

**North Korea's Shadow Economy:  
A Force for Authoritarian Resilience or Corrosion?**

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**Abstract**

An unofficial or 'shadow' economy like that found in contemporary North Korea generates countervailing pressures for a socialist regime. It can buttress the regime by facilitating the cynical use of anti-market laws, alleviating shortages, helping the official economy to function, and creating vested interests in the status quo. However the shadow economy can corrode the regime's power by diminishing its control over society, encouraging scepticism about collective ideologies, and providing networks and material that can be used for opposition to the state. This article analyses these tensions in the DPRK by drawing on 35 semi-structured interviews with North Korean defectors.

## **Introduction**

The observation that Chong-Sik Lee and Nam-Sik Kim (1970, p. 309) made in 1970 that ‘North Korea is one of the most efficient totalitarian regimes existing in the world today’ is probably still true, but the decades since the end of the Cold War have presented the leadership of the Democratic People’s Republic of Korea (DPRK) with numerous challenges to its power. The state’s founding father Kim Il Sung and his successor son Kim Jong Il both died during this period. Disappearing preferential economic arrangements with the Communist bloc and punishing famine precipitated a humanitarian crisis and the breakdown of many state institutions by the mid-1990s, while the rapid economic development and democratization of its long-standing rival South Korea presented an ideological challenge to Pyongyang. Despite these obstacles, the DPRK regime remains in power, defying decades of predictions that it was fatally fragile.

Nevertheless the regime’s control appears strained at times and recent scholarship on North Korea has sought to understand the nature and history of its staying power and potential threats to its stability (for reviews, see Kang 2011/12; Armstrong 2011). One prominent and significant question that has emerged in literature on the DPRK is the influence of the ‘shadow’ or ‘second’ economy on North Korean society and politics (see, e.g. Joo 2014; Choi 2013; Lankov 2013b; Joo 2010; Lankov & Kim 2008). Because the state has been unable to meet the needs of its population through rationing and centralised economic planning since at least the mid-1990s, much of the citizenry has resorted to the shadow economy to survive. Most private economic production and distribution remains technically illegal, but because of its inability to supply the population with necessary goods and services the regime often turns a blind eye to the shadow markets. This unofficial but tacitly accepted second economy – variously called ‘marketization from below’ or ‘grassroots capitalism’ in the North Korean studies literature – has undoubtedly brought important changes, but the implications of those

changes for the relative stability of the DPRK political system deserve more attention.<sup>1</sup>

Of course, the DPRK is not unique in featuring a robust and widespread second economy operating in the seams of a centralised socialist economy. From the mid-1970s until the mid-1990s, scholars of the Soviet Union and other communist states analysed the second economy and its impacts on the livelihoods of their citizens and the official economy, as well as broader implications for political and social life.<sup>2</sup> A central finding that emerges is that communist regimes face countervailing pressures on their power as a result of the second economy. On the one hand, it bolsters the regime because it mitigates the pernicious effects of central planning, provides opportunities for government officials to use their positions for material benefit, which creates powerful vested interests in the status quo, and allows for the flexible and selective use of legal norms banning market practices. On the other hand, the second economy can be corrosive to the political power of a communist-style regime because it diminishes central control over society, represents an ideological challenge to socialist morality, and can nurture alternative networks of social organisation with access to subversive information. Because of these structural tensions, it is not unusual to see states like North Korea adopt sporadic and equivocal policies toward the shadow economy.

This article will situate the socio-political effects of the DPRK's second economy within these countervailing pressures and analyse interview evidence to understand how they operate on an everyday level in contemporary North Korea. The aim is not only to enrich understanding of political dynamics in the DPRK, but also to generate insights about the politics of parallel markets in communist regimes and authoritarian resilience more broadly.<sup>3</sup> Evidence is drawn primarily from 35 semi-

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1 On the structure and economics of the DPRK second economy, see Joo (2010), Haggard & Noland (2010a), Haggard & Noland (2010b), Lankov & Kim (2008). On information in the DPRK shadow market see Choi (2013) and specifically on subversive rhetoric in them, see Joo (2014). For a history and comparative analysis of DPRK economic reform efforts, see Szalontai & Choi (2011).

2 The pages of this journal were a prominent forum for analysis of the Soviet second economy. See, for example, Feldbrugge (1984), O'Hearn (1980), and Katsenelinboigen (1977).

3 Literature on authoritarianism is expanding rapidly. For a review, see Art (2012). For recent examples, see Dimitrov

structured interviews of North Korean defectors in South Korea conducted by the author during 2011 and 2012 and is supplemented by secondary academic literature and journalistic accounts.<sup>4</sup> Drawing on the author's interview evidence, the article finds that the regime has thus far been able to stave off the most corrosive effects of the shadow economy. The hidden economy in North Korea conforms to some expectations found in literature on second economies in socialist states, namely the extent to which state agents are complicit in the parallel market and therefore invested in the status quo. Interview evidence suggests that the hidden economy may enable withdrawal from the official political arena of the DPRK but that participants in the parallel market are not yet operating in a sphere politically autonomous from or self-consciously opposed to state domination.

This article will proceed in five sections. First, it will revisit scholarship on the shadow economy in other socialist states to map the theoretical relationships between the second economy and the political sphere. Second, it will present the details of the interview sample used in this article, including timing, methods, and demographics. Third, it will provide a brief overview of the emergence of the North Korean second economy and the state's vacillating toleration of the market over time. Fourth, it will draw on the author's interview data to better understand the everyday political effects of the DPRK's second economy. Fifth, it will briefly recap and conclude with remarks about the implications of this research.

## **Authoritarianism and Shadow Economies in Socialist States**

There are a variety of approaches to defining the 'second economy' in socialist states (see, e.g. Grossman 1977; Wiles 1987; O'Hearn 1980; Feldbrugge 1984). Given the range of economic activity

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(2013), Levitsky & Way (2013), Gerschewski (2013), Svolik (2012).

<sup>4</sup> Some object to the term 'defector' because of its political connotations. Others prefer 'refugee' in English, while in Korean terms translating as 'people in a new place' or 'person escaping from the North' are also in circulation. See International Crisis Group (2011).

in North Korea's second economy, its murky legal status and sporadic enforcement, and its suspect ideological position, an appropriate definition for this context conceives of the second economy as including 'all areas of economic activity which are officially viewed as being inconsistent with the ideologically sanctioned dominant mode of economic organization,' including activities that are illegal, semi-legal, and formally legal but ideologically suspicious (Los 1990, p. 2). This article will use the terms 'second economy,' 'parallel market,' 'hidden economy,' and 'shadow economy' interchangeably for those activities which exist in a liminal sphere of legality and official morality and will reserve the term 'black market' for those activities which are strictly illegal and may meet with severe penalties (e.g. selling anti-state media).<sup>5</sup>

What are the political effects of shadow economies? The literature specific to socialist societies identifies countervailing forces. While the second economy may help hold the official economy together and thereby bolster the regime's power and performance legitimacy, it also undercuts the regime's ability to exert control over society. In other words, 'the second economy is believed to contribute to the continuation of the dominant economic relationships while at the same time eroding the ability of the bureaucratic party-state effectively to control and manage the society' (Los 1990, p. 9). This means that achieving the 'optimal balance between economic performance and political control is a permanent dilemma' for regimes faced with shadow economies (Feldbrugge 1989, p. 335). The Soviet leadership, for example, was 'torn between cracking down on the participants in the second economy and allowing the system the flexibility it needs to survive' (Shelley 1990, p. 19).

