

UNITED STATES INSTITUTE OF PEACE WORKING PAPER

North Korea, Inc.

Gaining Insights into North Korean Regime Stability from Recent Commercial Activities

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ABOUT THIS REPORT

In October 2008, the Korea Working Group (KWG) at the U.S. Institute of Peace (USIP) launched a joint research project with the Korea Institute for National Unification (KINU) to examine the implications of growing commercial interactions in North Korea on regime stability. This project was co-directed by Dr. Young-ho Park (KINU) and Dr. John S. Park (USIP). This Working Paper is based on interviews conducted by the author with recent defectors who previously worked in North Korean state trading companies affiliated with the Korean People's Army, the Korean Workers' Party, and the Cabinet. The interviews were conducted in Seoul during three periods in August 2008, November 2008, and February 2009, respectively. The author would like to thank Jae Hyun Park for his research assistance and the anonymous reviewers of the manuscript.

The KWG brings together the leading North Korea watchers from the government and think tank communities to discuss pressing policy issues in the political, security, social, and economic fields. The chair of the KWG is Ambassador Richard H. Solomon, President of USIP. The director is John S. Park, a Northeast Asia specialist in the Institute's Center for Conflict Analysis and Prevention.

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CONTENTS

INTRODUCTION.....	3
RESEARCH METHODOLOGY.....	3
1) <i>What are DPRK State Trading Companies and How Did They Emerge?</i>	6
2) <i>How do DPRK State Trading Companies Operate?.....</i>	7
3) <i>What Roles do DPRK State Trading Companies Play?</i>	10
4) <i>Why are DPRK State Trading Companies Important?</i>	11
5) <i>What Major Transformations are Taking Place in the DPRK State Trading Company System?</i>	13
6) <i>What are the Implications of the Manner in which this System is Currently Functioning?</i>	15
CONCLUSION	18
APPENDIX 1: Map of the Democratic People's Republic of Korea.....	19
APPENDIX 2: North Korea, Inc.	20
APPENDIX 3: Sample <i>Wah-Ku</i>.....	21
ABOUT THE AUTHOR	23
ABOUT USIP	24
ABOUT KINU	24
RELATED PUBLICATIONS.....	25

INTRODUCTION

Assessing regime stability in North Korea continues to be a major challenge for analysts. By examining how North Korea, Inc. — the web of state trading companies affiliated to the Korean Workers' Party (KWP), the Korean People's Army (KPA), and the Cabinet — operates, we can develop a new framework for gauging regime stability in North Korea. Insights into the Democratic People's Republic of Korea (DPRK)¹ regime can be gained by examining six core questions related to the DPRK state trading company system. First, what are DPRK state trading companies and how did they emerge? Second, how do DPRK state trading companies operate? Third, what roles do they play? Fourth, why are DPRK state trading companies important? Fifth, what major transformations are taking place in the DPRK state trading company system? Sixth, what are the implications of the manner in which this system is currently functioning?

RESEARCH METHODOLOGY

As a result of the growing commercial interaction in the DPRK-PRC border region, North Korean provinces in the northeastern area, such as Hamgyong-bukdo, have been rising relative to other provinces, such as Hwanghae-namdo, which is located near the DPRK-ROK border. Previously a center of influence given its role as the country's rice basket, Hwanghae-namdo has not regained its former regional prominence after the devastating floods in the mid-1990s and the Great Famine of the late 1990s. The relative economic decline of Hwanghae-namdo and the relative economic rise of the North Korean provinces bordering China have resulted in a fundamental transformation inside North Korea. (See Appendix 1: Map of the Democratic People's Republic of Korea).

The project's original objective was to examine how ROK companies engage in commercial ventures with DPRK state trading companies in order to better gauge the scale of this transformation and assess its implications on regime stability. In structuring

¹ North Korea is formally known as the Democratic People's Republic of Korea (DPRK). South Korea is formally known as the Republic of Korea (ROK).

this project, we placed the initial focus on ROK commercial interactions with specific types of DPRK state trading companies — i.e., companies affiliated to the KWP, the KPA, and the Cabinet.

We sought to evaluate two key hypotheses:

- (1) If the leadership in Pyongyang tightly controls DPRK state trading companies' commercial relationships with ROK firms, then there is a greater likelihood of traditional regime stability and control.
- (2) If DPRK state trading companies compete with each other in securing commercial relationships with ROK firms, then this could be an indicator of weaker central government coordination and increasing regime transformation.

