

North Korea's Market Economy Society from Below

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Printed: May 2005

Published: May 2005

Place of Publication: Korea Institute for National Unification

Publisher: President of Korea Institute for National Unification

Registration No.: 2-2361 (April 23, 1997)

Address: 535-353 Suyu-dong, Gangbuk-gu, Seoul, 142-887, Korea

Telephone: 82-2-900-4300; 82-2-901-2525

Fax: 82-2-901-2544

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Publications of Korea Institute for National Unification are available at major bookstores.

Also, contact the Government Publication Sales Center: Tel: 734-6818 or 394-0337

ISBN No. 89-8479-290-X 93340

North Korea's Market Economy Society from Below /
by Jae Jean Suh. -- Seoul: Korea Institute for National
Unification, 2005
p. ; cm. -- (Studies series ; 05-04)

ISBN 89-8479-290-X 93340

340.911-KDC4
320.95193-DDC21

CIP2005000946

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I . Introduction

This paper analyzes the process of system change currently taking place in North Korea. Throughout the paper, two themes will be maintained: First, the direction of current changes in North Korea's economic sector is toward a 'market socialist economy,' and in response to the changes in the economic sector the social sector is also headed toward a market socialist economic society. And, second, the system change in North Korea is occurring from below.

The first thesis is in response to an argument that the July 1 Economic Management Improvement Measures (hereinafter, "July 1 Measures") that North Korea has taken in 2002, are not very significant. This paper will maintain that the changes currently taking place in North Korea are part of a market-oriented reform and they are drastic and remarkable. Economically, they are in the direction of market socialist

economy, and the changes in the economic sector are nudging the social sector toward a market economic society. North Korea's official position is "to garner the greatest benefits, while firmly maintaining all socialist principles." In reality, however, the North Korean decisions should be seen as reformist measures that shake the foundations of its socialist system.

Bradley Babson, World Bank's Senior Advisor for East Asia and Pacific, who has had numerous contacts with North Koreans over the Bank membership issue, told a US Senate committee that North Korea's July 1 Measures were the most drastic economic decision since the 1946 land reform.¹ Kim Jong Il's changing perceptions are also apparent in his statement released in connection with the July 1 Measures:²

We must look at and treat all the problems emerging from the socialist economic management from a more reformist view and progressive perspectives. Even if the economic management systems and methods of the past had been good and proper, they may not be the best today. We cannot achieve economic development if we continue to insist on an economic management that is outdated, backward, and unrealistic. Our workers must reform the methods of socialist economic management in our unique way that fully reflects the realistic demands in times of change and development, by actively creating what needs creating and courageously changing what needs changing.

¹ *Radio Free Asia*, June 24, 2003

² Kim Jong Il, "*On Improving and Strengthening Socialist Economic Management to meet the Demands of Building Strong and Prosperous Nation*," (Statement on Oct. 3, 2001), p.2 <<http://nk.chosun.com/original/print.html>>

This statement makes it quite clear that Kim Jong Il is fully aware of the inevitability of reform. Phrases like a “more reformist view” and the “outdated, backward” methods reflect a major change of his perceptions compared to his earlier instructions like “Do not expect any change whatsoever from me.”

But, some of the published articles seem to misinterpret the significance and impact of the July 1 Measures.³ And, other analysts tend to dismiss the significance as a policy that failed due to the poor availability of required resources.

The second thesis is that the July 1 Measures were taken not on the government’s own initiatives but as an inevitable decision forced on the government by the changes from below, which the government had to openly accommodate. The changes in the economic system were not a natural consequence of the collapsing national economy, but due to the black markets that the people have developed to cope with the economic hardship even as the government tried to suppress them. This was not a change that the government brought about through the implementation of policies, but something that the North Korean people have achieved by circumventing the state controls and suppressive behaviors of officials through such unconventional methods as offering bribes. This paper will demonstrate that the current changes in North Korea’s economic system are led not by the government initiatives but by social dynamism.

³ Lee Suk, “North Korea’s Central Planner, Did He Really Throw In the Towel?” *KDI North Korean Economic Review*, (Seoul: Korea Development Institute, June 2004)

Another point of this paper is to argue that observers of North Korea should focus on dynamic elements of social change in addition to the government policies as the basis of judgment. Because, as in the case of July 1 Measures, North Korea might experience additional changes that could occur independently of the preferences of its leaders. Similar developments have already occurred in other socialist systems in East Asia, like China and Vietnam. With the implementation of July 1 Measures, North Korea tried to absorb black markets into the existing state-run store system. When this appeared impossible, the government decided to renovate and expand them into “general markets” or “supermarkets,” which was evidence that the July 1 Measures were not what the government intended or preferred.

This paper will also focus on the concept of “market socialism” in connection with the direction of current changes in the North Korean society. The concept of market socialism, or “socialist merchandise economy,” began to circulate in China since 1982. This concept should be distinguished from the term “socialist market economy,” which China began to use from 1992 to further emphasize the importance of market economy. There is evidence that the term “market socialism” is an appropriate concept for the purpose of describing the current North Korean system. On November 6, 2003, the seventh Inter-Korean Economic Cooperation Promotion Committee meeting was held in Pyongyang. Following is part of an exchange between the two chief delegates: The South Korean chief delegate Kim Kwang-rim said, “Now that markets were introduced to

North Korea, let's add another term to the market and call it a market economy." The North Korean chief delegate Choi Young-kun responded, "No. That is not possible. Ours is 'market socialism'." It is interesting to note that a high North Korean official has openly used the term "market socialism," which implies a combination of "market" and "planning." Since the July 1 Measures, North Korea officially has used the term "pragmatic socialism" to describe its system. "Pragmatic socialism," then, is a North Korean-style expression of market socialism, a painstaking attempt to conceal the fact that it was introducing market economy. It is obvious that both market socialism and pragmatic socialism are different concepts from North Korea's traditional socialism.

We will first analyze various aspects of North Korea's economic and social transformation, and discuss how the current system compares with the previous one.

In order to demonstrate the validity of the two hypotheses; i.e., the trend toward market socialism and the people-initiated changes from below, this paper will try to provide specific answers to the following research questions: Where did the dynamic initiatives of reform and openness come from in East Asian socialist countries like China and Vietnam? What was the background of the July 1 Measures and what caused the social change that brought up the July 1 Measures? What kinds of change did the July 1 Measures bring on to the economic system, and what were their repercussions and impact on the society at large? What are the similarities and differences between the North Korean case and other East Asian cases

like the Chinese and Vietnamese? How will the changes in North Korea proceed in the future?

II. Dynamic Causes of Social Change in the East Asian Socialist States

In order to understand the changes in the North Korean society, it would be necessary first to analyze the dynamic causes and the processes of change in China and Vietnam, because the changes in North Korea are more likely to follow the Chinese or Vietnamese patterns than the Russian or East European precedents. On the one hand, North Korea shares many social and cultural similarities with China and Vietnam; on the other hand, North Korea, too, is trying to overcome the economic hardship within the framework of a socialist regime.

The openness and reform in China proceeded in two dimensions. At one level was an attempt to pursue external “opening” through the installation of “special economic zones (SEZ).” The other dimension was to “reform” the entire Chinese economy and society. The SEZs are set up in certain areas and capitalism is allowed there to lure foreign investments. But, the reform

that had the greatest impact on social change in China was the trend toward capitalism in the wake of the introduction of *Bao Chan Dao Hu* (or, the family-unit farming) system. Following the implementation of this system, commercialization led by the farmers brought rapid growth and change to the entire economy, and a widespread capitalist change permeated throughout the entire Chinese society.

Now, the family-unit farming system has brought a capitalist reform to the Chinese society. But, what was interesting in this process was that the dynamic force behind the introduction of this system was not the government but the initiatives of the farmers from below.

Daniel Kelliher accurately pointed out that the family-unit farming system in China was never planned by the government or by the national leaders. In fact, the farmers developed this system in an extra-legal way, and the government had to endorse and legalize it later. Kate Xiao Zhou also documented and supported this point in her very solid empirical study.⁴

Many studies on China's openness and reform gave credit for this initiative to the reformist leader Deng Xiaoping. True, the idea to launch a policy of openness by establishing SEZs in places like Shenzhen was Deng's, but the idea of family-unit farming was not his at all. The reason this idea was attributed to Deng was because the CCP and Chinese media tried to give credit to Deng for the economic reform in China, and

⁴ Daniel Kelliher, *Peasant Power in China: The Era of Rural Reform, 1979-1989*, (New Haven: Yale Univ. Press, 1992), p.41; Also, Kate Xiao Zhou, *How the Farmers Changed China*, (Boulder, CO: Westview Press, 1996).

Western scholars, who were not familiar with the Chinese realities, simply accepted their explanations. One good example is the writing of a Canadian scholar, who studied the early phase of China's openness and reform. He argued in his 1986 book that China had proclaimed agricultural reform during the Third Plenary Session of CCP in 1978, and ideological- and political-level rationalizations for the implementation of *Bao Chan Dao Hu* ("family-unit farming") system had been completed during the CCP Central Committee meeting in September 1979. What did he mean by "ideological- and political-level rationalizations"? What was proclaimed at the time was a broad, general direction for reform. But, there was no specific mention at the time about the "*Bao Chan Dao Hu*" system in the agricultural sector.⁵

But, Kate Zhou's 1996 study strongly and persuasively refutes such argument. Zhou grew up and experienced firsthand the realities and the process of openness and reform in China. This system, she argues, is the product and prize of long and persistent struggles of the Chinese farmers, who had been dissatisfied with the former Communist system centered on urban workers.⁶

In a despotic regime like China, how could farmers have led such a campaign that could shake the foundations of the system before the government legalized or approved it?

⁵ Michael Chossudovsky, *Toward Capitalist Restoration?: Chinese Socialism after Mao*, (NY: St. Martin's Press, 1986).