The shadow economy can be stabilising for the official economy and the political system in at least four ways. First, the vague permissibility of various market activities can be beneficial to the regime because it allows for the flexible use of the law; everybody is at the mercy of officials at any given time since most people are somehow complicit in market activities (Feldbrugge 1989). This

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5 For a colour-based typology of markets Katsenelinboigen (1977).

collective vulnerability can provide the legal pretext for the regime to target those who may be perceived as threatening.

Second, the shadow market can alleviate inefficiencies and supplement the poor performance of the official economy. The hidden economy can provide goods and services like food, consumer products, health care, and transport that the central planning authorities may fail to allocate effectively. It may also provide the flexibility necessary for communist regimes to adjust to periods of economic change by providing and distributing goods that the government cannot (Dominguez 1993). Furthermore, the shadow economy can help allocate producer goods like raw materials or spare parts to the first economy to facilitate meeting official goals. This tacitly accepted ‘benign plan violation’ sees state managers barter with each other and with second economy operators to acquire the goods they need to fulfil their planning targets – thus violating details of official directives to achieve overarching government targets (Wiles 1987; Grossman 1977; Katsenelinboigen 1977). This reality led one scholar of the USSR to remark that ‘the planned economy is held together by the baling wire and chewing gum of parallel markets’ (O’Hearn 1980, p. 231).

Third, the hidden economy can act as a social pacifier in contexts where goods and services promised by the state are lacking. It can channel frustration that would otherwise be dangerous for the regime into market activities, consumerism, petty corruption, and so on. Resentment against privileged elites is dampened or redirected into second economy activities. Because the second economy can raise living standards and add extra income for ordinary people, it can appease potential political malcontents (Sampson 1987). The option to acquire basic goods in the parallel market can also make public riots or protests about the lack of food or consumer goods less likely (Dominguez 1993, p. 102).

Fourth, the hidden economy can entrench economic and political inertia by creating vested interests in the status quo. Actors at various levels of the state are involved in the parallel market and ‘many second-economy activities can only take place because a number of officials who should

counteract them prefer to look the other way, not without profit to themselves' (Feldbrugge 1989, p. 322). Due to pervasive goods shortages in a centralised economy, those with administrative or physical control over those goods can manipulate the system to their personal advantage (Grossman 1977, p. 30). Official positions become lucrative and desirable because they can be used to engage the second economy from a position of administrative and political strength. If regime officials are benefitting from the continued operation of the second economy, it therefore becomes 'irrational for the top leadership to clamp down decisively on the second economy...because this would undermine the very foundation of their power' (Feldbrugge 1989, p. 333). Resistance to reform of the first economy and political system can be found in the 'widespread vested interests and its inevitable concomitant, corruption of formal power' (Grossman 1987, p. 2.9). Grossman (1990, p. 51) summarises the political and economic conservatism that the second economy produced in the Soviet Union:

Millions of people have cultivated their little illegal or grey niches and rackets and would rather keep the known risks than face the unknown brave new world. More significant...the big-time underground and the organized underworld that it has spawned have melded with a part of the official political – and administrative and police – pyramid of power.

If the hidden economy can help stabilise officialdom, there are also at least three reasons why the parallel market may corrode the power of a socialist regime. First, the existence of a pervasive second economy demonstrates that the ability or willingness of the regime to enforce its will is limited (Grossman 1977, p. 37). Furthermore, due to the inherently political nature of all economic activity in socialist states, the second economy 'presents a serious economic and ideological competition' and thus a threat to the regime's hegemonic control (Los 1990, p. 223). The existence and success of a parallel market can serve 'as a living example of an alternative to the official centralized-planned-command system,' and thus can help the complaints that people inevitably have about the regime's practices blossom into a more robust set of prescriptions for a potentially more attractive way to organise society (Grossman 1987, p. 2.7).

Second, the shadow economy can act as a social and material foundation for opposition to the regime. Because ‘large networks, obligations, and trust are keys to success in any second economy,’ the existence of a hidden economy prefigures social networks with the capacity, expertise, and willingness to evade state controls (Sampson 1987, p. 133).<sup>6</sup> Such networks can be harnessed and used to furnish ‘the material foundation for existing alternative social structures,’ such as was found in the Soviet Union’s ‘world of political dissidents, ethnic and religious activists, refuseniks, opters-out, nonconformist writers and artists, and samizdat publishers’ (Grossman 1990, p. 50). These non-official networks could be ‘selectively yet creatively’ harnessed by those with shared value commitments operating in the ‘interstices of the Leviathan-state’ in order ‘to secure the material means necessary for sustaining social movements (such as typewriters and xerox machines for printing and distributing samizdat)’ (Garcelon 1997, p. 328).

Third, the parallel market can facilitate withdrawal from collectivist ideologies and activities proffered by the regime. The ‘blatant forms of particularism’ characteristic of the second economy and related activities in the Soviet Union ‘gave the lie to the Party-state’s claim to be “the state of the whole people”...The state’s claim to be a “universal proprietor” and guardian of the general interest appeared more and more as a ruse designed to deflect attention away from the appropriation of privileges by members of the partocracy’ (ibid. p. 315). The hidden economy at least ‘ingrained and enhanced,’ if not generated, ‘widespread disrespect for law and cynicism toward matters formal and official’ that made it more difficult for the state to effectively guide economic activity (Grossman 1987, p. 2.9). The second economy can engender a gap between ‘us’ (society) and ‘them’ (the regime) that feeds estrangement from workplaces, state institutions, and the bureaucracy, thus perpetuating a sort of spiral in which ‘a moral atmosphere that makes it natural to resort to second economy strategies’ helps justify

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6 For an anthropological account that explains the importance of social networks in the operation of a clandestine biscuit factory see Mars & Altman (1987).



pervasive swindling of the state (Sampson 1987, pp. 134-135). This us/them gap may be exacerbated by the inequality manifest in consumerism, conspicuous consumption, and ostentation of the beneficiaries – often regime officials – of the second economy (O'Hearn 1980; Grossman 1987).