As information sources comprise a critical feature of this project, we focused on three specific sources to test the hypotheses:

- (1) ROK firms based in South Korea that operate business ventures in North Korea. ROK firms operating in the Kaesong Industrial Complex were excluded, as this economic development project is predominantly top-down in approach with heavy government involvement.
- (2) ROK firms based in northeastern China that operate business ventures in North Korea.
- (3) North Korean defectors in South Korea who previously worked in DPRK state trading companies.

In conducting early research interviews, it quickly became clear that the first group was constrained in running commercial activities in North Korea. In addition to only a small number of ROK firms operating in the North, most in this group were marginalized

UNITED STATES INSTITUTE OF PEACE – WORKING PAPER

North Korea, Inc.

given the growing trend of Chinese investment in North Korea.² While the second group benefited from Korean-Chinese middlemen, these ROK firms were being overshadowed by larger scale Chinese commercial activities in North Korea. The first and second groups proved to be limited sources of information.

The third group, though small in number, provided insights into the inner workings of the DPRK state trading company system. In doing so, they shed more light on the nature of regime stability in North Korea. While the information and details provided by each defector centered mostly on the inner workings of the specific DPRK state trading company in which the defector worked and the company's region of activity, we were able to gradually piece together how different state trading companies operated by interviewing a variety of defectors who had worked in different companies.³ A picture — albeit still fragmented — emerged of how the overall DPRK state trading company system functioned in key regions of North Korea.

The North Korean defectors whom we interviewed worked in different types of DPRK state trading companies that were affiliated to the KPA, the KWP, or the Cabinet. Of the eighteen interviewees, six in particular provided detailed information about the commercial activities they carried out for their respective DPRK state trading company.

Interviewee	DPRK State Trading Company
Defector #1	Economic Division 2, Logistics Mobilization Bureau, KPA
Defector #2	Cheongwoonsan Trading Company, Military Unit 963, KPA
Defector #3	Executive Department, General Political Bureau, KWP
Defector #4	Kookjaeyeonhap Trading Company, Joint Chiefs of Staff Division, KPA
Defector #5	Chongjin Trading Company, General Staff Division, KPA
Defector #6	Department of External Affairs, Ministry of Light Industries, Cabinet

² A separate USIP research project examines how Chinese small- and medium-sized companies set-up commercial ventures in North Korea and interact with local business partners.

³ Interviews with these defectors were conducted using a standard set of questions rather than deriving information from each defector's personal narrative. Follow-up interviews took place in Seoul in February 2009 to cross check information and clear up discrepancies.

This recently arrived sub-group of defectors in South Korea is unique for a number of reasons. First, most of these defectors indicated that they did not to return to North Korea after state trading company-related business deals in China turned sour — either as a result of being robbed or short-changed. Fearing punishment upon their return, they bought their way to South Korea. Second, they are officially listed as “missing” in North Korean records rather than as “defectors,” although that is what they are called in South Korea. As a result of this classification, their family members are not punished in North Korea. Third, these defectors continue to communicate via mobile phone with family members and former DPRK business associates who regularly travel to China to trade goods. Meetings are often arranged in China where the defectors send money back to their relatives in North Korea as well as send funds for investment in commercial ventures with former DPRK colleagues. Fourth, most defectors view South Korea as a venue from which they can generate more funds for investment in these North Korean ventures. Their activities highlight the increasing flow of private funds from South Korea to North Korea via China.

1) What are DPRK State Trading Companies and How Did They Emerge?

While DPRK government ministries have run companies engaged in trade since the early stages of the North Korean state, the origins of the present day form of DPRK state trading companies date back to the 13th World Festival of Youth and Students, which was held in Pyongyang in 1989.⁴ Seeking to rival South Korea’s successful staging of the 1988 Olympics, North Korea hosted over 22,000 people from 177 countries for the 13th World Festival of Youth and Students.⁵ The DPRK state trading company constituted a means for raising funds to finance this international event. Although the hosting of the World Festival of Youth and Students resulted in massive debt for North Korea, this form of state trading company became a model for other DPRK state trading companies.

⁴ “The main differentiating factor between the earlier and present day form of state trading companies is the greater specialization of the latter in terms of the products traded — e.g., rare mushrooms, pine nuts, shell fish, gold, etc.” The author is grateful for this insight provided by William Newcomb, former U.S. Treasury Department official.