⁶ Kate Xiao Zhou, *How the Farmers Changed China* (Boulder: Westview, 1996), p.xxvi.

Furthermore, how could it spread nationwide? Daniel Kelliher maintained that the family-unit farming system was implemented in an extra-legal manner. But, how was it possible in a socialist dictatorship like China?

Kate Zhou offered very perceptive answers to these questions. She explains that the farmers were able to succeed in their reform efforts by following the so-called SULNAM approach.⁷ SULNAM is an acronym for a movement that has brought about a system change. In order to attain the objective of the *Bao Chan Dao Hu* farming system, the Chinese farmers participated in a voluntary (Spontaneous) movement for individual interests, without organizing any social movement (Unorganized), without any leaders (Leaderless), without any ideology binding the participants (Non-ideological), and without any political agenda for a system change (Apolitical).⁸

This movement was made possible because individual Chinese farmers went into “family-unit” farming by bribing the officials and entering into unofficial land-use contracts with them. In short, the key to the success of SULNAM was bribery at personal levels. The essence of the SULNAM strategy was bribery. The strategy was not an organized resistance as in the past. The Chinese farmers had incessantly resisted and struggled in a variety of ways to recover the old system of family-unit farming since the 1950 collectivization of farmlands. Their efforts, however,

⁷ SULNAM stands for Spontaneous, Unorganized, Leaderless, Non-ideological, Apolitical Movement.

⁸ This point contradicts with the “resource mobilization theory,” which emphasizes that for the success of a social movement it is important to have the participants, organization, leader(s), ideologies and political agenda.

were frustrated every time by the suppressive government. Based on their experience of repeated failures, they decided to choose a new method, in which the authorities would not be able to detect or react, i.e. bribing the officials. Since the authorities would frustrate any organized resistance, they would pursue and succeed through bribery, which is a non-resistant but most effective and proven method in a totalitarian system. Under the *Bao Chan Dao Hu* (family-unit farming) system, initially launched by means of secretly bribing local officials, the farmers would lease empty land plots or engage in farming outside the state-run farms. Under tacit agreement, farmers would even secretly sell, purchase or lease their farmlands.⁹

One of the reasons why the Chinese farmers struggled for decades to recover the “family-unit farming” system was because they were fundamentally opposed to and hostile to the socialist collective farm system. The reason they initiated the capitalist farm management method like the family-unit farming was because they were the very class that had suffered the most under the Chinese socialist system. The Chinese farmers were a class of people that was forgotten and forsaken in the Chinese socialist system, and they had a deep-seated hostility toward the collective farms. For these reasons, they have launched a sustained resistance and struggle over a long period of time since the collectivization. The honeymoon period they had with the Mao Ze-dong’s socialist regime was only three years. Because Mao had brought peace and ended almost a hundred

⁹ Kate Xiao Zhou, *How the Farmers Changed China*, p.55.

years of war, internecine struggles and national humiliation, they initially supported Mao's socialist regime. But, Mao betrayed the farmers immediately after he seized power. He came to power with the help of agricultural farmers, but he shifted the base of his socialist regime from farmers to urban workers.¹⁰

In sum, China's openness and reform had started in the agricultural sector, and the farmers' initiatives significantly influenced the direction of policy decisions. China's policy of openness may have begun at Deng's initiative, but the reforms for its domestic structure, symbolized by the family-unit farming, were achieved at the hands of the farmers. Many reform policies were initiated by the farmers outside the purview of legal systems and tacitly endorsed by the state after the fact. Some of them would include the family-unit farming system, the privatization of land-use rights, and the right to sell products at open and free markets.¹¹ For the government, which had been unable to come up with specific and effective policy alternatives, there was no other way but to allow the farmers' initiatives because they were what the farmers wanted and they were the best way to maximize the agricultural output.

The Chinese example above contains many helpful clues to understanding the dynamics of change in North Korea. North Korea defines the underground economy, which currently prospers throughout the nation, as an anti-socialist phenomenon, and the authorities would persistently try to suppress it. And yet, the

¹⁰ *Ibid.*, pp.31-35.

¹¹ Daniel Kelliher, *Peasant Power in China*, p.233.

phenomenon is spreading widely instead of succumbing to state control. There are a number of similarities with the Chinese case: First is the symbiotic relationship built around bribery between the merchants and officials. There is a popular phrase in North Korea today: “Leverage will move it!” This is also known as the “Fourth Law of Newtonian Physics” among North Koreans, and is widely practiced as a ‘street-smart’ wisdom of life.¹² Like in the Chinese case, challenging the totalitarian system would be unwise and futile, so luring the officials with bribes would be more efficient and cost-effective. Both China and North Korea are East Asian societies, where “rule of men” rather than “rule of law” still prevails. So, the promotion of personal contacts through bribery would make it possible for the people to jump over the wall of bureaucracy there.

Second, there are in North Korea today many classes forgotten and forsaken by the system, like the Chinese farmer class. The North Korean farmers are tied to their villages and farms like serfs, and those classified under “complex masses” in the urban areas are also excluded from the system. These “disaffected” classes generally have a tendency to go underground in pursuit of extra-legal, extra-systemic profits, rather than trying to make it by complying with the system. One alternative for them was to engage in peddling in the black market for their own profits. Like the Chinese farmers, those belonging to the “complex masses” in the urban areas are a group of people full of contradictions and pregnant with seeds of change.

¹² Testimony of Chun Eun-jung (a professor of economics, defected in March 2002)

III. Background of the July 1 Measures

If we assume that the essence of the July 1 Measures was an attempt to legalize the underground economy and introduce market economic elements, to which the social sector responded accordingly, it is possible to discuss the background of these measures in two major dimensions.

First, it would be desirable to determine the factors that caused the underground economy to prosper in the first place before the “July 1 Measures.” In other words, it is necessary to accurately determine the factors that had influenced the people and lower-level officials to move toward market-oriented values and behavior patterns. The reason we need to analyze these attitudinal changes is that the black market economy should be interpreted not only as a series of simple economic behaviors but also as part of political actions. The citizens carry on their private transactions despite government suppressions over them

as “anti-socialist” behaviors. Going against government policies would, therefore, indicate the level of their distrust of and challenge against the socialist system beyond their individual economic behavior.

Second, it is necessary to examine the factors that forced the hands of North Korean authorities to opt for the July 1 Measures. In other words, what was the background that made it inevitable for the government to legalize the underground economy?

The development of black market economy in North Korea served as a major variable for a system change, ranging from July 1 Measures to the introduction of “the general markets.” First, let us review how the black markets served as a dynamic factor to bring about a societal change in North Korea.

In North Korea, the farmers’ market has existed for a long time. Farmers in collective farms would sell the products from their farms there. As the economy began to experience downturn, people other than farmers also began to come to the farmers’ markets to sell agricultural products and other industrial goods. North Korea’s *Chosun Shinbo* in Japan daily reported this trend as an inevitable phenomenon under circumstances in which the government was unable to smoothly provide daily necessities for the people.¹³ The paper described “the outsiders” as citizens other than farmers. In fact, however, most North Korean people other than farmers and officials were engaged in some sort of personal trading. It is said that ‘since 1995 anyone alive in North Korea was engaged in sales or business of one type

¹³ *The Chosun Shinbo Daily* (North Korea), Dec. 22, 2003.

or another.’

When the public economy collapsed, both production and distribution have shifted gears into a black market economy. In the production sector, as soon as the state could not supply raw materials to the factories, they had to procure the necessary materials in cash through unofficial channels to manufacture their products. For example, if a shoe factory had to stop operation for lack of raw materials, the manager had to secure them on his own at high prices from abroad or other sources to maintain normal operation of his factory. Since it was impossible to turn the products over to state-run stores at cheap, official prices, they will try to sell them away at black markets where the prices were higher. The government would not tolerate this type of transactions, but it is natural for the enterprises to sell their products at above-cost. This was the market mechanism, and the black market prices were set in this manner. It is known that this kind of transactions had been going on for ten years before the July 1 Measures, because it had been over ten years since North Korean factories did not function properly. The official consequence of this practice was the July 1 Measures. The measures have simply legalized the existing black market practices. Indeed, the measures allowed prices to rise to the levels of market prices and gave autonomy to the factories and workplaces. The lifestyles of underground economy, which the citizens developed simply to stay alive, have now been officially sanctioned by the state.¹⁴

¹⁴ Testimony of Suh Man-young, (44, a doctor at City Hospital, Danchon,

The underground economy in the distribution sector was also a result of economic hardship. The black market in this sector quickly began to prosper as soon as the ration system became unstable, and as the North Korean people rushed to take advantage of the black markets to maintain their livelihood. As soon as North Korea's planned economic mechanism began to falter and the merchandise supplies failed to reach state-run stores and distribution centers, the unofficial sector began to expand rapidly. One of the reasons why the black market began to prosper so quickly was that people purchased goods en masse from state-run stores where prices were lower, and sold them off at lower-than-market prices at black markets for profit. An inside government analysis concerning the July 1 Measures pointed out that even though goods were running short at the government level due to the widespread personal trading activities, they were piled high at personal levels. It admitted that at farmers' markets people could find almost all kinds of merchandise that were necessary for livelihood, from rice and food stuffs to industrial items. It said that transactions there even included automobile parts and raw materials that were supposed to be under state control. The report went even so far as to point out that the government ran out of budget but money twice the size of national budget was circulating among individuals. As the unofficial sector expanded, US dollars became an important means of settlement as well as a means of personal saving. The amount of US currency circulating

Hamkyung Bukdo Province, defected in July 2003).

in North Korea's unofficial sector was estimated to reach between 600 million to one billion dollars. And so, the black market is said to have developed into a space through which people could sap the state's coffers.¹⁵

Now, there was a specific social class in North Korea, which has played an important role in the expansion of black market. It was the so-called "hostile masses" of people who had been classified as such because they were believed to have hostile attitudes toward the North Korean system. The policy of discrimination according to one's family or personal background has been in place since 1957. This policy, however, had the effect of producing a great number of people who were eliminated from the system. And, these forces are leading the system change from below. In effect, they are the seeds of change from inside the system.

