic reform. North Korea requires a charismatic and influential grassroots leader like Mao Zedong to mobilize the lower and middle-class citizens, combined with a heavy following from the DPRK military, to be successful. A core group of citizens holding key leadership positions must synchronize their efforts behind a new leader – who has yet to emerge and challenge Kim. These revolutionaries require a strong counter-narrative to Kim’s totalitarian brand of communism that targets the passions of a society ready to explore all the unknown experiences promised by foreign media. It is possible for a blending of both top-down and middle class (bottom-up) reform to occur. However, unlike China where political dissent was tolerated to a certain degree, political dissent in North Korea is all but impossible. In order to assist a middle class to demand political freedoms, there must exist some degree of political competition.

### **Scenario #3: Coup D’état**

An interesting hypothetical end to Kim’s regime is through assassination, either at the hands of a foreign state or through a military coup d’état orchestrated within the DPRK. This would enable accelerated reform possibilities. The South Korean government remains postured

to take the lead for initial stability by securing known weapons of mass destruction, providing direct command and control support to the DPRK's military, and supporting critical humanitarian assistance, minimizing the potential for hostile escalation. However, this scenario highlights sensitive geopolitical interests between China and the West. With neither side wanting to miss an opportunity to inject influence into this North Korean power vacuum, even the smallest interaction between merging foreign powers could escalate into a larger inter-state conflict. All intervening parties would need to exercise caution with state building in a nation that is recovering from an ideological and social control hangover.

**Assessment:** A coup d'état from within the higher-ranking class is unlikely. Those living in greater privilege tend to be content with the status quo. However, those officers of middle to lower rank with even fleeting access to Kim could execute a lone wolf attack at any time. The likelihood that a state-sponsored coup could occur is difficult to assess. Some punctuated event such as a direct and credible threat of WMD is required to push any state to assassinate Kim. If what Kim Jong-Un and his father and grandfather have done up to this point in time, does not provide sufficient incentive for a state to decapitate the regime, then it is unlikely to happen without a new and dramatic set of circumstance.

### **Scenario #4: A Chinese Ultimatum**

China has the capability and *credibility* to force a potentially peaceful ending to the Kim dynastic rule. Once Beijing has had enough of its tyrannical neighbor following either a nuclear weapon launch, a large-scale attack on a neighboring state, or a China-assessment of imminent regime collapse, Beijing could likely deliver an ultimatum to Kim Jong-Un offering asylum in exchange for his departure. This scenario offers interesting possibilities for sustaining a peaceful transition of control. The People's Liberation Army (PLA) could take two feasible paths: insert

direct PLA control and implementation of tested Chinese socialist-market reform policies, or provide indirect control through key actor placement atop the Worker's Party.

**Assessment:** South Korea would unlikely stand idle given any opportunity for possible reunification and instead South Korea would insist on a bilateral reform package to enable a transformation protecting its interests. However, China's ideal outcome would remain a unilateral reform where North Korea institutes Chinese socialist-market reform policies while still maintaining North Korea as a buffer state against South Korean and United States military forces on the peninsula. The greatest concern with a unilateral Chinese reformation is the security of Kim's nuclear weapons. While South Korea and the United States certainly have layered contingency plans to deal with such a scenario, the Chinese will be reluctant to concede any bilateral agreement for North Korean reform given China's reluctance to acknowledge the DPRK's continuous human rights violations.<sup>53</sup>

Unlike China's political reformation that brought Deng Xi Ping into power following Mao Zedong's death, North Korea fundamentally lacks sufficient top-level political dissent within its single political party to enable alternate political leadership. China is very capable of asserting an ultimatum to Kim and his trusted delegates to seize control over a crumbling security issue. This unilateral Chinese ultimatum likely offers the most realistic and expedient possibilities for North Korean reform. This scenario also offers the lowest probability for violence when DPRK's leadership is coerced through asylum...though unlikely able to avoid an international human rights tribunal. However, when faced with certain death from the PLA, Kim and his loyalist elite are likely to accept this ultimatum with unfavorable terms, provided the media narrative allows legitimate preservation of socialist ideology on behalf of China and North Korea.

## **CONCLUSION**

North Korea has avoided both economic reform and total collapse, largely through falling back on ideological exhortation and enforcement of social controls.<sup>54</sup> The evidence of proto-reform within this enigma state is difficult to assess due to limited un-tampered or un-inflated economic performance data released by the DPRK. Most of what scholars know results from a mix of defector testimony combined with state released performance data, filtered through the intelligence community. North Koreans are uniquely challenged due to the overwhelming social energy required to sustain daily survival, combined with the crippling totalitarian social control Kim's regime enforces, limiting overt revolutionist movements.

### **International Resources to Assist Middle Class**

Any unilateral or coalition effort to forcefully remove the Kim family from power would incur a cost of human life only justified in the presence of an existential threat. David Maxwell of Georgetown University notes that as long as Kim rules North Korea, he will never end his nuclear weapons program, never dramatically demilitarize the DMZ, and never end the horrendous human rights atrocities in order to meet his one objective – regime survival.<sup>55</sup>

Maintaining international sanctions against the DPRK as punishment for its failure to de-nuclearize and for its continual provocation of its neighbors remains a challenge to Kim's legitimacy among North Koreans. As the emergence of the black markets become the social norm, providing ordinary North Koreans the basic resources to survive, Kim's political control on a society which previously relied completely on the state for survival, will weaken. This ideological revolution could spark the transition to a socialist-market economy, similar to China's transformation, and challenge the Kim Dynastic succession. Therefore strategic patience is the cor-

rect policy to deal with the diplomatic stalemate between North Korea and the International community.

North Koreans are the answer to their own problems. Continued indirect assistance to accelerate the North Korean illicit economy serves to de-stabilize the Kim regime but also has the positive effect of avoiding the Chinese-feared social collapse and humanitarian crisis that some scenarios predict to accompany regime collapse. National dignity is a driving force in the way North Korea reforms its society. It is said that Koreans are peculiarly sensitive to losing “face”. They have tremendous personal pride in their ability to endure hardship and prosper. Social and economic reform in North Korea will maintain Korean dignity in the process. Unless a catastrophic event occurs on the peninsula (launch of a nuclear weapon or complete collapse of the government) that would result in a Chinese ultimatum scenario to replace Kim, these reform scenarios achieve a trilemma solution to the stalemate between Kim and the international community. The future North Korea could be transitioned softly through private enterprise and the solidification of a middle class insistent on preserving efforts with economic policy reform as the black market becomes white.

### Notes

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