⁵ World Federation of Democratic Youth. Accessed at: <http://www.wfdy.org>

Accumulating national debt and the collapse of the Soviet Union contributed to rapid economic decline in North Korea in the early 1990s. As a way to generate foreign currency, North Korea rapidly launched more state trading companies. As all the defectors noted, this expansion spun out of control. Two trends emerged. First, the rapid expansion of state trading companies resulted in intense competition for most of them as they offered similar products and goods to a limited number of foreign customers. Second, a small handful of state trading companies with strong political connections thrived. The heads of these state trading companies became quite powerful and developed their own patronage groups. The DPRK leadership responded by drastically reducing the overall number of state trading companies and purging most of the heads of the largest state trading companies. In the mid-1990s, the economic situation deteriorated further with natural disasters that culminated in the Great Famine and the collapse of the national economy and the Public Distribution System (PDS).

As it became apparent during the 1990s that North Korea's former policies aimed at realizing a 'self-sufficient economy' were incapable of bringing the country out of a downward economic spiral, the government adopted the 'trade-first policy' in an attempt to change the course of national economic planning and development. This led to increased foreign currency generation activity at DPRK state trading companies that, in turn, enabled government organizations to secure funds for their own operating budget. A variety of DPRK state trading companies developed, ranging from those funneling cash and luxury goods directly to the Kim Jong Il regime to "foreign currency revenue-generating labor bases"⁶ at the lowest levels of the government, which started to sprout up and take the place of the largely defunct PDS.

2) How do DPRK State Trading Companies Operate?

Irrespective of being affiliated to the KPA, the KWP, or the Cabinet, each DPRK state trading company requires authorization to establish and run a commercial enterprise. The matter must be reported to and authorized by Kim Jong Il through his *suh-gee*

⁶ The structure and purpose of the "foreign currency revenue-generating labor base" are described on p. 10.

UNITED STATES INSTITUTE OF PEACE – WORKING PAPER

North Korea, Inc.

advisory group.⁷ For instance, if the new business requires a Chinese partner, a contract must be signed. However, the contract cannot be concluded solely at the discretion of the DPRK state trading company. The *suh-gee* advisory group must designate the Chinese partner with which the DPRK state trading company can do business. Likewise, if a Chinese company proposes to invest in North Korean raw materials for export, the matter must be reported to the *suh-gee* advisory group. North Korean intelligence services then conduct a background investigation of the Chinese company to confirm its suitability as a partner and to make sure that the potential partner has no political motivations. A main objective is to detect any ROK companies seeking to operate in North Korea while posing as a Chinese company.⁸

Defectors who worked in DPRK state trading companies note that this procedure of sending business proposals to the *suh-gee* advisory group for Kim Jong Il's approval has resulted in an erratic management system. When authorization does not go through, it is common for a DPRK state trading company to have a pile of products as production usually takes place while the company awaits authorization. Chinese companies are fully aware that DPRK state trading companies are required to go through this process of receiving authorization and take advantage of this procedural inefficiency. In the case of iron ore products, DPRK state trading companies seeking to sell them reportedly use secret channels to secure purchasers in China who, in turn, notify other Chinese purchasers. When the iron ore products that have already been produced reach China through these channels, the Chinese companies offer to give only a fraction of the originally agreed price in the full knowledge that the DPRK state trading company has no other choice. The defectors point out that this results in largely wasted North Korean efforts and products because of the thin profits.

⁷ While the most important decisions are reportedly made directly by Kim Jong Il, his group of personal advisers — called *suh-gees* — manages the overall authorization system based on the recommendations to the KWP from the trade-focused officials in the Cabinet. The defector interviewees stated that *suh-gees* are kept out of public view in order to maintain the government's central propaganda message that Kim Jong Il is an all-knowing and all-seeing leader who single-handedly guides and runs the North Korean state.

⁸ Except for some agriculture-focused South Korean NGOs and the Pyonghwa Motor Company, South Korean commercial ventures in North Korea are deliberately concentrated in the specially designated economic development zones, such as the Kaesong Industrial Complex and the Kumgang Mountain Resort. (Economic activities in both zones were significantly curtailed by North Korea in the 4th quarter of 2008). While there is interest among ROK companies to do business in mineral-rich regions in North Korea, the DPRK government heavily restricts such activity as it seeks to avoid widespread contact between North Korean people and South Korean businessmen.

UNITED STATES INSTITUTE OF PEACE – WORKING PAPER

North Korea, Inc.