Once a person is branded as "Wavering masses" or "Hostile masses," it would be very difficult to become a KWP member, which was equivalent to North Korean "citizenship." He or she would experience all sorts of disadvantage and exclusion in terms of college entrance exams, promotion to staff positions, and other career opportunities. This disadvantage is not confined to the person but will adversely influence his/her children and family members. This label is branded on a person based on the class of his/her family background regardless of one's political viewpoint. And, once labeled as such, he has no hope of promotion within the system. If one were officially labeled

¹⁵ Chung Yun-ho, "An Analysis of the Background of North Korea's Recent Ban on the Use of US Dollars," *KDI North Korean Economic Review*, (Seoul: KDI, Dec. 2002), p.9

as such, he would also be socially ostracized from the neighbors, office co-workers and others. The discriminations according to background classifications such as “core masses,” “wavering masses,” and “hostile masses,” would in reality work as a political as well as social discrimination policy. People belonging to a class other than “core masses” can hardly hope to become a KWP member. Non-partisans in North Korea are like non-citizens. They will be discriminated against in schools, colleges and one’s professional fields of choice, as well as promotions to staff positions.

Regardless of one’s political viewpoints, once a person is socially labeled as a reactionary, it will force him to experience frustrations as a social outcast, and will eventually force him to embrace hostilities toward the suppressive policies of the regime. Instead of trying to work harder to get the regime’s recognition, the labeled persons will be driven to the limits until he/she turns hostile to the system. So, once a person is politically labeled, he or she will eventually end up as a member of hostile forces. This three-classification system in effect fractured the North Korean society and served to mass-produce hostile forces. Most North Korean defectors to South Korea are known to belong to this “complex masses” (Wavering masses plus Hostile masses).

In the official sector, opportunities for promotion are restricted to these people. In time, however, economic hardship struck the official sector also, and the situation was that even those in the official sector did not fare any better. Under these circumstances, people belonging to complex masses immediately

chose to join the unofficial sector. The people belonging to complex masses were those who quickly jumped into the anti-socialist black markets, which the government was trying to suppress and eliminate. This phenomenon is similar to the Chinese case where the farmers initiated a reformist outlet called family-unit farming and opted for money rather than loyalty out of frustrations stemming from the government's discriminatory policies between the farmers and the urban workers.

The party members and core masses were stuck to their status in the face of a regime crisis, but the complex masses immediately took off in search of new opportunities. Indeed, they were pregnant with seeds of system change. These were the people who brought changes to the value systems of ordinary North Koreans. Many of them were classified as falling in the category of Basic masses or Complex masses, having had certain scars in their personnel records. So, rather than trying to pursue political goals, they decided to pursue personal wealth through trade or business. In other words, they were able to easily shift their value priorities from political ideology to economic welfare.

These people are known to maintain symbiotic relations with various-level inspectors such as Social Safety agents and Security Ministry officials. They will develop and maintain close personal relations by buying up the inspectors through bribes, or by lending them money or renting out motorcycles for business use. For example, as soon as a new team of inspectors, like the "Anti-socialist Group," arrived at a town, the merchants

would initially go underground and reduce their activities, because they do not know them or the nature of the team. But, as soon as they grasp the nature and people of the new team, they will again launch the same bribery tactics and resume their black market activities.

The difference between the Chinese and North Korean cases is that while the farmers led the Chinese social change, the urban workers are leading the social change in North Korea. Another major difference is that in China the farmers led the commercialization of cities by selling their surplus products at urban areas, but in North Korea's case the urban workers, who are not engaged in manufacturing, are trading in goods they brought in from outside the system for profit, a typical case of "rent-seeking."

The reason the hostile masses could successfully promote black markets, despite the strong anti-market measures, was the corruption of the officials. Like the Chinese farmers, North Korean people also broke the bureaucratic barriers by offering bribes to the officials. People hoping to go into peddling would successfully develop a channel of escape from their workplaces and official duties by means of bribery. Furthermore, those in the marketplace will also obtain official "permits" to stay in business by bribing the on-site inspectors. If a major inspection was upcoming, the inspectors would issue "heads-up" to the merchants and tell them, "There is an inspection today, so don't sell anymore and go home." It is said that the agents from the military, party, security ministry and social safety agency are all in on the scheme of "protecting" the individuals

engaged in private business in the black markets.

If the officials did not take bribes, or “protected” and tacitly approved anti-socialist behaviors such as peddling and absenteeism from workplaces, the black markets, which served as a dynamic cause for system change in North Korea, could not and would not have flourished. Through bribery, the people were able to escape from under the official supervision and engage in economic activities by suckering in the inspection officials and agents into their black market rackets.

Bribery, rather than revolution, is changing North Korea at a revolutionary pace. The proliferation of black markets, which was made possible by a widespread practice of bribery, is changing the North Korean society and the North Korean system in general. The practice of money taking is deeply permeating the society and eroding the system. If the Kim Il Sung era was a period in which the North Korean socialist system was built, the 10 years of Kim Jong Il era is a period of dismantlement of the original system owing to the proliferation of black markets.

IV. Changes in the Economic Structure since the July 1 Measures: Expanding Market Socialist Elements

Regarding the July 1 Measures, North Korea insists that it is improving the economic management system, while maintaining socialist principles. For example, the Chosun Shinbo daily reported, “These reform measures implemented by the State Price Control Bureau are based on the principles of socialism.” It further stressed, “Even if our citizens transact their economic activities in cash, these activities are still within the bounds of planned economy based on the principle of monopoly of all means of production by the entire people.” The official North Korean position on the July 1 Measures is “to improve the management of socialist economy.” With what would you improve? In which direction would you lead the planned economy? North Korea’s official answer is “pragmatic socialism.” North Korea insists that it is pursuing pragmatic socialism. But, in reality it is heading toward “market socialism.” The pragmatic socialism

is simply another term for “market socialism.” The following are some of the evidence that the economic changes taking place in North Korea bear the marks of market socialism.

When the public economy collapsed during the economic hardship, people had only self-help to rely on for survival, which served to breed market economic elements among the people and enterprises. This development ultimately forced the government to introduce the July 1 Measures. The government argued that the July 1 Measures were taken to strengthen the socialist economic management system, but in reality the measures had contained an extensive number of free market elements. Once it became clear that the government was unable to control the proliferation of anti-socialist underground economy, the authorities decided to bring them out into the open. While the centrally planned economic system did not function, an undeniable reality was that a vast majority of the people depended on black markets and the underground economy for their livelihood.

As soon as the central government had exhausted its budget under the economic hardship, the “Dae-an management system,” which was a pivotal element in the centrally planned economic system, also collapsed, because wages and raw materials were not available for the factories and enterprises. Even the Associated Enterprise System, which used to play the role of transmission belt for the operation of centrally planned economy, also became defunct except for a few core strategic sections. Since raw materials were not supplied, the Associated Enterprise System could not maintain its system of “assembly-

line relationship” with other factories.

In the end, all the factories under the Associated Enterprise System were released and had to independently pursue their own survival. So long as the central government or corporate headquarters were able to supply raw materials, factories under their wings could continue to operate; otherwise they all had to stop operating.

The July 1 Measures were an attempt to give autonomy to the declining factories and enterprises and allow them independent accounting so that individual factories could promote business on their own and pay wages to their workers. Consequently, the factories and their workers set out to earn money, whether in production or distribution, in accordance with market principles.

The July 1 Measures have also officially introduced free market elements to the planned economic system by liberalizing black markets and establishing “general markets.” The idea was to utilize the market system to complement the planned economic system. One of the most important steps was to allow prices to be determined by market forces.

In addition, the “substitute wages (paid by products)” will now be paid in cash, thus introducing another element of money-based economy. Various market economic elements were also introduced by allowing liberal transaction of goods and products by individuals and enterprises.

Since the industrial products are now officially allowed for sale in the markets, individuals and factories began to have motivations for work, which, in turn, spurred family-unit productions and the sale of consumer goods. The state-run stores

and restaurants are also being privatized. As goods and services became commercial, a sense of competition and pursuit of profits came to prevail among the populace.

In addition, a new wage system was introduced. The fixed-wage ration system has been changed into a system of wages based on productivity. A capitalist wage system has replaced the old wage system based on socialist political factors. North Korea's Juche Ideology asserted that the people were the masters of revolution and construction. This assertion was developed as an ideological tool to reduce negative work ethics of the people under a system of nationalized means of production. This ideological tool ultimately did not work, and this part of Juche Ideology was replaced by money.

The Kim Jong Il's order to "wipe out all freebees" resulted in officially abolishing the social security system, which existed in name only. The state-guaranteed social security responsibility was now turned over to the markets. The social security was the essence of all government functions. Now that this function was given to the markets, the government would now be playing a simple role of collecting taxes from individuals and enterprises.

The market elements introduced in North Korea following the July 1 Measures represent truly drastic aspects of change. The economic system today is very market economic, although markets do not function in a dynamic fashion due to the poor supply function of the economy.

To be sure, a free transfer of ownership is essential for a market economy. At this point, there is no capital market in North Korea. But, there are a few cases, in which state-run

stores or enterprises would borrow money from individuals, and pay back the principal and interest to them after the business project is completed.

Markets will not function smoothly if prices are not determined freely in the market. And so, liberalization of prices is a pivotal condition for a transition to market economy.¹⁶

In North Korea today, the markets are leading the distribution of consumer goods, but the supply of production materials is still in the hands of state planners. Nevertheless, the consumer goods-centered market economy is gradually permeating into the area of semi-finished products.¹⁷ The planned economic system is still maintained for the strategic industries, such as heavy and military industries, but North Korea will now allow the defunct factories to dissolve their Associated Enterprise System and seek self-help for survival. However, it is too early yet to conclude that North Korea has dissolved its planned economic system and has made the transition to a market economy.