Considering the simultaneously 'liberating, corrosive, and lubricating,' effects seen in the second economies of other Soviet-type political systems (Sampson 1987, p. 122), one would expect similar developments in the DPRK. Regimes like North Korea's face a second economy dilemma and interview evidence can provide insight into how processes associated with these countervailing forces operate on an everyday level. An overview of the DPRK's second economy and the state's response is provided below, but first an explanation of the interview data is necessary.

### **Semi-Structured Interview Data**

Semi-structured interviews with people who have lived under the DPRK regime, and in some cases were second economy vendors, allows for better understanding of how the parallel market is impacting the North Korean political system. In a semi-structured interview, the researcher has a number of topics to cover for a given interview, but also has the flexibility to adjust the questions to the responses, experiences, and characteristics of the interviewee and the context (Mason 2002, p. 62). If the respondent is a market vendor, the researcher may ask about the methods by which s/he operated in the market, while if the respondent is a teacher, the researcher may ask what kinds of things s/he was asked to teach about the state at particular times in its history. The aim of this method is to draw on the experiences of each individual so that the researcher can evaluate them together, examining broader interactions and processes.

My interviews, as with all North Korean defector interviews, face inferential challenges. Since these people have chosen to 'exit' North Korea, they have already displayed their displeasure with the regime and thus cannot necessarily be seen as holding opinions representative of the broader

population. To mitigate this problem, I have adopted three strategies. First, I focused on experiences of the respondents rather than their opinions of the regime. This helps to establish how processes operate rather than measuring the attitudes of the respondents toward the political system, which is almost universally negative in this sample. While the experiences and skills of defectors cannot necessarily be taken as representative of a national sample, if analysed alongside other sources of information they are extremely valuable in understanding processes and interactions at the everyday level. Second, I focused on interactions that respondents have had with others. This entailed asking questions about process (e.g., ‘what happened at your morning work meetings?’ or ‘if you wanted to access illegal media, how would you do it?’) and interactions (e.g., ‘with whom would you have conversations about topic X?’ or ‘what kinds of things would you discuss in the marketplace?’). This strategy allows for an account of how typical interactions and processes surrounding the second economy operate. Third, I report experiences only when they broadly cohere with other respondents as well as those from other collections of interviews.<sup>7</sup> This helps to ensure that, although each person's experiences will differ in some ways, idiosyncratic events are not reported as commonplace. Thus while the particular details of any individual story are perhaps impossible to verify with absolute certainty, if the story is embedded in a larger body of literature and the experiences of other similarly-situated individuals, then we can be confident in the accurateness and representativeness of the material on points of theoretical interest.

To secure an appropriate group of interviewees, I used a purposive sampling strategy. With this approach, the researcher selects groups or categories of interviewees based on their relevance to research questions and the arguments being advanced (Mason, 2002: 124). For this study, which is embedded in a larger project on ideology in authoritarian regimes, relevant characteristics were age at

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<sup>7</sup> For example, the news website Daily NK conducted 10 interviews with North Koreans in the Chinese border area. See Daily NK (2011). Furthermore, the recent report of the United Nations Human Rights Council relied heavily on interview evidence. See also United Nations (2014) and Kretchun and Kim (2012).

defection, year of defection, home province, and occupation in North Korea. Of 35 interviewees, the average age when leaving North Korea was 29 years old, with a range from nine to 52. The average time that interviewees departed from North Korea was mid-2004, with a range of 1996 to 2011 (see *Table 1*). Nineteen respondents were from North Hamgyeong Province, while four each were from Kangwon and Pyongyang, three each from South Pyongan and South Hwanghae, and one each from North Hwanghae and Ryanggang Provinces (see *Figure 1*).

In September and October of 2011, I conducted 25 semi-structured interviews with North Koreans in Seoul, South Korea, as well as a number of expert interviews with those who research the DPRK. In June 2012, I supplemented this sample with 10 additional semi-structured interviews, also in the Seoul metropolitan area. For most interviews, I worked with a trained translator. I recorded 32 out of 35 interviews and transcribed them verbatim, while for the remaining interviews I relied on my notes. Interviewees were not paid, but to express appropriate gratitude I offered respondents a small gift card equivalent to approximately \$10 (USD) upon conclusion of the interview. All respondents offered informed consent and the relevant Institutional Review Board approved the study design. In June 2011, I also went to North Korea personally as part of an academic group, although I was not able to conduct interviews while there.

### **Overview of DPRK Shadow Economy: Unofficial Developments and Official Responses**

Over the past 20 years, the second economy has come to play a larger role in economic life in the DPRK than at any time in the state's existence. Starting in 1946, the state took control of the industry left by the Japanese colonial regime, mobilised the agricultural sector to help achieve state industrialisation, and introduced food rationing (Armstrong 2003, pp. 136-165; Kim 2013). By the beginning of the 1960s, 'almost nothing of the private economy remained' (Armstrong 2007, p. 197). Prior to the 1990s, North Korea's parallel market was not nearly as economically or politically

significant as it is now. The permitted size of private agricultural plots was much smaller than in the Soviet Union, and the state was seemingly able to prevent most market activity before it emerged via well-enforced internal travel permits and through dense networks of surveillance (Lankov & Kim 2008, pp. 55-57).

After the Cold War, the North Korean economy, long dependent on aid from the Soviet Union and preferable trade terms with fellow communist countries, quickly began to shrink. With the state's food rationing scheme – the Public Distribution System (PDS) – breaking down under the weight of poor planning and a rapidly deteriorating economy, by the mid-1990s many of North Korea's 23 million people were starving. Estimates vary, but Haggard and Noland (2007, pp. 72-76) calculate that between 600,000 and 1,000,000 people – or between roughly 2% and 4.5% of the population – died as a direct consequence of North Korea's famine. People in many areas of the country had little choice during the famine but to starve or acquire food by scavenging and/or bartering. During the famine, local officials and political units 'initiated entrepreneurial coping behaviour, much of it technically illegal, to secure food' (Haggard & Noland 2010, p. 134).

The shadow economy that blossomed during the famine period continued to play an important role even after the worst period of the catastrophe had subsided. In the far-flung North Hamgyeong province, which borders China and a sliver of Russia and has been marginalized by Korean rulers for centuries (Armstrong 2003, pp. 12-20), 'the central state's incapacity facilitated the institutionalisation of market economic activity as the primary source of goods and food after the famine years during which the provincial population had turned to bartering, swapping and selling in order to ensure its very survival' (Smith 2009, p. 250). Research by Haggard and Noland (2011, p. 7) suggests that 'markets became the primary institutional mechanism for securing food in the late famine period and have continued to play that role since.' They estimate that the market is the only source of food for about 35% of the North Korean population and that more than 60% rely primarily on the market for

their food (ibid., pp. 50-55). Many North Koreans earn all or most of their household income from private business activities, with more than two thirds of people reporting having engaged in second economy trading (Haggard & Noland 2010a, pp. 136-138).