With respect to the *DPRK Agreement to Promote and Protect PRC Investment* that was signed in March 2005 in Beijing, the defectors observe that the agreement made the situation worse for DPRK state trading companies because it protects Chinese companies, but does nothing for the protection of DPRK state trading companies. Most North Koreans apparently do not know about the existence of this agreement because so many concessions were made by Pyongyang to Beijing — e.g., exclusive DPRK mining and fishery rights given to China. The defectors report that Pyongyang received upfront payment for the concessionary rights to the Musan mines near the DPRK-PRC border. Payment for the fishery rights was also made in this manner. In accordance with the hierarchical food chain of the North Korean regime, financial resources are provided for government operating budget purposes only after Kim Jong Il's personal requirements are first met.⁹

Another factor that makes the authorization system erratic is Kim Jong Il's tendency to suddenly reverse an earlier decision, resulting in the abandonment of the previous investment. When Kim Jong Il makes a decision to invest in another commercial sector, the reversal ends up undermining other initiatives in the process, as scarce resources have to be reallocated. When the nuclear programs were more active, the defectors who worked in KPA-affiliated state trading companies noted that this situation was compounded by the acquisition activities related to these programs. KPA officials were reportedly authorized to acquire any material, resource or item from other commercial projects for use in the nuclear programs under the aegis of what is called the 131st Directorate in military terms and Bureau 70 in civilian terms.

In recent years, an additional form of commercial interaction has been increasing. Rather than going through the exhaustive process of getting Kim Jong Il's permission to launch a new business, previously established commercial channels and partnerships are being used by enterprising state trading company officials. Such activity is indicative of the adaptability of officials in the DPRK state trading company system. In order to transport and trade commodities that they are not formally permitted to handle, these

⁹ Most of the payments for these concessions reportedly funded Kim Jong Il's personal cash reserves, which are used to procure luxury items for the Dear Leader's use or gifts for the most senior members of his political inner circle.

officials are using commercial channels and business relationships dedicated to other state-authorized trading activities.

Another recent development in the DPRK state trading company system is the emergence of the so-called “foreign currency revenue generation base” or *weh-hwa buh-rhee-keegee* on a regional and sub-regional level across the country. A base comprises labor units mandated with producing or generating exportable goods to be sold for foreign currency. Manpower for the labor units is drawn from military conscripts and local residents who receive meager wages. Goods produced or generated from these bases are then funneled up the military and administrative chain of command reaching the highest levels of the KWP, the KPA, and the National Defense Commission (NDC). Appendix 2 illustrates how North Korea, Inc. operates.

3) *What Roles do DPRK State Trading Companies Play?*

DPRK state trading companies fulfill two critical roles. First, a designated percentage of all revenues generated from commercial activities in which these companies engage goes directly into Kim Jong Il’s personal accounts, which he uses at his discretion. The defectors assert that Kim Jong Il draws on his personal accounts mainly to secure and maintain the loyalty of the senior leadership in the Kim family-centered regime. Another reported crucial use of these “Kim Jong Il funds” is the maintenance of the nuclear programs. A large portion of these personal funds are also used to consolidate the Kim regime’s power through national holiday parades that celebrate such important dates as Kim Il Sung’s birthday (15 April 1912), Kim Jong Il’s birthday (16 February 1942 — as stated in his official biography), KWP Foundation Day (10 October 1945), and National Day (9 September 1948). Significant holidays like these involve large-scale military parades and massive formation dances performed by Kim Jong Il’s personal entertainment teams.

Second, DPRK state trading companies generate operating budgets for the various branches of the KPA, the KWP, and the Cabinet to which they are affiliated. Due to the lack of a functional national budget gathering and distribution system, the DPRK state

trading companies are the main sources of financing for running the DPRK state structure. Of particular significance is the use of the revenue from the growing KPA-affiliated state trading companies. The defectors point out that the growth of these KPA companies is attributed to the fact that soldiers do not have to be paid. As a result, more of the funds generated by the KPA-affiliated state trading companies can be used for the two critical roles outlined above.

4) *Why are DPRK State Trading Companies Important?*

The primary reason why these companies are important to the Kim Jong Il regime and the DPRK state structure is their ability to help the regime adapt to and weather turbulent changes in North Korea's external relations. At present, North Korea's two main sources of aid and commerce have been severely curtailed. The first source, inter-Korean economic development assistance from Seoul, has been essentially shut down under the conservative Lee Myung-bak administration. In 2008, the Lee government launched a new North Korea policy called "Vision 3000: Denuclearization and Openness" that is based on the principle of reciprocity. It directly links the provision of South Korean aid (intended to enable North Korea to attain an annual per capita income of US\$3,000 over a ten-year period) to North Korea's abandonment of its nuclear programs.¹⁰ Angered by what it referred to as Seoul's hard-line policy, Pyongyang expelled most of the ROK firms from the Kaesong Industrial Complex in December 2008. In January 2009, the Committee for the Peaceful Reunification of Korea, a KWP organ that handles inter-Korean affairs, declared all political and military agreements between the two Koreas to be null and void.¹¹