¹⁶ Cho Myung-chul, "The Result and Outlook of Policy Changes in the Distribution Sector," in Cho Myung-chul, et.al., *The Evaluation of the Current Status of July 1 Measures and Future Tasks: Prospects for Economic Reform in North Korea*, (Seoul: Korea Institute for Economic Policy, 2003), p.153.

¹⁷ Kim Yun-chul, "Evaluating the July 1 Measures," *KDI North Korean Economic Review*, (Seoul: KDI, June 2004), p.4.

V. Changes in the Social Sector Since the July 1 Measures: Socialization of Market Socialism

It was pointed out earlier that the July 1 Measures were taken as a way of legalizing the spontaneous trend toward a “market socialism” in the wake of economic hardship. If illegal practices and behaviors were legalized and openly approved by the government, their impact on the society at large would be rather significant. In fact, the trend toward market economics that existed before and the subsequent surge toward market economy have driven the society toward a rapid transformation. The changes at lower and more economically sensitive levels of society will in time influence the upper levels and bring about changes in the socio-political structure. The collapse of the centrally planned command economic system, the abolition of “Dae-an management system,” and the decision to revise the course toward a “market socialism” are bound to produce a certain level of social change.

The Chinese example will show that once the people's lives become market-oriented, individuals will become merchants and products will be commercialized. Then, the system, too, will change in the market-oriented direction, or "marketization."¹⁸ In this chapter, we will examine how the trends toward market socialism triggered by the July 1 Measures will affect the formation of a market economic society.

1. People's Lives under a Market Economy

With the implementation of the July 1 Measures, North Korea tried to stem the tide of peddling in the black markets and absorb black markets into the state-run stores, but it had to reverse its policy direction toward liberalizing the black markets.

When the factories stopped operating and the government was unable to pay the level of wages promised under the July 1 Measures, the control over private trading wavered and became ineffective. And so, after a couple of months of trying, the black markets were liberalized.¹⁹

Not only was the private business tacitly allowed, the policy itself has shifted into liberalizing private transactions. The trading of industrial goods that had been prohibited from the markets was also allowed. Instructions were issued not to confiscate goods in the black markets. The private businesses

¹⁸ Kate Xiao Zhou, *op.cit.* p.200.

¹⁹ Testimony of Kim Sook-young, (Guidance worker at Reference Room, Security Division, Nampo City, Pyong-An Namdo Province, defected in Oct. 2002)

that had been prohibited were tacitly allowed; the farmers' markets, which used to serve as black markets, were renamed and legalized in March of 2003 as "general markets," and finally "supermarkets" were established, thereby incorporating markets into the official system.

The fact that "black markets" became "general markets" is an enormous change. The black markets were an important part of livelihood for the North Korean people. They depended more than 80 percent of their daily necessities on these markets. But, they were placed under strict control. They were focal points of surveillance and inspection by the agents from Security Agency, the Social Safety Ministry, various Social and Employer organizations, and the Youth Alliance. Before the market liberalization, North Koreans had to experience tremendous pressures and anxiety whenever they went to the marketplace. Since any transaction in the market was illegal and subject to seizure, they had to fear the loss of goods they secured at very high costs. In the past, black markets were called "locust markets," because people had to flee hugging their goods in the middle of a transaction when the inspectors showed up. Even when peddling, there was no peace of mind. On the other hand, the confiscated goods were sources of profit for the inspectors. They would take the seized goods to their office, but in time would swipe them for personal profit. The era of black markets was indeed a period of agony and tribulations for the North Korean people. But, finally private trading is legally allowed. This is truly a revolutionary change in the life of North Koreans.²⁰

With the legalization of private business, the North Korean people have indeed realized their long-held dream. The people's demand before the July 1 Measures was that they be allowed to engage in private business. They said they wouldn't complain if the rations did not come in time or salaries were not paid, only if they were allowed to freely engage in peddling or private transactions. Now, they are given the freedom of private business. Buying and selling is now legal. They can engage in any kind of business so long as they paid taxes.

North Koreans today cry out, "Everybody is in business. This is a society of merchants. All able bodies, young or old, who can move their legs, are involved in sales." Today, North Koreans say, "No one will now starve to death."

Since the July 1 Measures, the size of markets has doubled. Even peddlers along the streets are not chased away. People will not depend on markets alone for their livelihood. Every one is selling something, be it candies or vegetables, or whatever. It is said that there is not one person who is not involved in buying and selling. Even the citizens of Pyongyang are engaged in private business and there is a market in each city district.²¹

But, people will give conflicting assessments on the July 1 Measures. Some will say that it was a welcome decision, even though belated. Others will say it was not satisfactory,

²⁰ Testimony of Suh Man-young.

²¹ Testimony of Ha Hee-eung (Doctor of Hygiene, Hygiene and Disinfections Center, Musan County, Hweryong City, Hamkyung Bukdo Province, defected Sept. 26, 2003)

but will accept as a transition step.

As the private business is legalized, transaction of industrial items was also legalized. The scope of business items is rapidly expanding both in number and variety. Noteworthy among the items of transaction is the increases in home appliances. Increasingly, industrial items like TVs, VCRs and CDs are becoming available. Reportedly, an increasing number of North Koreans are watching South Korean TV programs through the latest Chinese model TVs.²²

Business opportunities are now open to everyone. But, it does not mean that everyone can go into one. If one is employed at a workplace, he should obtain permission from the office to go into private business. He needs to tide over bureaucratic barriers. The practice of bribery has now moved on from the marketplace to the political sector. If an employee wanted to go into private business, he needs to get away from his office, hence the need for bribery. The practice of bribery is said to be truly pervasive. It will include party staffers, who have decision-making power, and medical doctors, who will issue false diagnoses. Because private business is more profitable, bribing in offices is spreading widely. Doing business is free, but to obtain permission to do so will require bribes.

These bathhouses are several times more expensive than the state-run bathhouses, but wealthy and clean people are said to prefer these private bathhouses.²³

²² Testimony of Nam Joong-in (Wonsan City Branch Manager, International United Trading Co. under the Ministry of People's Armed Forces, defected in Sept. 2003)

²³ Testimony of Ha Hee-ung, above.

2. Diminishing State-dependent Attitudes and Growing Market-oriented Behaviors

A value system is a system of one's priorities on value. This is the most important variable that determines the speed and level of social change. Since the pursuit of value is inherent in human nature, the direction of change of a society's dominant value will determine the direction of behavior patterns of its constituents.

One of the well-known attitudes of the people of socialist countries including North Korea is their government-dependent way of thinking. This attitude is formed by the system in which they live. The state monopolizes all means of production; mobilizes the people according to its one-sided planning; and assigns jobs and distributes daily necessities to them. This is also a result the state intended. Since individuals are not allowed to have any right to plan or dispose of means of production, they are deprived of opportunities to plan or create something on their own. Planning based on individual talents and creativity is reserved for high-level officials, and individuals are disallowed from participation in this process.

Socialism for individual North Koreans simply means that the state will decide and implement everything, and they simply follow instructions. So, one of the important slogans in North Korea says, "Party decides, we follow." In short, socialism forced the development of state-dependent attitudes on individuals.

Once the ration system broke down, the state-dependent attitude has changed into an awareness of self-help; namely,

business is the only alternative for one's survival. One of the remarkable changes in the people's attitude since the July 1 Measures is that they decided to abandon the state-dependent habits, such as waiting for rations, and take their livelihood in their own hands.

It meant that the state was losing justifications for its control over the people, and the level of their trust in and dependence on the government was dropping. The state was rapidly losing grips on its responsibility for the economic life of the people. And, to compensate for this deficiency, people began to transform their life from a collective political lifestyle to a new economic lifestyle.²⁴

Since the mid-1990s, the ration system has almost stopped to function. But, people thought that the system would be back once the economy improved. Once the ration system was officially abolished, they then realized that rations would not return even if the economy improved. Even though North Koreans today depend their daily lives on personal business and trading, it is true that they still miss the days of old ration system. In the past, they were able to maintain their living on rations even if they did not work, but today it is impossible to survive unless one worked. The idea that one should work to support oneself is spreading among North Koreans, and this self-support spirit is expressed in the form of hard-working private business. In most parts of North Korea, except Pyongyang, people working in the public sector are not paid

²⁴ Cho Myung-chul, *op.cit.*, p.142.

their salaries in time. So, the only way to make money is through private business or peddling.

The idea that one must go into trading to survive existed from the early 1990s. But, trading today has become a system for the ordinary people. For example, the “baked sweet potato stands” in Pyongyang have become a business chain, and the government has been liberalizing black-markets into “general markets.” For these reasons, a trend is emerging among North Koreans toward a tendency to choose merchants as a profession, or “merchantization.”

People even have come up with a logic justifying their need to engage in private business under the socialist system. They argue that private business is justified if it serves the interests of the state or collective organizations. More money for me is being justified in terms of more money for the country. They argue that so long as it is collectivist, it is socialist. As will be discussed below, North Korea defines socialism in terms of collectivism. Therefore, it is said, business in the socialist system is different from business in the capitalist society. More important is the fact that North Korean officials approve this logic as acceptable, and believe this to be a predominant trend, thereby removing all misgivings about private business. North Korean officials are said to believe that the July 1 Measures were at least a 50 percent success. Even though the prices are rather high due to the poor supply situation, they believe at least it is a beginning. Even Kim Jong Il is said to have instructed that they can call this an “economic reform.” Party secretary Kim Yong-soon once used the term “reform” at a

closed-door session, and said he had permission to use the term “reform” in foreign relations.²⁵

One of the purposes of the July 1 Measures was to channel the willingness of North Koreans to work in the unofficial sector to the official sector, or from the private to the public sector. In this respect, the July 1 Measures may have scored some success. The new measures were not very successful in the manufacturing sector where the rate of factory and enterprise operation was low, but they were more successful in the agricultural and mining sectors, where operations were still on-going. The July 1 Measures required that wages be paid in proportion to the work done in the agricultural and mining sectors, and this decision worked there, thus contributing to economic recovery. For example, the farmers were required to pay 15 percent of their output for land-use and distribute the remaining 85 percent among them, which served to raise their willingness to work. The mining industry also saw an increased output. As a result, the rate of operation of coal-burning power plants improved, and the supply of electricity also improved.