The market in North Korea has a variety of physical manifestations. Some markets are officially approved or tolerated and are housed in permanent buildings with vendors in stalls selling their goods to customers. Other second economy ‘markets’ are simply gatherings on a roadside or sidewalk where vendors display their wares on a mat. Private restaurants may be operated from within a technically state-owned enterprise, meaning that it would have the physical appearance of an official entity, while people who move freight for the second economy can also pay off officials for use of government trucks (Joo 2010, p. 120; Lankov 2013b, p. 186). Private market transport of this nature has spawned demand for private inns and canteens, which may be physically located in private dwellings (ibid.). The travel restrictions that once were prohibitive to the operation of second economy trade over significant distances are apparently less cumbersome than they once were as market vendors are now able to bribe their way around them (Lankov & Kim 2008). Illicit goods, such as media or foreign fashion products, may be circulated by vendors in officially tolerated markets who conceal them under legitimate products and only reveal them to potential customers when they feel safe doing so. The black market for illicit media products exists in underground shops or within networks of trusted vendors and friends who have no permanent physical location and may conduct their transactions in private places (Lee & Seo 2013).

If the physical space of the parallel market varies, so do the sources from which vendors obtain their goods. Joo (2010, p. 117) has mapped in systematic detail the sources and pathways of circulation for goods in North Korea’s shadow economy and notes that in recent years, according to a North Korean expression, ‘everything except a cat's horn’ can be purchased in the DPRK's second economy. Food enters the second economy via private plots or is siphoned off from the official sector or from

foreign aid (*ibid.*, pp. 118-123). Finished consumer goods, such as clothes, shoes, or electronics, enter the DPRK via smuggling networks from China that are then sold to urban or rural wholesalers and on to lower-level market vendors (*ibid.*, pp. 123-128). Market participants also engage in arbitrage or ‘dual speculation,’ wherein they sell one product (e.g. fruit or clothes) in a locale where it will fetch a good price, use the proceeds to purchase different goods (e.g. grain) that are cheaper there but will fetch a good price elsewhere, then travel to that place to sell them and buy more of the original product and travel back to sell it, and so on (*ibid.*, p. 119). Shadow markets for manufacturing and production also exist and see small vendors obtain inputs such as sugar at the market to make goods like drinks or candies to sell for a profit, or larger operations that produce goods using the equipment of state factories with the collusion of enterprise managers (*ibid.*, pp. 128-129).

The North Korean regime’s toleration for the second economy has varied over time. The broad pattern of the official response suggests that when the state perceives itself as strengthened, it attempts to exert greater control over shadow market activity, while when the state is relatively weak it tolerates a wider range of market activities. During the famine and its aftermath until the early 2000s, when state capacity was severely diminished, the regime begrudgingly countenanced the second economy. Reforms in July of 2002 – the ‘July 1 measures’ – were initially greeted with enthusiasm abroad as a sign that the reclusive regime was finally opening itself to above-ground marketization. They included more autonomy for state managers, including the ability to sell some of their product on the market, and formally acknowledged ‘general markets’ where goods could be bought and sold with fewer restrictions (Haggard & Noland 2011, p. 63; Lankov, 2013a, p. 119). The market-oriented aspects of the reforms are often seen as a reflection of the benign plan violation and second economy trading that was already occurring (*ibid.*), although Frank (2005) argues that the July 1 measures were more intentional and less ad hoc than many observers suggest.

Yet throughout the late post-famine era, Pyongyang has displayed a ‘discomfort with the market

and the potential challenge to political authority that it represents' and has periodically initiated reforms to reign in the shadow economy, particularly when it sees itself as relatively strengthened (Haggard & Noland 2010b, p. 8). From 2005 to 2009, the DPRK moved to restrict market activity as its economy and state capacity experienced a partial revival. From the regime's perspective, in other words, 'the economy should be based on administrative distribution and rationing, whereas markets and retail trade should be tolerated only as a means of coping with emergencies' (Lankov 2013a, p. 121). In October 2005, it announced that the PDS would be re-established at full strength, while in December 2006, the regime banned most males from engaging in market trade and one year later extended the ban to women under the age of 50 (*ibid.*, pp. 121-123). In January of 2008, the intensity and frequency of market inspections increased (Haggard & Noland 2011, p. 10). Of course, enforcement varied across the state's territory and in many cases the second economy continued to operate as normal after a brief period of interruption.

These four years of regime measures to reassert control over the second economy and its participants culminated in a botched currency revaluation in November 2009 (see Haggard & Noland, 2010b, p. 5). Currency notes worth 1,000 Won were to be replaced by 10 Won notes but with a limit on how much could be exchanged, which was initially set at 100,000 Won but was subsequently raised amid dissatisfaction, confusion, and apparent anger from market vendors dismayed at their savings being effectively wiped out (Haggard & Noland 2010b, p. 6; Lankov 2013a, p. 126-132). The currency reforms seemed to be unpopular, with public discontent palpable, and in December 2009 the regime temporarily shut down all markets (Lankov 2013a, pp. 129-130). Despite organised collective resistance seemingly being a real possibility, by April 2010, normality was restored, and in May 2010, the Party had issued some directives that were friendlier to second economy activity, although it is worth noting that most private trading remains technically illegal (*ibid.*; Haggard & Noland 2011, p. 10). The shadow economy and the official sphere remain in a condition of wary co-existence to this

day.

### **The Socio-political Effects of North Korea's Shadow Economy**

Does the North Korean second economy have more of a stabilising or more of a corrosive impact on the DPRK's authoritarian political system? As is perhaps to be expected given the cross-cutting processes generated by second economies of other communist societies, the evidence is mixed. While the basic structure of the North Korean system remains in place, the North Korean studies literature identifies several market-related pressures that could be eroding the resilience of the regime. Some see the North Korean parallel market as a burgeoning semi-autonomous sphere of political communication wherein 'official rhetoric is increasingly questioned, challenged and ridiculed by subversive re-interpretation from below' (Joo 2010, p. 133). In this sphere market participants engage in subversive behaviours such as sarcastically re-appropriating official slogans, making fun of the Kim family, and consuming forbidden South Korean cultural goods (Joo 2014). Second-economy markets appeared to have lost their stigma during the famine years and became 'the embodiment of the common, general will of the people to survive. Thus arose a shocking, powerful saying during the mid-1990s: "The market place is our party [or new Worker's Party]."' (Kwon & Chung 2012, p. 169). One unintended consequence of repressing of the second economy therefore 'may be precisely to make the market a locus of political activity given the complete absence of other channels or civil society organizations for expressing grievances' (Haggard & Noland 2010b, p. 10). According to Haggard and Noland (2011, p. 117), participation in the DPRK's second economy is associated with more consumption of foreign news, more negative assessments of the regime, and more willingness to communicate their views to peers, leading the authors to conclude that 'on its own terms, the regime is right to fear the market.'

