

# **Understanding the Nature of the North Korean Regime: A Foundation to Engagement and Coercion Discussions**

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## **Abstract**

When considering engagement or coercion, the objective is to offer a state carrots and sticks to modify its behavior in order to achieve the engager's or coercer's policy goals. The assumption is that the North Korean regime can change and adapt to changing circumstances. North Korea's system of government controls all aspects of its society and people. One person has supreme power and provides divine guidance and demands constant idolization. The priority of this totalitarian, autocratic, cultish theocracy is the regime and its leader's interests at the expense of the populace. Such an idea of society limits the people's self-realization and autonomy. The North Korean regime demands that people understand their own life experience according to its official doctrine. As such, any significant reform and opening would greatly damage the foundation of the regime, which is why it cannot change significantly. However, ignoring its inability to provide for the basic needs of its masses would also undermine the regime's legitimacy. The North Korean regime is sclerotic. It is unable to adapt to changing circumstances. The regime cannot deviate too far from its current practices without jeopardizing itself. Therefore, it cannot change drastically even if the leader and the elites want to, since their room to maneuver is limited. Kim Jong-un and the elites are stuck in a precarious and inflexible situation created by Kim Il-sung and refined by Kim Jong-il.

**Keywords:** North Korea, Kim Jong-un, North Korean Elites, Engagement, Coercion, Totalitarianism, Autocracy, Theocracy, Information Monopoly, Ideology, System of Control, Human Rights, Denuclearization, Economy, North Korean Regime

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### ***Engagement and coercion: Is there a right combination for the DPRK?***

What is engagement in foreign policy? It's easier to define in terms of what it is not—it is not having official contacts. In that case, engagement is having a range of contacts to achieve certain objectives. One of the key objectives of engagement is to foster moderate voices and develop common interests that transform the country. The downside is that engagement could provide a lifeline to antagonistic governments that are struggling to survive.<sup>1</sup> Coercion is broadly defined as influencing the behavior of another.<sup>2</sup> It involves the use of threat to induce the other party to stop certain actions or compel them to take actions. Coercion deters a state from taking an undesired action or compels it to take a desired action. Whether engagement or coercion, the goal is to change the behavior or policy of the engaged country. There are various types of national policy instruments—economic, information, diplomatic, and military—that attempt to induce certain behaviors. Underlying these actions is an implicit assumption that the regime can change. Can engagement or coercion change North Korea's policy and behavior? Can they lead to reform in the system? Can they result in denuclearization and improve human rights? And other objectives?

North Korea's system is such that it does not have much margin for change. No matter who is at the helm, the leader will not be able to reform. As long as he seeks to maintain the monopoly of power and leaves the rest of society disenfranchised, Kim Jung-un is bound by the shackles of the system created by his grandfather and father.

### ***Past Engagement Activities with North Korea***

There have been engagement attempts in the past. A review could provide some insights. When it comes to engagement with North Korea, South Korea's "Sunshine Policy" stands out. With this policy, South Korea dramatically increased its efforts to engage North Korea, culminating in the 2000 Summit between Kim Dae-jung and Kim Jong-il, the countries' two respective leaders. The policy focused on greater exchanges and cooperation with North Korea to reduce the tension on the peninsula and to induce North Korea to open up and reform. President Rho Moo-hyun continued the engagement policy under the banner of his "Peace and Prosperity Policy." South Korea provided generous, unconditional aid to North Korea during this period. The Mount Geumgang tourism project alone at inception forecasted almost \$1 billion in cash transfer to North Korea from Hyundai Asan for a five-year period,

not including Hyundai Asan's head Chung Ju-young's \$150 million meeting with Kim Jong-il in 1998.<sup>3</sup> The policy came under heavy criticism in South Korea for the lack of reciprocity and transparency on the North's part, while North Korea continued to develop its nuclear weapons program, conducted military provocations against South Korea, and displayed intransigence towards South Korea in spite of the South's reconciliatory posture and aid.