One of the changes the new behavior pattern has brought about is the privatization of state-run stores. The state-run stores and restaurants are mostly owned by the state but run by private managers. Since most items sold there were secured by the managers on their own endeavor, they will simply pay taxes

²⁵ Chung Chang-hyun (Reporter, The Joong-Ang Ilbo Daily, Seoul), *During a Roundtable Discussion at KINU*, Seoul, July 10, 2003.

to the state and the remaining profit will go to the manager(s), a classic case of rent-tenant relationship. Consequently, the aggressive sales techniques of business owners are no different from those in the capitalist society. The attitude of sales clerks, who are paid according to the total amount of individual sales, has also markedly improved compared to the past. Visitors to North Korea all agree that the attitude of North Koreans have remarkably improved after the July 1 Measures. For example, the attitude of workers at Pyonghwa Motors has fundamentally changed, so much so that they even report to work on Sundays to increase their output.

Since material incentives began to factor in on the work rendered, the willingness to work has dramatically increased, changing the fundamental outlook on work they put in. If the fundamental reason for the decision to introduce July 1 Measures was to induce higher willingness to work, that part of the policy was a success.

3. Materialism and Commercialism

Under the original North Korean system, the goods and services required for daily lives of the people should be provided in the form of national rations. So long as people paid allegiance to the state, party and the supreme leader, there was no problem for the people in receiving the rations. This was the reason people decided to remain loyal to the state, and the loyalty to the state is expressed in the form of “ideological support” for the socialist system and its leadership. To earn a party

membership was the highest ambition of a citizen and a shortcut to success. Under this system, ideology took precedence over materialistic gains in the minds of North Koreans. They were educated and socially indoctrinated in that manner, and if they so believed and behaved, they would face no problems under this system.

Once the ration system was abolished and the wage and price system was introduced, along with liberalized general markets, their lifestyles as well as social awareness have undergone a revolutionary change. In the past, livelihood was guaranteed as long as people paid allegiance to the party and Suryong. Now, they are living in a system in which they had to work for money, and purchase goods in the market to maintain a living. The system has changed in a way that is not much different from the market economic system. People's perception about money has completely changed. Ideology and loyalty to the party and the leader have lost their value. Prices were rising and everything must be purchased from the market, and the ration system has given way to the monetary economic system. All these changes had an impact on the people's awareness about money. And so, ideology and thoughts had to take the back seat and the materialistic way of thinking took the driver's seat. In the past, they paid little attention to wages, but today they are very much interested in their pay. In the past, wages amounted to mere spending money, but they are now the means of livelihood. Under the past ration system, cash did not carry much weight, but things are different under the new monetary economic system.

In the past, becoming a party member was the most honorable thing in a person's life and the ticket to a successful career. Since the party membership today does not guarantee material satisfaction to ordinary people, they are not so interested in it. In the past, the party membership and family background were the two most important criteria in deciding on a marriage. These days, money and wealth would factor in more importantly in such decisions. Another typical example of systemic change brought on by changes in value systems is the trend to avoid military service. North Korean young men used to choose military service because it would facilitate party membership. Today, however, becoming a party member is not very advantageous or profitable. So, instead of the long and arduous military service, most young men would opt for the money-making route. Perhaps for this reason, and in light of continuing food shortage, North Korea enacted a new military service law at the sixth meeting of the 10th Session of SPA in March 2003. Under the new law, the duration of service was shortened from 13 years to 10 for men and from 10 years to 7 for women, but compulsory service is mandatory for all young people of age.²⁶

The interest in money has increased drastically from high officials to ordinary citizens. High-ranking officials are also known to ask for money.

And, even the children of Minister-level officials would open

²⁶ Chung Tae-young and Park Hyung-joong, "The Significance and Responses to North Korea's 'All-people Service' System and Reported Force Reductions," *The Unification Policy Analysis*, series, (Seoul: KINU, 2003)

shops to make money, because comparatively high prices at state-run stores made it difficult for many to purchase goods at lower prices. Communist ideology was very strong in the past, but not anymore. In the past, helping an individual in a community or organization was regarded as an ethical thing to do in the spirit of “one for all, all for one.” To some extent, this tradition continues today, but it is only in their external gestures. In the back of people’s mind is how to make money and fast.

4. Individualism, Autonomy, Liberalism

The most important norm designed to control the behavior of North Korean citizens is collectivization. The representative slogan is, “One for all; All for one.” In a society where private property is not allowed and all means of production are nationalized, the collectivist ideology is essential to mobilize labor for economic purposes and, of course, for political purposes, such as the deification of Suryong. It is antithetical to the universal nature of humankind, but collectivization (or, regimentation) is an essential part of ideology education for the maintenance of the North Korean system.

As long as the ration system was operating normally, this important norm of collectivism was very persuasive and effective. Once the ration system collapsed, however, individuals began to engage in vending, trading, smuggling and other means of survival. Indeed, individualism has now become a principle of survival for many individuals. In fact, one of the essential

tenets of Juche Ideology was, “The people are the masters of revolution and construction. So, one is the master of one’s own destiny, and the power to exploit one’s own destiny also comes from oneself.” More than any time in the past, North Koreans seem to cherish this tenet in their heart. The Juche Ideology is now being quoted as an official ideology that justified individualism for the people in their pursuit of private business. Many defectors to South Korea testified that the phrase “One is the master of one’s destiny” came to mind when they decided to defect.

If collectivism were a vital norm for the North Korean socialism, the apparent collapse of collectivism and the rising individualism would mean that the vital part of North Korea’s socialist norm was eroding. Currently, markets are playing decisive roles for one’s livelihood. Under this situation, individual capabilities rather than the power of collectivism have become more important. Many North Koreans are said to believe that one should lead a comfortable life by whatever means, including cheating, stealing, or even robbery. In the past, they strongly believed that the best way of survival was to be loyal to Kim Jong Il. As they witnessed innumerable deaths firsthand, their way of thinking has significantly changed. Some people today even seem to think that their family members were burdensome, because under the severe food shortage, one more family member meant one more mouth to feed.²⁷

In many respects, the July 1 Measures were the steps taken

²⁷ Testimony of Ha Hee-eung, above.

to alleviate the roles and responsibilities of the central government. As a result, the intervention and interference of the central government have also diminished. In an effort to improve labor productivity, many ideology-oriented mobilizations were replaced by materialistic incentives, which meant significantly reduced numbers and functions of party supervisors at local levels. So, many North Koreans believe that the work environment at their workplaces is more liberal than before. Party members are still required to attend “collective sessions,” but others are not required to attend.

Before the July 1 Measures liberalized private business, private trading was subject to the most strict surveillance and control. The focal point of social control was peddling, vending or other private trading. So, the liberalization of private business was welcome opportunity for most North Koreans. Getting away from the eyes of officials was the most critical element for the success of their business and survival. The transformation of “farmers’ markets” into “general markets” after the July 1 Measures was an enormous change. The liberalization of markets was, indeed, a revolution in the life of all North Koreans.²⁸

Social autonomy is being accelerated in tandem with the liberalization of private business, autonomy is also spreading in the society. Business will tend to encourage social mobility, since moving around various areas is in the nature of business. Mobility is, of course, not confined to a particular sector. The more business flourished, the wider one should move about.

²⁸ Testimony of Suh Man-young, above.

Furthermore, each vendor or merchant must choose items and determine their prices on his own. This will stimulate more independent thinking and autonomous actions. Indeed, they are now operating under the tenet of “my destiny is in my own hands.” Their frequent travels to China and daily experiences also helped them confirm this way of thinking. Apparently, they have now come to conclude that their life of the past was wrong. So they think and act more liberally than before.²⁹

Official controls are also being relaxed in the political sector. According to a testimony of a North Korean defector, who used to work for the State Security Ministry, the policy on political prisoners has been changed since November 2001. As a matter of policy on political prisoners, the ultimate goal of all Security Ministry projects is “to protect the leadership of Kim Jong Il to the end,” (others being secondary). So, top priority target would be to uncover any behavior agitating against Kim Jong Il. Even today, any criticism against Kim Jong Il will not be tolerated. But, the level of enforcement on other crimes has been relaxed somewhat.

For example, the law on banishment was abolished. The practice of banishing a prisoner from a city to remote mountains like Yoduck Prisoner Camp or Jakang Province has ceased, and four Political Prisoner Management Centers have been dismantled, including the No. 11 Camp in Suncheon, No. 19 in Pukchang, No. 21 in Hamheung, and No. 00 in XX.

The criminal code has also been revised. Listening to the

²⁹ Testimony of Kang Kuk-in, above.

South Korean radio has become a minor offense, so that a person who did is required to fill out a letter of self-criticism, so long as he/she did not communicate the contents to other person(s). In the past, listening to foreign broadcasts was punished as an act of submission to flunkeyism, but these days it is not necessarily punished, perhaps because there are simply too many people who listen to South Korean radio broadcasts. Punishment for listening to foreign broadcasts also has a lot to do with one's family background. In the past, they were all punished regardless of personal background. But, these days punishment will be selective depending on one's family and personal background.

Punishment is also becoming lenient for the families of criminals. And, the "crime by association" rule of the past is being relaxed, and only the person who committed the crime will be punished. So, the number of political prisoners is diminished. The focus today is on acts committed rather than words spoken. Even in the case of political prisoners, they began to distinguish leaders from followers.