Victor Cha, former advisor on DPRK affairs to George W. Bush, makes perhaps the most



provocative case for the politically transformative power of North Korea's second economy. Cha and a co-author argue that markets create entrepreneurship, which in turn fosters individualist thinking, which is a slow and incremental threat to the government (Cha & Anderson 2013, p. 106).<sup>8</sup> In his recent book Cha (2012, p. 160-161) reasons that 'anger mounts when the government allows the people to fend for themselves, they succeed in some small fashion, and then the state tries to reassert control by taking this away.' He goes on to note that '...when this anger erupts, it will be violent and bloody.' The second economy, in Cha's view, has the potential to catalyse enormous political change in the DPRK that may ultimately depose the regime.

The North Korean studies literature also identifies less dramatic patterns. The DPRK shadow economy has provided an alternative avenue to wealth and success outside of the official sector, which upsets the social hierarchy that the regime has so assiduously cultivated (Lankov & Kim 2008, pp. 68-69). Survey evidence suggests that while second economy activities are seen as the easiest way to make money, becoming a government or party official is still perceived as the best way to 'get ahead,' although these two statements are not mutually exclusive (Haggard & Noland 2010a, p. 143). Signs of emergent conspicuous consumption may suggest that some officials and those connected with them have developed a network of vested, and relatively comfortable, interests (Lankov 2013b, pp. 189-191). Indeed, high-level officials and those who manage or who have connections to 'foreign-exchange earning companies' in North Korea are powerful actors with entrenched preferences against reform (ibid.: 181-182). Historian and North Korea expert Andrei Lankov (ibid., pp. 191-192) summarises the shadow economy's potentially corrosive influences on the regime by focusing mostly on the second economy's informational effects:

...the growth of the private economy is slowly eroding the authority and control of the government and concurrently is bringing dangerous ideas to North Koreans. Businesspeople themselves see the state and its officials as a swarm of parasites

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8 In a recent special briefing, *The Economist* suggested a similar line of thinking. See Economist (2013).

(frankly, this feeling seems to be mutual). The seemingly unstoppable growth of private entrepreneurship creates an environment where uncensored and unauthorized information about the outside world spreads with great ease – and, as it has been argued countless times, in order to ensure stability, the North Korean regime has to maintain a very strict information isolation. Last but not least, the very existence and power of the new enterprises demonstrates that the state is not the only natural provider of jobs and income, that one does not need an official interference to make a living.

Drawing on the interview sample described above, the remainder of this section will assess the everyday socio-political effects of North Korea's shadow economy. Attention to processes and interactions at the everyday level can help establish the degree to which the shadow economy is a force for authoritarian resilience or corrosion in different domains. The section will proceed by examining, in order, the origins and modes of market involvement, state involvement and corruption, the degree to which the second economy operates as a public sphere in which people can discuss political issues, and the circulation of political information in the markets. The analysis will reference other studies and collections of defector interviews to demonstrate the validity of the evidence.

### *Pushed to the Shadows*

Consistent with scholarly literature, respondents described their experiences turning to the shadow economy out of desperation due to the state's inability to provide food and goods during and after the mid-1990s famine. One former market vendor from the North Hamgyeong province recalls her motivations for smuggling goods in from China to sell in the immediate post famine period when the state was at its most permissive and impotent, saying that 'if I sold things I could get money or food. I had a baby and parents and I realised how to make money during that time' (Respondent 19, 10/7/11).<sup>9</sup> While this kind of activity remained illegal, she explained that while men could usually not be market vendors, 'women could go...it was illegal but people did it and nobody was caught. People

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<sup>9</sup> Interview Respondent number 19, interview conducted on October 7, 2011. Interviews conducted by author hereafter abbreviated as above.

were starving’ (Respondent 19, 10/7/11). The lack of vital non-food supplies also forces people to the second economy. A nurse explains how medical prescriptions worked in her hospital even 10 years after the famine when the regime was ostensibly reasserting control over markets: ‘because of the lack of medicine, when doctors would prescribe medicine to patients, the patients would go to a market to get it personally. After they would get it, they would come back and check with their doctor’ (Respondent 18, 10/7/11). The desperation to survive via the shadow economy activity extends up to the present, as a female party member in her late 40s explains to Daily NK reporters that as of 2011: ‘Most [people] trade. Things like pigs, dogs, and chickens are reared and sold. If we want to live, we have to do our jobs, some trading and a few side-jobs, too’ (Daily NK 2011, p. 26).

One result is that goods are available in the second economy if one has the money. A former resident of Hamhung describes the markets in 1994, during the famine when the state was unable or unwilling to enforce restrictions, saying that ‘it almost looked like a South Korean market, including seafood from that day. It was specialised and the size was quite large’ (Respondent 29, 6/11/12). While the North Korean shadow economy is clearly providing goods to people that they would not otherwise have – thus ‘lubricating’ production and distribution in the economy – the government as recently as early 2013 has apparently renewed attempts to ‘normalise’ the PDS by distributing rice and corn first in urban areas, and then through work units.<sup>10</sup>

### *State Involvement and Vested Interests*

If the DPRK regime’s ambivalence toward the parallel market is consistent with literature on other shadow economies, so is the widespread corruption and collusion of state officials that would be expected to accompany illicit or quasi-legal but ideologically suspicious production and distribution. One man in North Hamgyeong, for example, participated in illegal butchery, selling pork products

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<sup>10</sup> See Daily NK, 21 April 2013; Daily NK, 15 March 2013; Daily NK, 12 April 2013.

before he left in 2007, a time when the state was ostensibly disciplining shadow market activity. If he was caught by the police, he ‘would just bribe’ the officers. In his words, he ‘slaughtered a lot of pigs to sell and when I was caught by a police officer, I bribed the officer with a leg of pork’ (Respondent 23, 10/13/11). Over time, relationships developed with police officers wherein if this individual kept local officers happy with bribes, then the officials tolerated his parallel market activity and would warn him if a crackdown was imminent. If relationships are not established, and a crackdown does come, then the vendor is forced to either accept punishment or pay a bribe. One former resident of Hamhung explains about ‘general’ markets:

...when someone goes to the market to sell her products, they have to pay rent for their little space, but people cannot afford it, so they have to go sell their things outside of the market. If she is lucky, they can just sell without getting caught, but if it is a bad day or the police catch her, then she has to pay money to escape from severe punishment (Respondent 28, 6/11/12).

As in the former Soviet Union, second economy operators in the DPRK are dependent on segments of the state in order to ensure the smooth functioning of the parallel market. A former market vendor from Musan, which is near the border with China, made his living by purchasing clothes from border areas and bringing them to the southern part of the country to sell, and then using the profits to buy rice to bring back to Musan to sell. Most of the time some cigarettes would solve difficulties with police enforcement, but he recalls once getting in more serious trouble:

When I went to Cheongjin, I took about 10 cartons of cigarettes in my bag. I got off the train and walked to my home. It was the middle of the night, like 3 a.m. or something, and the policemen caught me. They were hiding somewhere, and they asked for my ID and I said I was a student. Then, ‘can I check your bag,’ and they saw the cigarettes. It was not just one [carton of] cigarettes, but tons of cigarettes and they said I could not take that. I know a high-profile police officer...so I just asked him if he could help me. He negotiated with them...I had to go there to his house. He was my father’s friend and I went to his house to ask him to take away the problem (Respondent 27, 6/10/12).