Under the Sunshine Policy, Kim Dae-jung's administration emphasized greater exchanges, starting with the easiest areas—sports and other cultural arenas to economic arrangements. Both sides agreed to create the Gaesong industrial complex (GIC), a special economic zone in North Korea and to develop Mount Geumgang tourism. South Korea poured aid into North Korea. Many believe that the GIC is crucial for reconciliation and helping North Korea experiment with reform. Some point out that the idea of capitalism will spread by exposing North Koreans to the GIC. Ironically, while Pyongyang received billions of dollars in South Korean aid, it declared in 1999 that the Sunshine Policy was an “anti-DPRK, confrontational strategy” that aimed to reform and open Democratic People's Republic of Korea (DPRK) to prepare for an invasion.<sup>4</sup>

What was the outcome of the engagement policy comprising of generous aid? The critics believe South Korea gave away too much to North Korea without reciprocity and transparency. South Korea appeared to be too appeasing to North Korea for fear of upsetting or destabilizing the North Korean regime. Critics accuse the North Korean regime of redirecting South Korean aid towards missiles and its nuclear weapons program rather than the resources going to the needy. Indeed, North Korea conducted three nuclear tests (2006, 2009, and 2013 respectively) and numerous missiles tests. North Korea agreed to take certain measures, such as reconnecting the rail line on the east coast, but has since backtracked despite South Korea meeting its aid obligations. In 2010, North Korea sank the South Korean Navy Corvette *Cheonan* with a torpedo, killing 46 sailors, and shelled *Yeonpyeong* island, killing four including civilians. Furthermore, its oppressive political system has a poor human rights record, as highlighted by the United Nations (UN) Commission of Inquiry (COI) report. This is not the hoped-for outcome. At the same time as the North Korean regime was receiving billions of dollars in aid from South Korea, Pyongyang denounced the Sunshine Policy, continued to develop nuclear weapons, periodically engaged in

militarily aggressive provocations, and failed to improve the human rights situation.

The Six-Party Talks—involving North Korea, South Korea, the U.S., China, Japan, and Russia—began in 2003 with the aim of peacefully dismantling North Korea’s nuclear weapons program. By the fourth round of the negotiations, the DPRK committed to abandoning all nuclear weapons, ceasing its nuclear weapons program development, and returning to the Nonproliferation Treaty and the International Atomic Energy Association (IAEA) safeguards.<sup>5</sup> North Korea stated it would not dismantle the nuclear weapons program without nuclear energy assistance. Further, it wanted U.S financial restrictions on banks and North Korean companies for alleged counterfeiting and illicit activities lifted. In April 2006, North Korea agreed to return to the talks if the frozen funds in Banco Delta Asia were released.<sup>6</sup> North Korea conducted missile and nuclear tests in July and October of 2006. The latter prompted the UN to pass Resolution 1718 initiating sanctions against North Korea. Despite these events, there were significant achievements during the third phase of the fifth round of talks in February 2007. The \$25 million in frozen funds were unfrozen and eventually released to North Korea via Russia and South Korea sent fuel aid to North Korea.<sup>7</sup> North Korea declared that it would shut down the *Yongbyon* nuclear facility. The talks came to an end in 2009, however, after North Korea launched a rocket in April the UN again condemned North Korea and expanded sanctions. In response, North Korea declared it will never participate in the Six Party talks again and expelled the IAEA inspector. It soon detonated an underground nuclear device in May and has conducted several provocative acts in the West Sea since then, including the sinking of the *Cheonan* in 2010. North Korea also conducted more nuclear and missile tests since then, furthering their nuclear weapons program.

China’s economic engagement with North Korea between the two nuclear tests was partly designed for the purpose of non-proliferation and nuclear disarmament. One argument follows that economic engagement would lead to better economic livelihood for the North Korean people, narrowing the gap between South Korea and North Korea, thereby diminishing the rationale for developing nuclear weapons.<sup>8</sup> Between 2009 and 2012, the economic relations between the China and North Korea expanded significantly. According to China’s customs data, Chinese-North Korean trade valued at \$6 billion in 2012. Minerals and textiles were North Korea’s main exports to China while China exported food and

oil to North Korea.<sup>9</sup> The official trade figures do not include trade by individuals, consisting mostly of used electronics and cereals.<sup>10</sup> China's investment in North Korea also increased rapidly, but remained risky. The Xiyang Group, the largest Chinese private investors, agreed in 2007 to invest \$37 million in an iron ore processing plant in which Xiyang owned 75% and the North Korean government owned 25%.<sup>11</sup> In 2012, North Korea cancelled the contract, expelled Xiyang personnel, and expropriated the assets and technology.<sup>12</sup>