Nevertheless, the defectors confirm, North Korea is still a dictatorial regime. The people would cynically call it a nation of mutes. The authorities will not arrest you if you swore something, but if you said something thorny, they will arrest you. In short, they will arrest anyone who makes wisecracks or "smart" comments.³⁰

³⁰ Testimony of Kim Sook-young (Former guidance worker at Reference Room, Nampo City Security Department, Pyongan Namdo Province, defected in October 2002).

5. The Spreading Sense of Decline of Socialism

The most important element in the North Koreans' perception of their society is their understanding of "socialism." They understood "socialism" as a society where the exploitive class has been driven out, they are all equal, their livelihood is guaranteed by the ration system, which is part of a socialist-style social security run by the government. They also understood that the social security system included major benefits like free education and free medical care provided by the government. For North Koreans, then, the essence of socialism was the ration system. So long as the economy functioned properly, they were convinced that socialism was the best system.

North Korea used to advertise that the Juche Ideology has become its ruling ideology. In reality, however, the most important ruling ideology for most North Koreans was socialism. They believed socialism was a just and fair system.

Indeed, the ration system has been dominant in the minds of North Koreans for the past 50 years. For them, the ration system meant socialism and socialism meant the ration system. All of a sudden, such a vital system was officially abolished. Since the mid-1990s, whenever the amount of ration fell short or the system was temporarily suspended, they all held out hope that the ration system would return as soon as the economy recovered.. Now that the system itself was abolished, they could no longer harbor such expectations. In name as well in fact, the ration system was abolished with the onset of the July 1 Measures. North Koreans distinguish socialism and non-

socialism as follows:

Socialism = A system of rations without any need to engage
in private business

Non-socialism = A system where people depend on private
business for livelihood

Under this perception, North Koreans would express their situation of having to engage in peddling like this: “We practice socialism during the day and capitalism by night.”³¹ If this was true, North Koreans must have survived on non-socialism since 1995 when the rations were suspended in the wake of Kim Il-sung’s death. From the policy of organizing and operating the so-called “non-socialist Group,” private trading was regarded as non-socialist. Put otherwise, it was capitalism.

How did North Korea justify socialism when most North Koreans were engaged in private trading for their livelihood? The answer is to come up with a different definition of socialism. In the recently published 30-volume Great Chosun Encyclopedia, North Korea has defined socialism as collectivism. The definition says, “Socialism is a society that is operated in terms of collectivism. Regardless of whether the state or the cooperatives technically own the property, it is socialism if the property is managed in a collectivist manner.” In other words, the essence and fundamental nature of socialism is collectivism. The idea that market elements would mean capitalism and liberalization

³¹ Testimony of Suh Sun-chang, above.

of markets would mean a transition toward capitalism is simply a Western view. North Korea will now define socialism not in terms of ownership but in terms of whether or not ownership is collectivist.

It appears that Kim Jong Il's 1994 speech, "Socialism is Science" has served as the basis of re-defining socialism as collectivism.

History shows that self-reliance of a people of masses could never be realized in a society based on individualism. The entire history of social progress of mankind teaches that in order to realize self-reliance of the people we must proceed from a society based on individualism to a society based on collectivism, and then to socialism and communism. Capitalism has transformed individualism into a means of pursuing unlimited greed by a handful of capitalists and pushed the hostile contradictions of individualism-based societies to their limit. On the other hand, the struggle of the masses for self-reliance has entered into a new stage of development. The contemporary period is an era of self-reliance in which the masses are the masters of their own destiny and the ruling masters of the world. It means that the inevitable direction of historical development is to proceed from individualism-based societies to a collectivism-based society. Collectivism is an innate demand of humankind. In order to live and prosper, human beings must form a social collectivity. People will be able to restructure the nature and society and realize their self-reliant aspirations not individually but through the collective cooperation of all constituents of their society.³²

Reportedly, the North Korean people are growing cynical about

³² Kim Jong Il, "Socialism is Science," (A paper published in *The Rodong Shinmun* on Nov. 1, 1994), *The Kim Il-sung Selections*, Vol. 13 (Pyongyang: KWP Pub., 1998), pp.454-455.

socialism, and they would sarcastically say that communism must have already passed them by. The general direction of progress they were told was Capitalism - Socialism - Communism. Since their life under socialism was far worse than the capitalist world, they would cynically wonder, "Communism must have already gone by." Their life, they recall, was much better before the Korean War, so they could not help wonder if the pre-war period wasn't the age of communism.³³

6. The Growing Aspirations for Openness and Reform

The number of North Koreans, who had been to China, is increasing and lots of Chinese goods are overflowing across North Korea. So, for a long time China has been a land of great envy for most North Koreans. Anyone who traveled to China illegally would be punished and even the government officials, upon return home from official visits to China, would have to undergo shakedowns by the Security Ministry. But, for most North Koreans, China is a benevolent land and a beacon of hope.³⁴

When the government launched a massive propaganda campaign about the July 1 Measures, North Koreans thought that North Korea was finally moving in the direction of openness and reform like China and their living conditions would improve

³³ Testimony of Ha Hee-eung (Former doctor of hygiene, Hygienic and Disinfections Center, Musan County, Hamkyong Bukdo Province, defected in September 2003)

³⁴ Testimony of Park Myong-ui (Teacher, XX City, Hamkyong Bukdo Province; Defected in July 2003)

soon. For a couple of months, they even received higher wages, which was a welcome change. Within a few months, however, the payment of wages stopped, but the prices went up to the new wage levels, making their living conditions tougher than before. So, the people thought that the government was playing games with them. In the past, the ration centers used to hand out some wages, but since the new economic steps were taken, there was absolutely no rations. The military and the workers at the Security Ministry and Social Safety Agency received both wages and rations in time, but nothing for the ordinary citizens.³⁵

The North Koreans' high expectations about the July 1 Measures turned into deep frustrations when the wage payments were cut off within a couple of months. Because they were well aware of China's successful policies of openness and reform, they had harbored great expectations. Indeed, when they realized that the July 1 Measures were only a stopgap policy, their disappointment snowballed. Since the July 1 Measures, most North Koreans were convinced that the only way for North Korea to survive was openness and reform.

According to the testimony of a physician, who had had close personal relationships with high-ranking officials before defecting to the South, everyone was aspiring for openness and reform regardless of one's station in life. The fact that almost everyone, except for very high-ranking officials, was

³⁵ Testimony of Suh Man-young (44, former doctor at Danchon City Hospital, Danchon, Hanyong Bukto Province, defected in July 2003.) Also see the testimony of Kim Sook-young in footnote above.

engaged in private trading proves this trend, he said. Even the professionals, who worked for government agencies like the Security Ministry, had gone into private business. For instance, security agents in Shinuiju City would, behind the scenes, purchase goods in Pyongyang for resale back home, or bring some Chinese goods into Pyongyang for sale. They were fully aware that private trading by ordinary citizens was “anti-socialistic,” but they did it anyway. Even those in politically perfect positions seemed to have concluded that money went a long way. Not only party workers in the central committee in Pyongyang, but also the families of State Council Ministers were engaged in private business. The fact that one needed money to survive was the same regardless of one’s station in life. What people realized in the 1990s was that their society should open to outside world and move in the direction of market economy.³⁶

North Koreans used to differentiate the capital city of Pyongyang from other provinces, but this distinction has largely disappeared today. In the past, there was a significant difference in the way of thinking between the leaders and ordinary people, but today their way of thinking has become quite similar, because the leaders also came to agree on the need of a market economic system. The only difference was that because only one man decided all policies in North Korea, the high-ranking party workers simply would not dare step out of line. They know their life will quickly end as soon as they step out of line.

³⁶ Testimony of Suh Man-young, above.

They are fully aware that the system must move toward market economy, but they will not openly insist on such a policy in the interest of their family. In short, pretending to go along, or flattery, is an easier way out for them.

Most North Koreans know perfectly well that market economics is the right system for North Korea. They know that openness and reform and market economics are one and the same. They also know that China has successfully adopted openness and reform in the economic field and it is moving in the direction of market economy. Consequently, they believe that North Korea at least should emulate the Chinese model.

In view these North Korean perceptions, it is clear that China as a model case has had a tremendous impact on all North Koreans. The model North Korea is watching is China. In light of the fact that most commodities sold in North Korean markets are Chinese, it might even be said that the Chinese goods are, in fact, feeding the North Korean population. The impact of China's economic success on North Korea is indeed enormous. The magnitude of Chinese influence on the North Korean economy is truly pervasive: From Pyongyang to the provincial towns Chinese goods dominate North Korean markets, including TVs, shoes, hats, rice, corn, garlic and other foodstuffs.³⁷

The increasing influx of information from the outside also seems to have contributed to the North Koreans' improving understanding of the necessity for openness and reform. One

³⁷ Testimony of Suh Man-young, above.

of the changing phenomena since the introduction of “general markets” is that an increasing number of North Koreans began to watch South Korean TV programs. With the introduction of “general markets,” industrial goods are tacitly allowed for trade. As the number of items and their quantity increased, lots of illegal goods are also sold in the markets. One of them is the Chinese TV set. Rich, high-ranking people will purchase these sets equipped with automatic channeling functions, which will transmit South Korean TV programs. The old TV sets, of course, could not show them. South Korean TV programs are particularly well received all along the eastern and western coastal areas south of Hamheung, Hamkyong Namdo Province. People said they could watch South Korean channels of KBS 1, KBS 2, MBC and EBS (All of them in terrestrial airwaves). In the central region, where it’s very mountainous, the TV programs would come and go and the quality was not good as they were also affected by weather conditions. In addition, as the number radio sets increased, lots of CDs containing South Korean TV programs are traded among the people.³⁸ Even high-ranking officials, including the party central committee members in Pyongyang, military leaders, and agents in the Social Safety Agency and Security Ministry, are said to watch South Korean TV programs. They may pay allegiance to the top leader, but they also watch South Korean TV programs. As the TV-watching culture spread and matured, changes in the way of thinking is apparently taking place among the high officials,

³⁸ Testimony of Park Myong-ui, above.

even though no such change is visible on the surface.