To prevent these scenarios in the first place, this vendor cultivated a network of contacts along his route that he could trust. He would correspond with the transport police officer on duty for any

train rides he was taking and would ply him with cigarettes or small amounts of money so that the officer would look the other way. When this method did not work, as in the example above, he had to rely on a deeper network to avoid trouble. When asked how he knew that he could trust the people in his network, he responded that ‘this is just business, it is not against the government, so it is not a big problem’ (ibid.). This was occurring during the late 1990s, when the state was tacitly accepting market activity, although the interactions with low-level state agents is strikingly similar to the vendors cited above who were operating during years when the state was ostensibly less tolerant of market activities.

### *Limits to a Nascent Political Public Sphere*

These interactions raise the question of whether the enforcement-evading social connections and processes prevalent in the DPRK’s second economy may help nurture the foundations for a sphere of activity withdrawn or even oppositional to the state, as some second economy and North Korean studies literature described above suggests. It is worth first establishing that in North Korea, the political public sphere is limited to only the most thickly veiled comments. A relatively elite individual from Pyongyang perceived that he was able to speak more openly than his compatriots and recalls being able to talk with his friends about how China had opened its markets and developed quite rapidly, but only in private places such as a close friends' house. In his estimation, ‘talking about those kinds of things is allowed....and that is the limit, saying “I think we have to open our market as well.”’ When someone pushed the social boundary by mentioning something more controversial, his friends ‘would just slip into another topic to avoid a risky moment or would say “oh, that’s too much” and give a sign to stop’ (Respondent 26, 6/10/12).

A much less privileged individual from the east coast city of Cheongjin describes a similar situation, saying that one could talk about political issues ‘only with best friends, when you can trust each other, then you can talk about the government. But with newer friends or just normal friends, you

couldn't talk about the government' (Respondent 33, 6/17/12). A teacher from Musan, near the Chinese border, recalls complaining with very close friends about the expense that the government put toward a greenhouse near her hometown, but would only talk about that with 'close friends or siblings' (Respondent 8, 9/21/11). An older woman from Onseon, North Hamgyong province was even more cautious, saying that 'you cannot trust friends; you can only trust your family' (Respondent 34, 6/17/12). A young woman remembers being with her mother as she and a group of older women washed clothes in a nearby creek. They would sometimes talk about their situation and mention that things were getting worse, but they only asked 'why' that was the case. They did not go further in their discussions to venture an answer to their own question (Respondent 31, 6/16/12). Some adults describe sheltering their children from political discussion lest they repeat it in public (Respondent 32, 6/16/12; Respondent 24, 10/14/11).

Public political discussion is deeply dangerous in North Korea and even private discussions have implicit limits. In an environment where people cannot discuss with one another their doubts about the government, not only is it difficult to mount a coherent critique of the regime, but it is even difficult to know if other individuals are having similar doubts. North Koreans often speak of having a 'feeling' about whether a person may be sceptical of the regime, or they may look for subtle clues to indicate another's political thinking (Respondent 29, 6/11/12). This means that sceptical individuals are left to compare their own experiences with the rosy picture painted by propaganda or by looking for contradictions in the state's pronouncements. A former switchboard operator for the Korean People's Army, for example, recalls dismissing government claims that factories were improving because she could not see the improvements herself (Respondent 3, 9/14/11). A former middle school physics teacher recalls wondering why, during the mid-1990s famine, Kim Jong Il remained so pudgy despite the fact that official propaganda claimed that he only ate a few scraps of food while working hard to solve the country's acute food shortage (Respondent 8, 9/24/11).

In this totalising and atomising context of pervasive state control, does the second economy have the potential, as some literature suggests, of breaking the regime's information monopoly and nurturing the social networks and material foundations necessary to carve out a sphere autonomous from the state? Taken as a whole, interview evidence suggests that the parallel market can facilitate withdrawal from the collective politics of the regime, but that it is not yet a space politically autonomous or necessarily opposed to state domination. There is some evidence that the physical space of the parallel market can function as a somewhat freer context for criticism of the regime (Joo 2014). When one respondent from Cheongjin was asked how he knew when people were skeptical of the government, his response centred on the second economy:

It is...we have like a sense. Just, their attitude, you can...sometimes people in the black market just whisper on their own, just complaining, especially the poor people, they whisper, like they say something to others...because they have kind of lost everything and they are full of complaints (Respondent 33, 6/17/12).

Yet, even during the late-1990s, which was a time of relative state toleration of the shadow market, this respondent noted that people could not overtly discuss politics in the market and that the subversive whispers had to remain just that (Respondent 33, 6/17/12). The North Korean social norm of being wary of speaking about political issues even with people one trusts often obtains even in the non-state space of the parallel market. As one woman from Hamhung explains:

Places like the home or the market where women gather a lot, those [political] conversations happen, but even then when they talk about those things, they don't talk about them very quickly. When I meet someone I take time for maybe a month to see if she is trustworthy and when someone starts to talk about those things, I open my mind and start to think that maybe she is a friend (Respondent 28, 6/11/12).

This is consistent with the experiences of other second economy vendors who rarely, if ever, engaged in or saw political discussions that would be perceived as transgressive. The proprietor of a quasi-legal restaurant in Wonsan before she left in 2010, a time when the state was working to reassert control over the markets, reported that she never overheard her customers discussing political issues

and did not do so herself (Respondent 6, 9/21/11). A former second economy vendor heard almost no illicit political conversation during the late 1990s when the state was relatively tolerant of markets and – in an exception that seemed to prove the rule – reported an instance in which a man who was talking about how Kim Jong Il was to blame for the North's dire conditions was physically silenced by others, even in the ostensibly non-state space of the parallel market. She remarked that during that moment, ‘even though we did not like the government, we did not say anything’ (Respondent 19, 10/7/11).