Despite increased economic interaction, North Korea continued its nuclear weapons program and conducted another nuclear test in 2013. Annoyed by North Korea's continued focus on the military and the development of nuclear weapons, Beijing reacted sternly. It no longer provided political support for increased trade and investment with North Korea and also strengthened its implementation of UN sanctions. While China is not likely to abandon North Korea, the economic engagement had not stopped or slowed North Korea's nuclear weapons program.

### *North Korea's Sclerotic Regime*

The assumption behind engagement is that the North Korean regime can change, that it can adapt to changing circumstances. The North Korean regime is sclerotic. It has become rigid, unable to adapt. The Kim-family worshipping totalitarian autocracy is such that it cannot deviate too far from its current practices without jeopardizing the regime.<sup>13</sup> Therefore, it cannot change drastically, even if the leader and the elites want to, since their room to maneuver is limited.

North Korea is assumed to be a normal state. It has government at the central and local levels; it is a member of the UN; it has an administrative territory with boundaries; it has embassies and issues visas. We assume that when making decisions, North Korea considers the national interests, e.g., the interest of all its citizens, such as boosting their general welfare. In reality, its top priority is the regime and its leaders' interests, especially their survival. The current system, starting from the ideology to the economic system to its various controlling mechanisms, reflects this priority. Loyalty to the leader is paramount—even the constitution was amended to incorporate total obedience to the regime and the leader. North Korea is a hereditary totalitarian autocratic cult-theocracy. Any significant reform and opening would greatly damage the foundation of the regime, which is why it cannot change. However, not addressing its inability to provide basic needs for the masses would also undermine the

regime. Kim Jong-un and the elites are stuck in this precarious and inflexible situation.

### ***The DPRK's Development of the Current System***

The social structure was thoroughly revamped in North Korea. After World War II's end in 1945, Korea gained independence from Japan. The Soviet Union occupied the northern half of the peninsula. The Soviet Union placed Kim Il-sung into power as the chairman of the Interim People's Committee, making him the highest ranking Korean in the North.<sup>14</sup> In 1946, the Interim People's Committee mirrored the Soviet policy of nationalizing major industries, declaring the equalization of the sexes, and instituting drastic land reforms on their way to socialism and communism.<sup>15</sup> Farm land owned by Japanese and Korean landlords was distributed to hundreds of thousands of peasants, and instantly created devoted followers of the new regime.<sup>16</sup> Of course it was unpopular with the land owners. The land reform and the nationalization of industries drove away about a million disgruntled Koreans from the north to the south. Those who stayed were eventually stripped of their wealth and power and classified as the "hostile" class of the *Seongbun* class system, ending up in prison camps or out in the country side.<sup>17</sup>

In 1947, Kim also introduced Soviet-style economic planning. The Northern half was more industrialized than the southern half during the colonial period and it had a significant portion of the peninsula's mineral resources. The regime urged those grateful to see a new order to make sacrifices for the sake of regime productivity, which coupled with aid from the Soviet Union did manage to increase productivity, similar to the occurrences in the Soviet Union and Eastern Europe at that time. Agricultural production also increased, perhaps due to farmers gaining land that they could call their own.<sup>18</sup> A nationwide literacy campaign and the building of educational institutions also contributed to economic development. An interpreter in Pyongyang once boasted that 'under the guidance of our great leader and teacher Stalin, and in accordance with the orders of General Kim Il-sung, North Korea has emancipated women.'<sup>19</sup> There was a rapid transformation of the society's state and class structures. In these early years, it appeared that North Koreans felt pride in what they saw as the new, classless, and just society. However, that did not last. Collectivization of farms followed, political challengers were purged, a new class structure was created throughout the entire society, a system of

fear controlled the people, and one-man worship began. North Korea became a totalitarian autocratic cult-like theocracy.