In short, changes are definitely occurring, albeit through different media: the upper level people through South Korean TV programs; and the lower level through business. The rationale of an ordinary person is this: Even if one faithfully followed the instructions from above, an obvious outcome would be starvation or death. One might die if one remained in North Korea and one could die by attempting to defect. Either way, the risk is death. So, everyone will attempt to defect, or engage in private business, which the government told him not to do. The changing attitude of the ordinary people began when they decided to break out of the status quo and take the ultimate choice between risking death and risking life.³⁹

The North Korean people's assessment of the July 1 Measures is generally two-fold. From the ordinary citizens' standpoint, it was a policy that gave hope for the future. Precisely when they thought they have reached the end of the line, the July 1 Measures came, giving them hope that changes were coming and that they, too, could hope to live well like the Chinese. On the other hand, the policy has served to confirm a negative perception that it was truly difficult to improve their living conditions. They realized that there was a huge gap between North Korea and the world outside, and all expectations for socialism were frustrated, and the despair set in. What used to be virtuous in the socialist society disappeared, and domestic confusions mounted, hence deep frustrations.

³⁹ Testimony of Suh Man-young, above.

Initially, we were very interested in the July 1 Measures. We thought we were opening up. In reality, however, all we got was piles of paper instructions. We reported to factories for work, but factories have already stopped operating. We could not stay home, and we were not allowed to go peddling. We were told to eat and live as much as the factory could produce. But, there were no raw materials or energy at the factories. There was nothing we could live on.⁴⁰

7. Interim Conclusions: Symptoms of Renaissance in North Korea

The foregoing discussions on the changing attitude of North Koreans since the July 1 Measures may be summarized in a table below. The far-left column will show the “original form of socialist system.” This system produced the “social attitude under the original form” in the second column. The attitude in the second column has changed after the “July 1 Measures” shown in the third column as “changes after the measures.” The attitude in this column is the product of “structural changes in the North Korean system.” The fourth column shows the North Korean system today.

⁴⁰ Testimony of Kang Il-kuk.

<Table V-1> The Changes in Social Attitude after the July 1 Measures

The original form	Social attitudes under the original form	Changes after the July 1 Measures	the North Korean system after the change
Socialism	Socialism is legitimate	→ Socialism has failed	Market socialism
Planned economy	Dependent on the government	→ Self-help through private business	Collapse of planned economy
Ration system	Emphasis on ideology	→ Emphasis on money and materialism	Collapse of ration system
Command economy	Passive work ethic	→ Positive willingness to work	Economy run by the private sector
Collectivism	Collectivism	→ Individualism	Spontaneous norms of behavior

As North Korea introduced large numbers of market economic elements to its planned economic system, many market economic elements are also permeating into the society and people's lives. As a result, the North Korean people have begun to wake up from the dark dreams of the Kim Il Sung–Kim Jong Il leadership and to the awareness that they should be the masters of their own destinies. As pointed out earlier, the class of people, who initiated this perception change, was those belonging to the “hostile” and “wavering” masses that had been excluded from the North Korean system. Because they were the class of people who had had no chance of success within the system, they decided early on that the best they could do was to make money through private business. Under the economic hardship,

however, the people who had joined the system, too, were suffering from starvation and hunger. As this anomalous situation persisted, the idea that making lots of money by going into private business would be wise began to permeate among many people.

The highly deified Kim Il-sung has finally passed away, and the people began to regard Kim Jong Il as the one who has failed to rescue the people from poverty and was trying to paper over his failures by telling a series of lies. In short, North Koreans began to gradually liberate themselves from depending on Kim Jong Il. Clearly, North Koreans have begun to realize that they must determine their own destiny and future and support their own livelihood by going into private business in the marketplaces. They have already learned from Juche Ideology that they were the masters of their own destiny, and they are putting this principle to work for their new environment. In fact, the Juche Ideology contains certain theoretical elements that encouraged individualism so as to liberate them from the yokes of the past tradition. Many North Koreans said that as soon as they realized the fact that “they were the masters of their destiny,” they have discovered that “God” did not provide them food and livelihood, and that “God” in fact was nothing but a repressive being. In the past, they used to believe that their livelihood was the result of benevolence offered by the Party and Suryung. But, now they came to realize that their livelihood is maintained by wages they received in return for their work, with which they purchase daily necessities from the market. As they experienced firsthand the meaning of the

teaching, “you are the masters of your own destiny,” they finally came to realize a new truth in life.

And so, the North Korean “renaissance” is unfolding from a new understanding of certain elements of Juche Ideology. This, in fact, is a revolt against the Juche Ideology, rather than a new understanding of it. Until today, what passed as the master of my destiny was not me but the State and Kim Jong Il. Only now, people came to discover that the master of my own destiny is myself.

VI. North Korea's Transformation in terms of Stages of Development

Compared to the cases of other socialist countries, what stage of development will the changing North Korean economic system belong to?

This paper will argue that North Korea is in the process of entering the stage of “market socialism.” Before explaining the basis of such an assessment, we will survey various stages of change of the socialist systems that actually existed in history. In 1961, Wlodzimerz Brus⁴¹ classified all socialist economic systems into (a) Wartime communism, (b) Centralized system of socialism, and (c) Decentralized system of socialism. We can normally distinguish economic decision-making in three types: (1) Choices of jobs and consumer goods, (2) Normal production, and (3) Investment. Now, in terms of socialist

⁴¹ Wlodzimerz Brus, *The Market in a Socialist Economy*, (London: Routledge and Kegan Paul, 1972), First edition published in Polish in 1961.

economic systems, if the system placed item (1) under control, it would be a wartime communism. If individuals were allowed to freely exercise the right of (1), while the central authority determined (2), it would be a centralized system of socialism. If the central authority carried out (3), but (b) is allowed to proceed in a decentralized manner, it would be decentralized system of socialism.⁴² Brus argued that a decentralized system of socialism contained possibilities of “market socialism” in which central planning and markets could co-exist, because both bureaucrats and markets would pursue mutually complementary functions. Later on, Brus gave a new definition to the term, “market socialism.” He said it was a system in which ownership was public but investment decisions were left to markets and enterprises.⁴³ However, he did not offer the concept of “socialist market economy,” which China promoted in the 1990s. Perhaps, he could not include this new variety because it was unforeseen until the latter part of the 1980s.

In fact, there had been attempts to replace the planning function with the market function to rescue the socialist economies when the centrally planned socialist economies ran into brick-walls. The most influential theory for them was the “decentralized economic model” that Brus had developed. This model in fact had exercised a tremendous influence on the Hungarian economy. This model was the model that the reformist

⁴² Nakagane Katsuzi, *The Chinese Economic Development*, trans. By Lee Il-young and Yang Moon-soo, (Seoul: Nanam Pub. Co., 1999), p.248.

⁴³ W. Brus and Kazimierz Laski, *From Marx to the Market: Socialism in Search of an Economic System*, (NY: Oxford Univ. Press, 1989)

Czech economist Ota Sik had turned into an economic ideology of the “Prague Spring.” From 1968, Hungary had carried out a “New Economic Mechanism,” and introduced the so-called “market socialism.”⁴⁴ Market socialism will maintain public ownership of all means of production, while utilizing the markets for purposes of exchanging goods and services. But, this system did not properly function in Hungary, because there were significant levels of resistance from the established elite of the socialist system and the combination of public ownership of means of production and market functions did not work effectively.⁴⁵ Ultimately, in 1989 Hungary quickly gave up in a revolution both the communist system of government and socialist economic system, and transformed into capitalism.

Why did market socialism fail? Market socialism seeks to utilize markets for purposes of exchanging goods and services, while maintaining the public ownership of means of production. But, public ownership and markets are not mutually consistent. In order for the markets to function properly and effectively, private ownership is a prerequisite. In all cases, market socialism will have to transform in the direction of strengthening the market mechanism. In order to completely transform into a market economy, the East European socialist countries had to choose revolutions in 1989.

Unlike East European socialist countries, China and Vietnam have succeeded in their transition to “socialist market economies”

⁴⁴ Nakagane Katsuzi, above, p.257

⁴⁵ Brus and Laski, above, p.62.

via “market socialism.” During the 12th Party Congress in 1982, China adopted the principle of maintaining the planned economy with market functions as subsidiary means. During the 13th Party Congress in 1987, it was decided that the “socialist planned commodity economic system” was a system in which both plans and markets were internally unified. During the 14th Party Congress in 1992, a “socialist market economy” was proclaimed. China has finally decided to make a transition to an economic system centered on markets as a national policy.

In terms of Brus’ conceptual stages, North Korea no longer belongs to the stages of wartime communist system or centralized socialist system. Clearly, it has reached the stage of “decentralized socialist system.” If the market socialism is defined as a decentralized socialist system in which planning and markets co-exist, it is reasonable to classify the North Korean economy as a type of “market socialism.” As we have seen in Chapter IV, the functions of North Korea’s centrally planned system were paralyzed, and so was the system of “Associated Enterprises,” but various market elements have been operative. So, we must characterize the North Korean system as market socialism, because its markets are much more lively compared to its planning functions. North Korea is trying to maintain a balance between the centralized power and decentralization, planning and markets, control and autonomy, but in fact the centralized power is losing its grips, planning functions are crumbling, and the control function is also becoming ineffective. In reality, only decentralization, markets and autonomy are prevailing in

North Korea today.⁴⁶

But, it is difficult to view the current stage of North Korean development as having reached the level of China's "market socialism (or, socialist commodity economy)," which was an earlier stage of "socialist market economy" that China had entered in 1992. From the 1980s, China had proclaimed openness and reform, as well as liberal ideologies, as slogans of new policy lines. And, its policy lines and contents of actual policies showed consistency. North Korea, however, is still engaged in sloganeering of its policy of maintaining socialist principles, while improving economic management methods. From 1983, China has privatized agriculture under the *Bao Chan Dao Hu* system, which rapidly enhanced productivity, and the farmers utilized their surplus output for the development of commerce and service industries in the cities and farm villages.