Yet there is more recent evidence that when law enforcement officials attempt to inspect or shut down parallel markets, as in crackdowns around 2010 and 2011, vendors verbally resist to protect their interests (Daily NK 2011, p. 43). Some involved in the second economy expressed distrust of the government after the 2009 currency revaluation (Respondent 6, 9/21/11). A *Daily NK* respondent explained that she ignored the government ban on holding foreign currency after the 2009 debacle because she does not trust the government to refrain from another confiscatory scheme (Daily NK 2011, p. 14). An incident in late 2012 in which the regime had to backtrack after facing discontent for attempting to shut down a customs clearinghouse on the border with China illustrates the extent to which those with vested interests in the continued operation of the second economy may be pushing back against the regime’s sporadic attempts to regain control.<sup>11</sup>

Furthermore, there is evidence that the second economy is eroding existing social hierarchies. A poet and former member of the Korean Writer’s Association explains that writers like him used to be able to live comfortably before the famine, but in the era of marketization their wages are not sufficient and they do not have the administrative power to profit from the second economy (Respondent 25, 10/14/11). This upsetting of the social hierarchy has come with more noticeable conspicuous consumption that seemingly flouts regime values. North Koreans with the resources to purchase them can be seen wearing South Korean cosmetics, stylish clothing like ‘skinny jeans’ and hair styles like

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<sup>11</sup> Daily NK, 12 December 2012.



their South Korean counterparts (Daily NK 2011, p. 17; see also Joo 2014, pp. 62-64). Market prices can even be a topic of office chatter at official workplaces, as one former employee of a computer center in Sariwon recalls that with her co-workers up to when she left in 2010, she ‘would talk about selling or buying things – about the markets. When selling something, how much I could make or how much I could spend’ (Respondent 10, 9/25/11).

Market-driven pressures may indeed be upsetting social hierarchies and increasing the ‘us/them’ gap between the state and some social actors, however it does not yet appear to be the case that the second economy represents a venue in which sustained political critique could take place. While second economy activities require social networks of trust on which political opposition may be built, in North Korea there is evidence that circles of trust for political discussion are limited to friends and family. Furthermore, the still-strong controls on public discussion, the prevalence of caution when speaking with strangers about sensitive issues in the parallel market, and the particularistic interests of second economy actors undercut the shadow market’s ability to coalesce into an overtly oppositional sphere.

### *Circulating Ideologically Suspect Information: Processes and Outcomes*

Nevertheless, the second economy allows subversive political information to circulate, thus eroding the state’s information monopoly and possibly undermining the regime over the longer term, as DPRK experts like Andrei Lankov (2009) suggest. In the Soviet Union and Eastern Europe, the material foundation for subversion was epitomised by copy machines and typewriters for the reproduction of books, while in North Korea the regime may fear that DVDs, USB drives, and other information and communication technologies could play a similar role (see Greitens 2013). South Korean soap operas – or ‘dramas’ – are often cited as being widespread in North Korea, and some suggest that these media are crucial for exposing North Koreans to the outside world, thereby

undermining the regime's information monopoly (Lankov 2009). Analysis of defector surveys indicates that increased exposure to outside media increases the propensity of North Koreans to discuss sensitive topics and beliefs about the DPRK with friends and family members (Kretchun & Kim 2012).

Interview respondents were certainly aware of the availability of black market media, describing the availability of cultural products not only from China, but also South Korea and the US, even during periods when the state was less tolerant of the market (Respondent 28, 6/11/12). At general markets in Pyongyang, the vendors 'sell some things they are not supposed to sell' like fake designer products; 'they hide those things but when someone asks the vendor gives it' (Respondent 26, 6/10/12). But for illegal movies or media, things were different, even in relatively permissive times such as the early 2000s: 'when we want to get access to those kinds of materials, we have to know someone who has access to it' (ibid.).<sup>12</sup> Instead of buying illicit information from strangers in the second economy, the preferred method was to obtain it from friends, family, or their networks, as explained by a woman who had left North Korea in 2010 (Respondent 6, 9/21/11).<sup>13</sup> The sensitivity of illegal media means that there must be a foundation of trust between individuals who wish to obtain or watch it together:

...if you grow up with your friends...you can trust your friends. Just you can feel your friend is telling the truth or is lying. So to watch foreign movies with other people it means that they believe and trust each other. And also maybe a newcomer is coming, maybe me and my other friends, at first we don't watch foreign movies with him. We just spend time with him playing soccer or sports. And [we] think they can [be] trust[ed], so then we watch TV. Just as we spend more time together I can trust them. And this is just a feeling. I can tell (Respondent 4, 9/21/11).

Can these subversive goods and the widespread networks of the parallel market that disseminate them contribute to a foundation for scepticism and perhaps opposition to the regime? On this point, it is worth considering whether media of this sort can contribute to an individual's motivation to leave.

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12 It is worth noting that it may be more difficult to obtain and consume illegal DVDs in rural areas because there are fewer people and less anonymity. See Daily NK, 2011, p. 19.

13 On the importance of trust for obtaining subversive media see also Lee & Seo, 2013.

One woman describes how the process of learning about South Korean prosperity via illicit media can operate for some people:

When I watched those dramas, I felt like their reality was completely different from North Korea because there were lots of cars on the road and phones in every household. These things I could not even imagine in North Korea. Just people in the general South Korean public are better off than managers of a province in North Korea...Before I watched those programs, I thought that our life was just supposed to be like this. I didn't know what other countries looked like...When I watched that kind of television, the only thing I felt was jealousy and envy, but I couldn't change anything about the government or talk about it in public. The only thing I could think about was 'I want to leave this country as soon as possible,' but later on some thoughts hit my mind, like what about my family, and what about the risks I have to take? (Respondent 34, 6/17/12)

Of course given restrictions on conducting research in North Korea it is difficult to assess with certainty how widespread this reaction is to South Korean media. Quantitative survey evidence suggests that viewing South Korean media directly influences the attitudes that North Koreans have about South Korea although not about the DPRK itself (Kretchun & Kim 2012). This evidence is consistent with the possibility that South Korean media has exit-inducing effects in North Korea by bolstering the image of life in the South, although it is far from definitive. Given the possibility that South Korean media has ambiguous effects on the relationship between the DPRK regime and ordinary North Koreans however, along with evidence that foreign entertainment in East Germany – another aesthetically drab communist regime – actually increased support for the regime by helping people escape their boredom (Kern & Hainmeuller 2009), it is worth remaining modest about the revolutionary potential of South Korean entertainment products.

## **Conclusion**

For regimes like the DPRK faced with a robust shadow economy, finding the 'optimal balance between economic performance and political control is a permanent dilemma' (Feldbrugge 1989, p. 335). Cross-cutting forces bolster the regime while also undermining its control, leading to equivocal

policies and uncertain political outcomes. Drawing on interview evidence to assess the everyday processes associated with these structural tensions in North Korea, this article found that the most corrosive political effects from the standpoint of the regime have been contained. There appear to be too many vested interests, too much state control, and too little overt opposition to state domination in the everyday operation of North Korea's shadow economy for it to significantly undermine the regime's power. Furthermore, given cross-national evidence showing that most dictators who are deposed by non-constitutional means are removed by other regime elites and not by uprisings from below (Svolik 2012, p. 3-5), the ability of North Korea's second economy to successfully challenge the regime's power in any overt way should not be overstated.<sup>14</sup>

Nevertheless, if a strong case is to be built that the second economy will contribute in significant ways to formal political change in North Korea, then the temporal structure of the market's influence would need to be carefully analysed. In his widely-cited book *Politics in Time*, Paul Pierson (2004, pp. 79-82) describes the time horizons of different causal processes and analogises them to natural phenomena. A process with a short time horizon of cause and a short time horizon of outcome is a *tornado* because it emerges quickly and its impacts are almost immediate (quick/quick). A *meteorite leading to extinction* has a short causal time horizon and a long outcome time horizon (quick/slow). Political processes that take a long time to develop can be thought of as *earthquakes* if the outcome is felt quickly (slow/quick) or as *climate change* if the outcome takes a long time to be felt (slow/slow). Given that the shadow market in North Korea has developed over a relatively long period of time, if one is to argue for the politically transformative nature of the second economy the question is whether one sees it as an *earthquake* or as *climate change*.