### ***Totalitarian Autocratic Cultish Theocracy***

Totalitarianism is a political concept of autocratic power controlling all aspects of public and private life, especially the citizens' thoughts and attitudes. An autocracy is a system of government in which one person has supreme power; his decisions are not constrained by law or popular control, but by the fear of coup-d'état or popular insurrection. A cult is a system of religious veneration and devotion toward a particular figure, usually followed by a small group within a society. The Kim family took a step further, developing a cult of personality following throughout the entire country. Last, a theocracy is a system of government run by priests or officials in the name of god. The Kim family has combined all these elements into one. All-powerful Kim Il-sung, then Kim Jong-il, and now Kim Jung-un are the object of constant devotion and adulation, providing divine guidance and controlling the society and the people within it. To achieve a totalitarian autocratic cultish theocracy, North Korea developed a single party system answerable to one man, which controls the population through elaborate ideology, a system of terror, monopoly of information, armed combat, and central control of the economy.<sup>20</sup>

### ***The Party and the State***

Under Marxism-Leninism, one of the means used to achieve the sociopolitical goals of communism was maintaining a centralized, unitary political process, practiced via the party.<sup>21</sup> Sovereignty belonged to the people and the people's powers were deemed to be fused with and manifested in the party. The party pretended to act in the interest of the revolutionary majority of the population—the working class, but the party was serving the interest of the leader. The party and the state apparatus under Kim Il-sung practiced arbitrary, untrammled, administrative power. The legitimacy of the elites was based on personal dedication to the leader, not the belief in the legality of duly passed laws. The goals and the will of the ruling class, as defined by the leader, were transmitted to the entire society. The political and social structures reflected Kim Il-sung's certainty of the final goal, and his determination to "trample the laws of nature, society, freedom, and human dignity underfoot and to rob humans of their social relationship."<sup>22</sup> Marx's idea of the withering away of the state to reach communism from socialism never occurred. The

opposite happened. The state became more powerful and more centralized, dominating all aspects of life.

### ***Terror as a System of Control***

The North Korean system is enforced by violence and fear used to coerce its population. The regime prohibits any form of freedom, including freedom of speech, assembly, religion, and movement, for fear of sowing the seeds for organized political opposition or worse, a coup or popular uprising. In order to secure power North Korea adopted the same state security organizations created by communist parties in other socialist countries, which were modeled after the revolutionary Cheka of Lenin. Although an important tool to consolidate power, there was a constant concern about how to limit the security organization's influence and prevent it from becoming a challenger to the state itself. Kim Il-sung addressed this issue by creating multiple security organizations as well as creating a system of spies at every level. He also created a vast network of concentration camps to keep the "hostile" elements away while using them as virtual slaves to extract economic gains. The North Korean regime created multiple security apparatus to investigate and monitor its citizens. The Ministry of People's Security (MPS), the Ministry of State Security (MSS), and the Military Security Command (MSC) are the three main implementing organizations.<sup>23</sup>

The MPS, employing 144,000 officers and agents at every level, conducts policing, public safety, intelligence, and counterintelligence.<sup>24</sup> They monitor citizens at every workplace, neighborhood, or other local organization, using informers to discover any acts or remarks that could be considered criticism of the regime. They run the detention facilities, excluding political prisons. Their goal is to protect the Kim regime and sort out the "hostile" class. The director is a member of the powerful National Defense Commission (NDC), and reports directly to Kim Jung-un.

The MSS, formerly referred to as the State Security Department (SSD), conducts intelligence and counterintelligence at every level of the society. MSS focuses on suspected political dissidents and runs political prisons. They also investigate backgrounds of important party, military, and special-skills personnel. Similar to MPS, its director is a member of NDC and reports directly to Kim Jung-un.

The MSC is responsible for monitoring military personnel, especially top military officers, for any anti-regime activities. It runs an informant

network separate from MSS and MPS. The MSC officers are in the Korean People's Army (KPA) and technically under the General Staff Department, but work with MSS and General Political Bureau (GPB) of the Ministry of People's Armed Forces (MPAF). If the situation warrants, the MSC commander can bypass the MSS and GPB and report directly to Kim Jung-un. This special ability to bypass the normal reporting chain ensures other security organizations do not get too powerful.