⁴⁶ Park Hyung-joong, "The Status and Prospects of 'Pragmatic Socialism' from the Perspectives of Comparative Socialism," a paper presented at a South Korean academic seminar on "*Changes and Prospects: Ten Years of Kim Jong Il Regime*," (Seoul: KINU, 2004), p.157. In this paper, Park described the stages of socialist economic reform as follows: The Stalinist centralized command economic system -> Partially decentralized command economic system (a partial reform system) -> Socialist Commodity Economy (Market socialism) -> Socialist market economy. He thought that in or around July 2002 North Korea was at the stage of "partial reform system," in which it tried to improve the efficiency and productivity under the principles of planned economic system. In addition, he said the North Korean decision to allow autonomous management in small- and medium industries, such as production of consumer goods and service industry, indicated that it has moved beyond the "partial reform system." In short, he argued, "The recent North Korean reform was very similar in its content and logic with the partial reform system that appeared in China in 1979-1984 and Vietnam in 1980-1982."

In the Chinese case, changes in the farmers and farm villages led the capitalist changes in the social sector. The government led the changes in urban areas and industrial sectors, along with various measures including the relaxation of ideology. In comparison, urban workers have been leading the change in North Korea by taking profits in the process of commercial transactions. In other words, most commercial transactions in North Korea are profit-taking behaviors without improving productivity.

This, in fact, is a contradiction. The distribution function through increased production is not properly working, and only the exchange function is increasing in the commercial transaction sector. To be sure, this will eventually stimulate demands, which will, in turn, stimulate the production sector, thus accelerating reforms in the agricultural (and other) sector(s). So far, however, reform has not really begun in the agricultural sector. North Korea should begin to implement the Chinese-style reform (the *Bao Chan Dao Hu* system) in the agricultural sector.

Like their Chinese counterpart, the North Korean farmers have been under the feudalistic yoke. But, the difference was in the level of government control. In North Korea, the control has been too harsh. In the Chinese case, there was a period of political transition toward the end of the 1970s. This period of political power vacuum could have served as a favorable atmosphere for the agricultural sector to undertake reforms. If there were a change in the North Korean power structure, the North Korean farmers would then be able to pursue policies

like SULNAM, and its economy could experience reforms centered on the agricultural sector as in China. Only dramatic increases in agricultural productivity will bring about progress in North Korea's commercial and service sectors.

North Korean farmers would be not much different from their Chinese counterpart. They have a high level of antipathy toward the existing system. Their philosophical outlook was not fostered overnight by the policies of contemporary North Korea. Rather, it was an accumulation of experiences through the long process of history. The process of formulation of their outlook would certainly include memories of the drastic land reform in the early years of the North Korean regime and the long tunnel of collective agricultural cooperatives. In short, theirs is the product of history of many losses and few profits.

North Korea's process of introducing socialism was different from other socialist countries, and the government policies have been different. Admittedly, then, some different aspects had to exist. More than any other socialist systems, North Korea has been enforcing strict ideological education and social controls over all groups of people, including the farmers. But, no one should conclusively say that such policies have completely obliterated the fundamental nature of farmers as farmers.

VII. Summary and Discussions

As we have seen, the progress of the North Korean economic sector toward a market liberalization has also contributed to the formation of new value systems and social attitudes that are favorable to a market system. In other words, the market economic elements have permeated simultaneously into the economic and social sectors.

These changes have forced the hands of North Korean authorities to tacitly accommodate the on-going changes in the system and liberalize the markets. In fact, this was the background behind the July 1 Measures. With the July 1 Measures, the North Korean authorities have decided to abolish the system of “Dae- an management system,” which used to serve as the pillar of the socialist economic system. This Dae-an management system which had served as the theoretical rationale for the centrally planned economic system, was abolished, and free market

elements were introduced.

We have already shown above that the current economic and social changes were not something that the North Korean authorities pursued with any plans or programs. Initially, the authorities intended to absorb the black markets into the state-run store system. But, they had to change the policy within a couple of months and liberalize private trading and install “general markets.” Not only did the authorities lack any policy means, but they also could not suppress or control the ever-expanding private trading activities, in which most people were engaged for self-help and survival. The government simply could not come up with any other alternative policies for them. The appearance of “general markets” was the result of inability to suppress the black markets and failures to maintain a system of nationwide distribution. With the July 1 Measures, the government definitely tried to bring black markets under the state-run store system. When its policy failed, the government had to reverse the course and liberalize the black markets. These were not changes brought about according to any government plans. In fact, the government had to adjust and accommodate passively to the changes initiated by the people from below.

It is important to focus on the nature and direction of change in North Korea, because the motives for change stem from the fundamental contradictions in the North Korean system. From the early days of its regime, North Korea has enforced a policy of discrimination for purposes of exercising political and social control over its people. The most important underlying

cause for the current trend of transformation is the system of discrimination based on family (personal) background and the strict discrimination between the party and non-party members. The non-party members and those classified as “hostile masses” were excluded from the North Korean society in general. They were treated as if they did not have North Korean citizenship. They were not given even the opportunity to climb up the ladder and overcome the class discriminations. So, when North Korea was hit by the economic crisis, they became the first group of people to turn their eyes to the private sector and began to pursue the alternative option of private trading to make money. Thanks to their initiatives, black markets flourished and the unofficial sector was reinvigorated. The bustling black markets, in turn, had the effect of paralyzing the official economy. The goods flew from the official sector to the black market for active trading. In short, people and money rushed in to the black market, and the official sector was left with nothing but name.

Those disaffected people, who had been excluded from the system from the beginning, were able to develop a new value system and transform the North Korean society into a black market economy. But, we should not attribute this change simply to the exclusion of “complex masses” from the system. The reason they were able to turn away from the official sector in the first place and engage in private trading was because the system was so corrupt under the economic hardship as to allow the officials to take bribes from them. That they were able to buy off officials, form underhanded alliances with them,

and expand black markets beyond the barriers of planned economic system was indeed a form of silent revolution, because the black markets ultimately contributed to a collapse of the centrally planned economic system, which was the foundation of the socialist system.

In this respect, the North Korean development is similar to the SULNAM-style reform the Chinese farmers relied on so successfully. North Koreans also have brought about a social change when most people participated in a Spontaneous, Unorganized, Leaderless, Non-ideological and Apolitical Movement. In totalitarian societies where strict surveillance and severe punishments are enforced, people are fully aware that any attempt to transform the system would be reckless and senseless. So, they would leave the official system intact and form another informal, or “underground,” society of their own, away from official eyes, and pursue their freedom and personal interests.

Conventional wisdom would tell us that change was impossible in North Korea because there were no leader(s) or organizations. In reality, however, a quiet revolution from below is developing in North Korea today. That bribery has had great influences on the North Korean society is quite similar with the early period of Chinese reform. The fact that market elements are being introduced to North Korea is quite important. More significant, however, is the fact that these changes are not initiated by the authorities but by the initiatives of the people from below. This is an important point. In analyzing and forecasting North Korea’s future developments, public policies and statements should not be the only sources of judgment.

It is now equally important to assess and analyze the dynamics of social change. From this perspective, North Korea could experience another type of socio-economic change independently of the wishes of its leadership. And, the on-going changes in North Korea appear to be irreversible in view of the fact that the changes so far have taken place spontaneously, not at the North Korean government initiative. In fact, the government has tried to suppress or stop the change, but change has occurred despite the government.

The recent series of change in North Korea should be seen as epoch-making. The changing awareness of the North Korean people is so dramatic that we might as well say that a “a North Korean Renaissance” has begun in North Korea. North Koreans may not overtly or collectively display their feelings toward Juche Ideology, Socialism, the Party and their Leader. But, changes in the direction of shaking the foundations of the North Korean system are apparent. On the surface, the changes in North Korea appear to be occurring within the socialist principles as its official news media insist. But, the changes have been taking place from deep inside the society. This is indeed a “hidden reform.”

Will North Korea move beyond “market socialism” toward a “socialist market economy”? The July 1 Measures were a significant progress in the sense that the steps moved away from the strict planned system of the past. But, there still exist too many areas to adjust and improve. The attempts to reform the North Korean economic system today stands at a crossroads: it could now move toward a successful “socialist market

economy” like China or it could collapse in the process of change like the economies of the former Soviet Union and Eastern European countries. Since the collapse of the Socialist Bloc countries, North Korea has tried and pursued several important policies to resolve its economic hardship. But, most of them were ineffective and the North Korean authorities are experiencing trials and errors. Due to the internal and external problems North Korea is currently facing, it would not be easy for North Korea to launch a major policy of openness and reform like China and Vietnam. Along with efforts to improve its domestic productivity through internal reforms, what North Korea needs to do is open its doors to the world. It is because North Korea’s ability to improve its domestic productivity is limited by a lack of resources and elements of production, which could only be replenished from the outside. Openness simply means joining the international community as a normal member. Having witnessed other socialist countries joining the capitalist world system, North Korea appears to have concluded that there is no other alternative but to integrate into the capitalist world system that has replaced the demised socialist bloc. Now that the socialist bloc has disappeared, the impending policy-decision North Korea must make on a priority basis is in the direction of improving relations with the capitalist countries and developing a new relationship of economic cooperation. This imperative will, in turn, hinge on how North Korea will resolve the nuclear issue and how quickly, because the nuclear issue is the most critical variable in opening itself to and promoting a favorable international atmosphere.