The second source, the decades-old preferential commercial interactions with *Chosen Soren* — North Korean residents in Japan — has been blocked further as a

¹⁰ "Establishment of a New Development Framework," Office of the President, Cheong Wa Dae. Accessed at: <http://english.president.go.kr/government/goals/goals.php>

¹¹ "DPRK to Scrap All Points Agreed with S. Korea over Political and Military Issues," *Korean Central News Agency of DPRK*, January 30, 2009. Accessed at: <http://www.kcna.co.jp/index-e.htm>

result of Japanese Diet-imposed sanctions.¹² These measures were initially instituted in response to Pyongyang's lack of progress in resolving the Japanese abductee issue. Termed "stealth sanctions," they utilized clauses in maritime insurance policies that effectively barred North Korean ferries from docking in Japanese ports. The additional sanctions were implemented in response to North Korea's October 2006 nuclear test. Although *Chosen Soren*-related commercial activities with North Korea were already declining, these sanctions posed more challenges.

Significantly, DPRK state trading companies currently enable both the Kim Jong Il regime and the DPRK state structure to maximize commercial interactions with Chinese state-owned enterprises (SOEs) and private companies through a variety of channels. Ranging from top-down to bottom-up activities, North Korean-Chinese commercial interactions comprise an important coping mechanism for Pyongyang. While they are not sufficient to effect system-wide economic reform in North Korea, they offer a functional and flexible means for engaging in the closest form of "normal" commerce that North Korea has with another country.¹³

In terms of flexibility, recent North Korean-Chinese joint venture structures reveal the wide application of a barter trade system, which compensates for many DPRK state trading companies' inability to contribute financially to the launch of these joint ventures. A Korea Institute for National Unification (KINU) report highlights how China's Fujian province's investment in North Korean coalmines was structured so that the Chinese partner supplied facilities and equipment while the North Korean partner paid its portion in coal produced from the mines.¹⁴ In another case, a hydroelectric power station deal was made in which the North Korean partner agreed to pay Chinese investors with

¹² Some defectors assert that while there have been disruptions in *Chosen Soren*-related commercial interactions in North Korea due to these restrictions, most *Chosen Soren* members have been establishing new channels to North Korea through China.

¹³ On the Chinese side, there is growing competition between Yanbian-based companies and companies from other parts of China. Yanbian-based companies are increasingly losing out as the Chinese companies from outside the region have better access to capital and technology. Drew Thompson and Carla Freeman, "The Real Bridge to Nowhere: China's Foiled North Korea Strategy," *USIP Working Paper*, April 22, 2009, p. 14.

¹⁴ Soo Young Choi, "Implications of the Expanding Chinese Investment in North Korea," *KINU Insight*, No. 8, September 2008, p. 3.

future electricity generated by the power station.¹⁵ Some of the defectors commented that while a barter trade system was indeed helpful in starting up joint ventures, two early-stage drawbacks were (1) low prices calculated by the Chinese partner for the North Korean commodity that resulted in what was deemed to be a larger North Korean portion in-kind in exchange for the Chinese investment, and (2) a forgone opportunity to earn scarce foreign currency from the sale of North Korean commodities. The major factors cited for these drawbacks are a weak understanding among many DPRK state trading company officials of how the international trading system works and a lack of current information for those who do understand this system. One defector noted that these factors have led many officials to settle for much less than the full value of the product they are selling.

5) What Major Transformations are Taking Place in the DPRK State Trading Company System?

There are currently two major transformations occurring in the DPRK state trading company system: increased forging of business authorization documents and growing exploitation of North Korean laborers. First, corruption is widespread and expanding throughout the DPRK state trading company system. A clear example of this phenomenon is the forging of the *wah-ku*¹⁶ — an official quota authorization document issued by the KWP. In order to conduct commercial interactions with foreign partners, a DPRK state trading company needs to receive a *wah-ku* that outlines the precise quantity of commodities or products with which a particular company is permitted to trade or barter.

In recent years, the forging of *wah-kus* has increased. The risk of getting caught for committing the forgery is mitigated by the ability to make more money from the increased volume of commercial activity and to use that money to bribe North Korean security officials. The defectors point out that this phenomenon creates an incentive to increase the scale of forgery in the belief that more members in the forgery ring would

¹⁵ Ibid., op. cit.