In addition to the above main security organizations, the GPB provides political oversight over the KPA through its political commissars and political officers. Although not a security organization, the GPB ensures loyalty to the party and ultimately Kim Jung-un. Holding veto power over military commanders' orders, GPB officers monitor all military personnel and conduct self-criticism and political study sessions for the military.<sup>25</sup> The GPB reports to the Korea Workers' Party (KWP) Central Military Commission, which Kim Jung-un chairs, as well as the KWP's Organization and Guidance Department. The GPB director is also the Vice Chairman of the NDC and is the most senior military figure after Kim Jung-un. The current GPB director is Hwang Pyong-so.

These levers of control permeate throughout society. The KWP created an extensive network of mass and specialized organizations to control people's movement, speech, and behavior. The Kim Il-sung Socialist Youth League, designed to groom future elites, is for those who are 25 years old and younger or students who have not yet graduated from college. Only those from good *songbun* families can join.<sup>26</sup> Other organizations include *Inminban* (neighborhood groups of 30 to 50 families) and *Sonyeondan* (the Children's Union).<sup>27</sup> These organizations also indoctrinate people to revere the Kim family.

With multi-layer, overlapping, and competing security organizations that are pervasive throughout society and state organizations, the Kim dynasty has been able to repress its population while creating a system that checks the emergence of any power centers that might challenge the Kims.

### ***Ideology***

North Korea's initial governing ideology came from the Soviet Union. Marxism-Leninism provided the basis for abolishing private ownership of means of production, which removed the basis for antagonistic class struggle, giving rise to real popular sovereignty. North Korea in 1972 adopted the homegrown *Juche* ideology, which emphasized self-reliance and self-sufficiency in politics, economics, and defense.<sup>28</sup> Although

Hwang Jang-yop created this ideology, Kim Il-sung takes the credit as the great thinker behind Juche. It provided an overarching label for the regime's policies and distracted outsiders from the true dominant ideology of its xenophobic and race-based view of the world.<sup>29</sup> Kim Il-sung, Kim Jong-il, and now Kim Jong-un use Juche as a basis to stir up nationalism in the face of famine and economic deterioration. Despite the self-reliance and autonomy claimed by the Juche ideology, North Korea was dependent on foreign assistance even prior to DPRK's official existence, initially from the Soviet Union, then South Korea and the U.S., and most recently China, which provided much needed food and fuel. Juche creates an illusion that the North Koreans are independent of exploitive foreign powers and are well provided for, thanks to the Kim regime.

### ***Building a Cult of Personality and Information Control***

North Korea takes extraordinary measures to control information and deify its top leaders, Kim Il-sung, Kim Jong-il, and Kim Jung-un. Through extensive propaganda built on myths, lies, and stepwise release of portions of truths, the Kim regime justified its rule for more than six decades. Due to continuous inculcation, North Koreans had long believed that they lived in workers' paradise, better than any that had preceded them and certainly better than their cousins across the border to the south, thanks to their great leader. The extolling and myth-making of their leaders began from the days of the DPRK's founder Kim Il-sung, and then his son Kim Jong-il after the elder Kim's death in 1994, and now the grandson Kim Jong-un since 2011. Whether in schools, work places, or re-education camps, the constant praise of the Kim leadership is omnipresent.

Kim Il-sung derived his legitimacy from his anti-Japanese activities during the time Japan colonized Korea. Employing the story-telling skills of writers and artists, the North Korean propaganda machine in the late 1940s started to portray Kim Il-sung as a nurturer leading Koreans, who are virtuous due to their pure race, to survive in the evil world.<sup>30</sup> They applauded Kim Il-sung profusely and relentlessly with a myth that he and his guerillas fought Japan from a secret base in Mount Baekdu, the mythical origin of Korea's first king *Dangun*, disregarding the inconvenient fact that Kim Il-sung spent the World War II years in a rural town in the Soviet Union. To create the myth of the Baekdu bloodline, the state propaganda machine depicted Kim Jong-il, his son, as also being born at Mount Baekdu, contradicting the fact that he was actually born in the Soviet Union and was called Yuri, a Russian name, for the earlier years of

his life. Being a part of the Baekdu bloodline elevates the stature of the Kims to the royal level similar to the pre-colonial *Chosun* Dynasty, in which kings ruled by the legitimacy of blood lineage. The Korean Workers' Party when revising the fundamental principles for the first time in 39 years included a statement about the Baekdu Bloodline eternally carrying the party and the revolution.<sup>31</sup> This act further solidified the legitimacy of Kim Jong-un and the Kim family dynasty.