Victor Cha (2012, pp. 154-161) hypothesises an *earthquake* scenario: the North Korean shadow markets have slowly developed over a number of years and eventually one particular instance of

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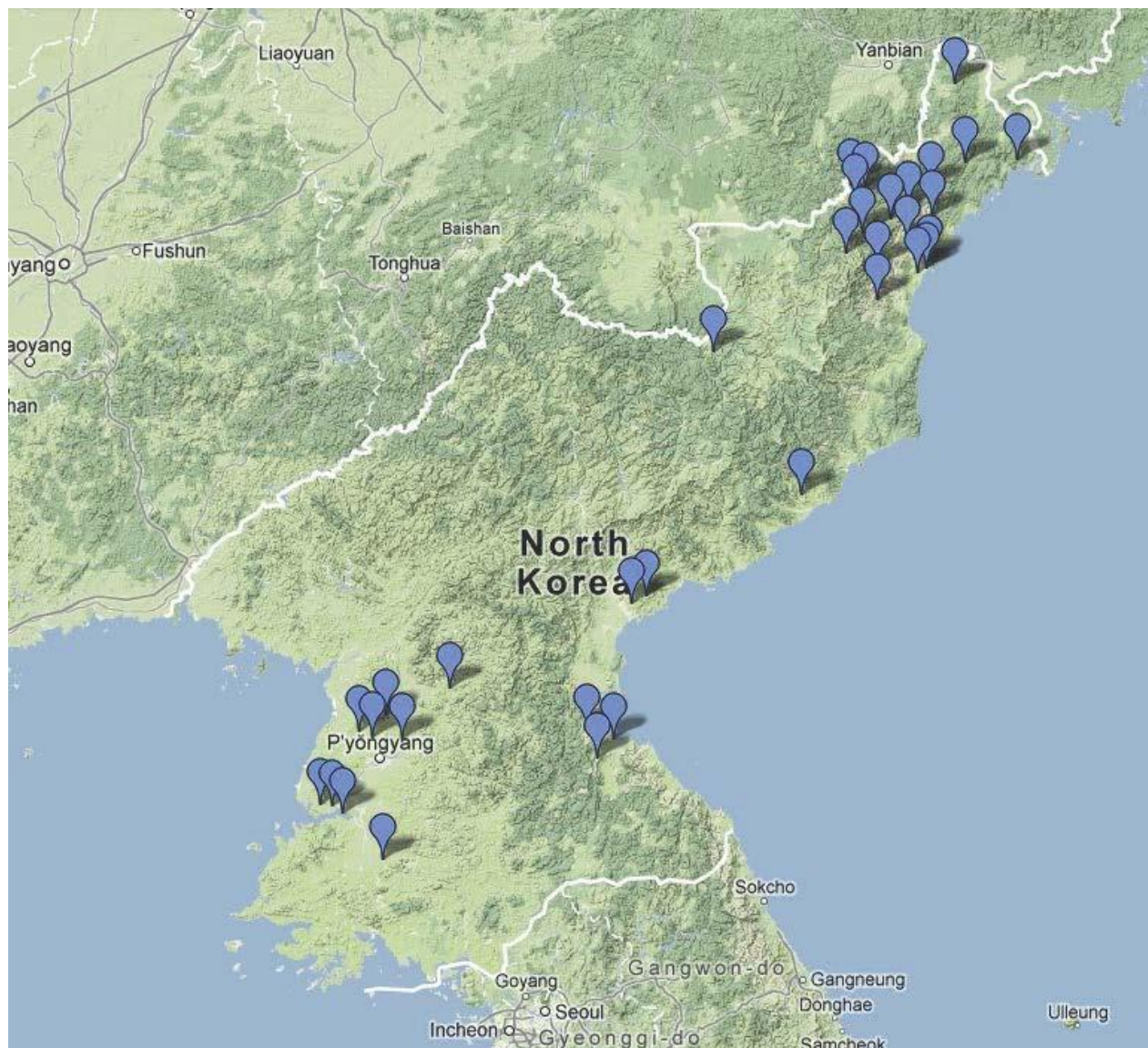
<sup>14</sup> This is broadly consistent with conclusions drawn by Joo (2014, pp. 66-70).

government repression will result in a rupture that will be ‘violent and bloody.’ Yet evidence presented above suggests that the strongest case for the political significance of North Korea’s second economy may lie in a *climate change* scenario wherein the effects of the shadow market are gradual and felt at a long temporal distance from its causes. From this perspective, the official sphere may slowly adapt to the stubborn persistence of the second economy’s informal institutions, thereby gradually reforming North Korea’s political economy in a process that is neither violent nor bloody. There was a glimpse of this process in July of 2002 as the DPRK initiated limited market reforms that acknowledged some of the shadow economy practices that were already occurring. Ultimately the regime worked to reassert its control over the economy, but it is at least plausible that 2002 could have been a significant episode in a long process of official adaptation to informal practices.

**Table 1: Demographic Details of Interview Respondents**

<b>Number of Interviews</b>	35
<b>Dates Interviews Conducted</b>	September & October 2011 and June 2012
<b>Average Age When Exiting Home Country</b>	29 years old Max: 52 Min: 9
<b>Average Time Exiting DPRK</b>	Mid 2004 Most Recent: 2011 Most Distant: 1996
<b>Provinces of Origin</b>	North Hamgyeong (함경북도) – 19 Kangwon (강원도) – 4 Pyongyang (평양직할시) – 4 South Pyongan (평안남도) – 3 South Hwanghae (황해남도) – 3 North Hwanghae (황해북도) – 1 Ryanggang (량강도) – 1
<b>Occupations before leaving North Korea</b>	Youth/Student – 12 Teacher – 7 Military – 2 Restaurant business – 2 Factory worker – 2 Unemployed – 2 Market vendor – 2 Professor/Researcher – 2 Librarian – 2 One each: Miner, Office Worker, Journalist, Engineer, Nurse, Homemaker, Poet/writer, Athlete for National Sports Team, Telephone Operator, Secretary

**Figure 1: Hometowns of Interview Respondents**



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