¹⁶ Appendix 3 outlines the information that would be listed in a typical *wah-ku*. This sample was provided by a defector who worked in Cheongwoonsan Trading Company, Military Unit 963, KPA.

translate into greater protection and ease in managing a larger volume of commerce. North Korean border guards play a significant role in such a ring as the commodities and products have to be transported to commercial partners in China.

While the *wah-kus* are reportedly easy to forge, a small operation with a high volume of commercial goods tends to arouse suspicion and is difficult to run efficiently. As forgery rings grow in size and require more security forces and border guards to serve as facilitators, this phenomenon accelerates commercial activity in North Korea in an organic manner. Though the *wah-ku* started off as a central planning instrument in a command economy, *wah-ku* forgery has developed into a conduit for engaging in larger-scale market-oriented activity.

A second significant change is the increasing exploitation of laborers working in the “foreign currency revenue generation bases.” Toiling to harvest highly-prized rare *song-hee* mushrooms or mining gold — both of which are state commodities that only specially designated state trading companies can deal with — these laborers send everything they gather up the hierarchical regime food chain where portions are skimmed as they pass through the various layers of government. Senior officials frequently falsify reports, declaring that the mandated quotas were not met and directly sell the portions they had skimmed, mostly for personal gain. The part of the foreign currency revenue generated from the sale of these goods and commodities that was supposed to eventually pay the laborers would likewise be skimmed as it passed various layers of government on the way down. By the time it gets to the laborers in the “foreign currency generation bases,” virtually all of the money is gone.

The skimmed money is used to fund the operating budgets of government bodies as well as the personal stashes of officials. The North Korean regime is apparently turning a blind eye towards these practices as they comprise an effective means of generating operating budgets that the regime long-ceased to be able to provide. Moreover, such practices are reportedly sustainable as the laborers are easily replaced.

6) What are the Implications of the Manner in which this System is Currently Functioning?

There are a host of major implications regarding the operation of the DPRK state trading company system that provide insights into regime stability in North Korea. First, in providing operating budgets to the KPA, the KWP, and the Cabinet branches to which they are affiliated, the DPRK state trading company system serves as the closest form of a national distribution system. While it does not provide for all North Koreans, the state trading company system provides a rudimentary network of coverage, as these companies are active in most provinces' major cities. The secondary commercial activities that grow out of this network create modest spillover effects in neighboring cities and towns.

Second, the DPRK state trading company system functions as a coping mechanism for both the Kim Jong Il regime and the North Korean state by providing financing for the regime's and the state bureaucracy's activities when other sources of revenue dry up. With inter-Korean economic and political relations frozen and already declining *Chosen Soren* commerce curtailed further, DPRK-PRC commercial interactions constitute a unique lifeline for Pyongyang.¹⁷ This lifeline will be particularly important as North Korea embarks on economic reconstruction activities in sectors such as the steel industry as outlined in its 2009 joint New Year's editorial.¹⁸

Third, the DPRK state trading company system is facilitating the expansion of commercial activity in the country. While corruption is widespread in North Korea, the regime at present appears to be drawing some benefits from the broader positive impact resulting from corruption in the form of *wah-ku* forgery. This phenomenon has accelerated the scale and scope of commercial activity in North Korea, which, in turn, provides more North Koreans with access to small ad hoc markets sprouting up along the routes and areas where *wah-ku* forgery is common. Originally a command economy

¹⁷ Chinese commercial partners ranging from large SOEs to local level merchants in the border provinces facilitate these commercial interactions with DPRK state trading companies.

¹⁸ Considered to be an official guideline of North Korea's major policy goals and tasks in 2009, the joint New Year's editorial was published in the Korean Workers' Party's *Rodong Shinmun*, the Korean People's Army's *Joson Inmingun*, and the Kimilsung Socialist Youth League's *Chongnyon Jonwi*. Accessed at: www.kcna.co.jp/item/2009/200901/news01/20090101-02ee.html

central planning instrument, the *wah-ku* system has fostered greater market-oriented activity as a result of the rising incidence of *wah-ku* forgery. This unplanned commercial phenomenon, in effect, serves as an economic stimulus in key regions of North Korea that would otherwise be declining further. Although it is a stimulus of sorts, defectors report that *wah-ku* forgery is not sufficient to reverse the massive deterioration of the North Korean economic infrastructure.