Kim Il-sung, Kim Jong-il, and Kim Jong-un each created a cult of personality idolizing himself through continuous use of mass media, education, and other methods. The photos of the Kims are in every household, school, and work place. Each Kim is famous for providing on the spot guidance and inspection visits throughout the country. Monuments, statues, and other objects associated with the Kims are treated with veneration.

### ***Monopoly of Information and Means of Mass Communication***

While creating super human stories about themselves the Kims also restrict information, providing only the official versions to its citizens to create strong faith in the leader and the system. The regime disseminates the official versions of events via the state-controlled mass media—Korea Central Television, official newspapers and periodicals, and fixed-dial radios. By design, the radios cannot be tuned to listen to foreign broadcasts. Through official channels, the regime has perpetuated lies, myths, and part-truths to bolster and protect the regime.

Although the Soviet archives and other evidence show that North Korea started the Korean War in 1950, the DPRK denies that it started the Korean War. North Korea prepared for the invasion of South Korea after it received tacit approval from Stalin, following numerous requests. Moscow then supplied North Korea with equipment and advisors. North Korea had twice the manpower and artillery of South Korea. At the same time, in May 1950, Kim Il-sung publically called on South Korea to join in peaceful unification. This disguised Kim's intentions. North Korea referred to the invasion as a counteroffensive to try to avoid being branded the aggressor, domestically and internationally.<sup>32</sup> North Korean forces attacked on June 25 at four a.m., but the official propaganda has repeated the lie that Kim continuously tried to prevent war and unify peacefully, while South Korea and the U.S. launched the war.<sup>33</sup> That may have partially deflected Kim getting blamed for millions of deaths and wanton destruction. The majority of North Koreans believed the official version

and “were totally unaware it was Kim who had planned and started the full-scale war that killed and maimed so many of them.”<sup>34</sup> Instead, they adored him and sang songs of praise.

The regime takes extraordinary measures to prevent competing information from reaching its citizens. Listening to foreign broadcasts or watching foreign films is illegal in North Korea, incurring severe punishment including death. Yet, movie DVDs, tunable radios, and other media sources and devices are increasingly available in markets. Despite the prospect of harsh punishment, Koreans in the north continue to watch South Korean dramas and listen to foreign broadcasts, from which they receive information quite different from official stories. The North Korean government also protests heavily whenever a South Korean non-governmental organization launches balloons with leaflets, even threatening to shoot the location of the balloon launch with artillery. To derive legitimacy, the three Kims monopolize the means of mass communication to project the image of being nurturing leaders who protect and provide for their people. External information challenges official versions, harming the Kim family’s legitimacy, and thereby the regime.

### ***Economy in North Korea***

Since Kim Jung-un took power, North Korea has built a new Pyongyang airport, ski resort, and a water park. Despite UN sanctions, it appears luxury goods continue to be imported into North Korea. Meanwhile, there seem to be increased market activities where the general population trades and obtains goods. Some observers have pointed to these activities as signs of improved economic circumstances in North Korea. However, Kim Jong-un directed the building of the airport and the ski resort, siphoning the resources away from other needs. Luxury goods are an important tool for the regime to keep the loyalty of elites, so these too are prioritized. The heightened market activities highlight the government’s inability to provide goods, therefore revealing weaknesses rather than the improvement of the centrally-planned economy. To better understand the economic situation in North Korea, it is useful to think of North Korea as having four different economies: 1) the socialist economy centrally controlled by the state; 2) the “jangmadang” economy or the informal and black market; 3) the “Royal Court Economy”<sup>35</sup> or the Kim Family Fund; 4) the military economy or the “second economy.” These distinctions are important because the level of regime control, the purpose, and the enabling effects vary.