Another unintended, but beneficial consequence of *wah-ku* forgery is a concomitant rise in the level of human security for a growing number of North Koreans engaged in the related commercial activity. As their level of individual prosperity rises, so too does their ability to bribe their way out of trouble with state security forces in many instances. This growing ability appears to extend to family members. An important caveat is that the Kim Jong Il regime will likely clamp-down on *wah-ku* forgery when it deems the phenomenon to pose more threats than benefits to the regime — i.e., *wah-ku* forgery-related commercial activities diverting limited transportation resources away from other state-authorized trading operations. However, as with other regime-instituted clampdown activities, *wah-ku* forgery is likely to re-emerge in the aftermath of such restrictive measures.

Fourth, an analysis of how the DPRK state trading company system is run provides a unique perspective on the leadership aspect of regime stability. Affiliated to each branch of the KPA, the KWP, and the Cabinet hierarchy, the DPRK state trading companies have grown in number and size in recent years. Each defector who worked in a DPRK state trading company has provided a detailed picture of a different piece of the overall puzzle. By assembling some of these pieces together, it becomes possible to see how certain parts of the Kim Jong Il regime and the DPRK state structure operate. Although this report draws on the findings of the first of a multi-stage project, early insights from key defector interviews indicate that the DPRK state trading company system is evolving into a more vital commercial enabler for both the Kim Jong Il regime and the DPRK state structure.

As this commercialization trend grows, a post-Kim Jong Il collective leadership group will need members who have the proven capabilities to operate the DPRK state trading company system. Such commercial capabilities will be a basic leadership requirement as securing loyalty in a post-Kim Jong Il situation will largely depend on the ability to generate and deploy funds on a sustainable basis.

CONCLUSION

Despite lingering problems with the fragmented Public Distribution System, the challenges of chronic food shortages, and a deteriorating economic infrastructure system, the DPRK regime has proven to be remarkably resilient. By operating North Korea, Inc. — a network of state trading companies affiliated to the KWP, the KPA, and the Cabinet — the regime is able to derive funds to maintain the loyalty of the North Korean elites and to provide a mechanism through which different branches of the North Korean state can generate funds for operating budgets. During periods when the DPRK's international isolation deepens as a result of its brinkmanship activities, North Korea, Inc. constitutes an effective coping mechanism for the Kim Jong Il regime.

While North Korea remains an opaque country, we now have greater access to unique defectors with the following characteristics — prior experience working in DPRK state trading companies and current business dealings with former colleagues in North Korea through channels in China. By closely examining DPRK commercial activities and capabilities, a new field of North Korea analysis can be structured to produce insights into the internal dynamics of the DPRK regime. This new line of inquiry would help to broaden our understanding of an evolving North Korea.