North Korea began the drive for a socialist economy even before its official creation, expropriating land and factories from its owners. It centrally owns and controls resources, directs allocation of resources, states national output goals, collects the output, and determines redistribution of the collected output. These are enormous tasks in a country of 24 million people. With generous aid from the Soviet Union, North Korea managed. The halt of the Soviet Union's assistance revealed the grim condition of the economy. Underinvestment, spare parts shortages, and poor maintenance left the industries in shambles.<sup>36</sup> Large military spending siphoned resources away from consumption and investment.

The North Korean government could not meet people's demand, especially in the critical area of food resources, leading to the disastrous famine of the 1990s that killed one million North Koreans.<sup>37</sup> Some organizations estimate an even higher death toll of 3.5 million, with an additional 300,000 people leaving North Korea in search of food.<sup>38</sup> Such tragedy did not occur because the North Korean government did not have enough resources, but because it misdirected resources. There were early warnings when the Soviet Union cut food assistance in 1987. Instead of taking measures to address the food shortages, the North Korean government decreased food rations, causing people to eat two meals a day.<sup>39</sup> At the height of the famine when North Korea received international food aid, it chose to decrease food imports rather than increase the food supply for the people.<sup>40</sup>

The regime had other priorities. While it continued to receive foreign food and energy assistance, the regime continued its nuclear weapons program conducting three nuclear tests and numerous missile tests. During the famine of the 1990s, Kim Il-sung's marble-lined former palace, now his mausoleum, was renovated at the cost of \$100 million.<sup>41</sup> While the state collected the output based on the labor input of the masses, the distribution of the best goods and services went to the leader and the elites with little left for the people. The system was designed to transfer the efforts from the masses to the select minority of privileged class at the top. Most recently, Kim Jong-un decided to direct the national resources toward not only the nuclear weapons program, but also building a ski resort, a water park, and even more statues of the Kim family. In Hyesan City of the Yangang Province, the provincial authorities ordered local residents to provide meals for the workers constructing statues, generating

anger from the residents who must bear the burden of feeding the workers as well as themselves while facing food shortages and rising food prices.<sup>42</sup>

Misprioritization is not the only reason for North Korea's dysfunctional economy and growing disaffection of the population. Faced with chronic shortages of food and other basic goods, the government attempted several "reform" efforts, but failed. The 2002 economic policy changes included a steep rise in both prices and wages, endorsement of private enterprises, drastic currency devaluation, and foreign investment law changes. It decriminalized the market economies that were illegal until the market emerged as a mechanism to cope with famine, but this led to drastic inflation and the policy was partially reversed in 2005. In 2009, the government instituted a currency measure, effectively confiscating the savings of the emerging middle class. The North Koreans were allowed to change the old currency for new up to 100,000 won (about two months-worth of food) and had to deposit the rest, but only up to 300,000 won. People became angry to see their savings lost. In both cases, the state was unable to handle the complexities of the economy. It also shows the efforts of the state to regain control.

North Korea recently released a video to promote foreign investment in special economic zones.<sup>43</sup> The regions are the Rason Economic Trade Zone, Hwanggumphyong Wihado Economic Zone, the Shinuiju area near Dandong City of China, the Gangryong International Green Model Base, the Unjong Cutting-edge Technology Development Zone near Pyongyang, and the Wonsan Tourist Zones including the Kumgang International Special Tourists Zone.<sup>44</sup> According to the DPRK's State Special Economic Committee, the zones provide "preferential treatment to the infrastructure developments," "no taxes on the property of enterprises," and "priority to the acquisition of right to management of those domains with high profits."<sup>45</sup> It remains to be seen what becomes of these special zones, but the state's track record of unilaterally canceling contracts and expropriating the capital assets pose challenges to attracting foreign direct investment.