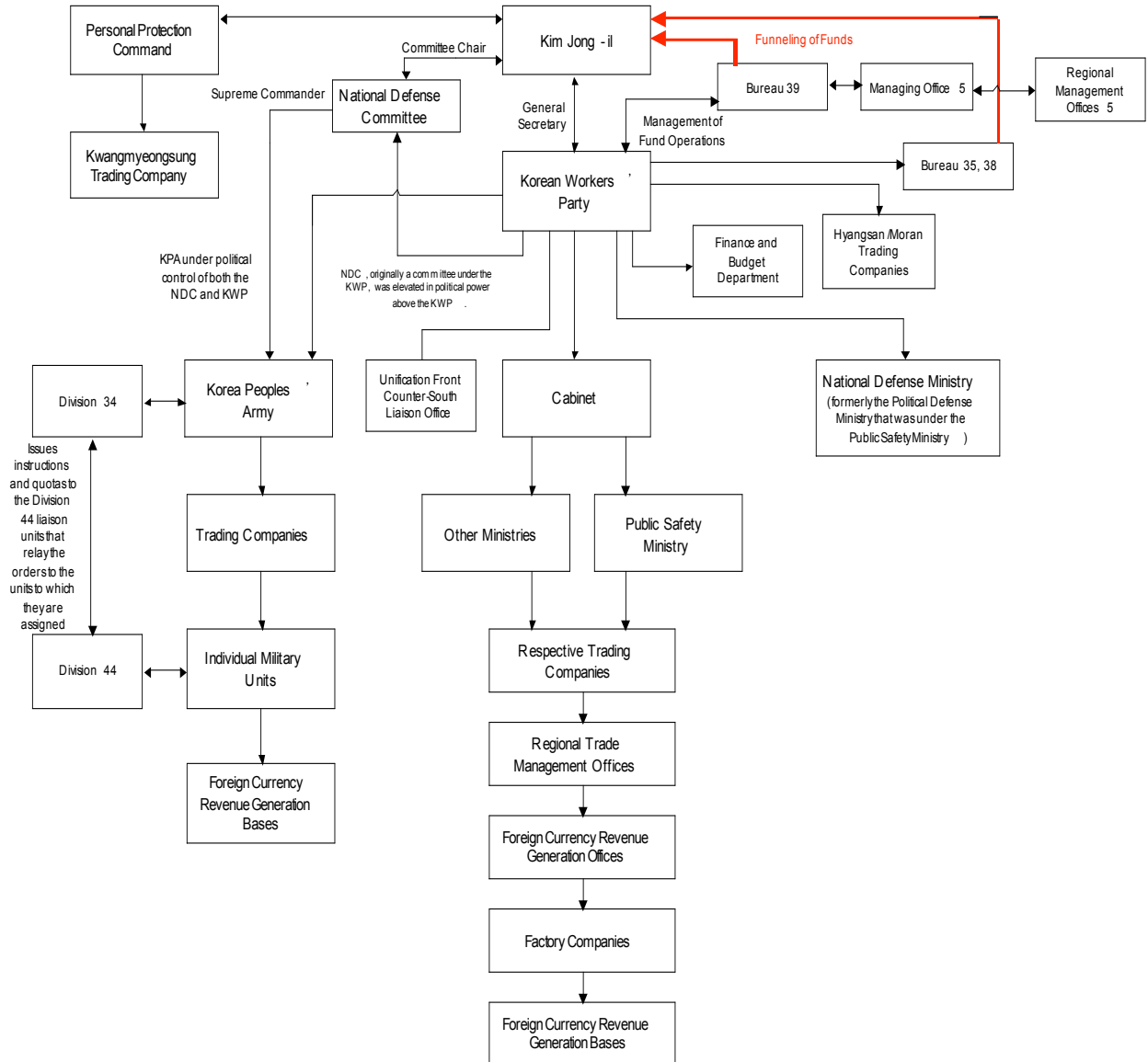
APPENDIX 1: Map of the Democratic People's Republic of Korea



Source: Department of Public Information, Cartographic Section, United Nations.

UNITED STATES INSTITUTE OF PEACE – WORKING PAPER
North Korea, Inc.

APPENDIX 2: North Korea, Inc.



Source: Jae Hyun Park, based on DPRK defector interviews.

APPENDIX 3: Sample *Wah-Ku*

절대비밀 (Absolute Secret)

No. 91223412

조선인민군 호위사령부
전신명령 제 327호

(Name of the KPA branch to which the Special Authorization Document is issued. North Koreans call this the “wah-ku”)

조선인민군 963 군부대
청운진 무역회사

(Names of the KPA unit and state trading company, respectively)

(KWP seal in background)

UNITED STATES INSTITUTE OF PEACE – WORKING PAPER

North Korea, Inc.

첫째: 제 963 군부대 청운산 무역회사는 장군님의 방침에 따라 다음과 같은 무역을 하려고 하니, 이 무역회사가 들어가는 각 도, 시, 군, 구, 리에서 협조해줄 것을 다음과 같이 명령한다.

(First: The Cheongwoonsan Trading Company under the 963rd Military Unit, under the Supreme Commander's directives, wishes to conduct trade as described below, and orders that all provinces, cities, districts, sub-districts, and towns cooperate with this trading company.)

무역 상품: _____ *(Type of product to be traded)*

장소: 함경북도 나진 *(Name of location)*

시간: *(Time when transaction will take place)*

Two additional pages of more orders, instructions, and guidelines.

조선인민군 제 963 군부대
청운산 무역회사 사장
장XX

(Names of the KPA base, state trading company, and company head, respectively)

(KWP seal in background)

Source: DPRK defector interviews.

ABOUT THE AUTHOR

JOHN S. PARK focuses on Northeast Asian security, economic, and energy issues at the U.S. Institute of Peace's Center for Conflict Analysis and Prevention. He is the director of USIP's Korea Working Group, a consultative body comprising senior experts from the government and think tank communities that is chaired by Ambassador Richard Solomon, President of USIP. Park is co-director of the U.S.-China Project on Crisis Avoidance and Cooperation, which is a collaborative endeavor with the China Institutes of Contemporary International Relations and Fudan University. Park is also co-director of the Trilateral Dialogue in Northeast Asia, which brings together U.S., South Korean and Japanese partners.

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