The second type of economy is the market economy for the masses or the *jangmadang*, which grew out of necessity. To cope with hunger, people started to scourge for food outside of the Public Distribution System (PDS), which failed to distribute food. Although illegal, people began to come together to exchange goods for food. A black market emerged. Since then, this segment of the economy has grown rapidly. The markets sell electronic goods and other consumer products, private

transportation options are emerging, and the new capitalist class *donju*, or the money masters, are providing essential financial services. The policy changes in the 2000s somewhat decriminalized some of the market, but many activities are considered unofficial or illegal. The authorities did not interfere during the famine, but as the market grew the merchants started to bribe officials, and the resulting corruption allowed the market to flourish even more and loosen state control. The authorities still crack down on alley merchants from time to time, but the market forces are unstoppable. The market not only allows people to obtain food for survival, but provides powerful incentives not found in the centrally-planned state economy. Even the party and military officials at various levels are involved in the market, allowing such activities by accepting bribes or engaging in private trade themselves.<sup>46</sup> Some observers have pointed to the burgeoning market activities as a sign that the North Korean government is embarking on a genuine reform, but instead the market economy is thriving despite the regime's efforts to maintain the control of the economy and people's lives.

The other economy is the Royal Court Economy or the Kim Family Fund, a slush fund for the Kim family's personal use as well as to buy the loyalty of elites. To that end, the KWP's Central Committee Bureau 39 or "Office 39" plays a crucial role. Ostensibly under KWP, the bureau actually reported directly to Kim Jong-il who set up the office in 1974, and it now reports to Kim Jong-un. This activity is not subject to the cabinet for central planning and control. The "Criminal Sovereignty" study describes how the Office 39 directs smuggling, counterfeiting, and trafficking to generate hard currency, while being shielded behind sovereignty.<sup>47</sup> The regime heads a state-sanctioned criminal organization used to generate revenue from abroad. Kim Kwang-jin, a North Korean defector and former "revolution fund" manager, estimates that this Royal Court Economy produces two hundred times the foreign cash revenue of the centrally-directed economy.<sup>48</sup> The proceeds are used to support the opulent lifestyle of the Kim family, purchase luxury goods for the elites in order to obtain their support for the regime, and invest in the military including its nuclear weapons programs.<sup>49</sup> Despite UN sanctions on luxury goods imports, Kim Jong-un spent \$645.8 million importing luxury goods in 2012, far outspending his father Kim Jong-il's annual spending average of \$300 million.<sup>50</sup> These luxury imports include \$30 million worth of high-end alcohol, \$37 million in electronic goods, and \$8.2 million in luxury watches.<sup>51</sup> Dennis Rodman confirmed the North Korean

leader's lavish lifestyle after visiting Kim Jong-un's private island on a 200-foot yacht while drinking the best tequila.<sup>52</sup> Meanwhile, the UN Humanitarian Coordinator is seeking \$111 million in 2015 to provide food and water for the 70 percent, or about 18 million North Koreans, who are food insecure.<sup>53</sup> While the regime spends hundreds of millions of dollars on luxury products for the Kim family and his small coterie, North Koreans continue to suffer from malnutrition and stunting, despite North Korea receiving international assistance for the past 20 years.<sup>54</sup> The Royal Court Economy is essential in sustaining the regime because it buys elite's support for the regime. It also enables North Korea's pursuit of a nuclear weapons program, which the regime considers a crucial card in regime survival.

The fourth type of economy is the military economy or the "second economy." The KPA is also involved in businesses, has its own trading companies, and is not subject to central planning by the cabinet. The second economy earns hard currency through missiles and weapons sales. One of its banks, Danchon Bank that handled the arms trade, claimed its assets were \$6 billion in the 1990s.<sup>55</sup> By contrast, in the Foreign Trade Bank, which handles the official foreign currency, the figure was \$7 million.<sup>56</sup> This comparison shows the significant role the military plays in trade and earning revenue for the leadership. Due to difficulties arising from the UN and individual member states' sanctions in such dealings, the KPA has turned to selling raw material including coal and iron ore to China.<sup>57</sup> North Korean mineral reserves are worth about \$5.94 trillion.<sup>58</sup> The military-run second economy submits a large portion of the revenue to the Supreme Commander, while using the rest to support its military organizations as well as to accumulate personal wealth.

As stated earlier, an autocratic ruler fears a coup from the elites or insurrection from the population. The Kim Family Fund buys the elite's loyalty for the regime's survival, which must keep the totalitarian system intact. To keep the population at large from revolting, even a dictator needs legitimacy to justify his rule. In addition to the system of terror, the regime employs extensive propaganda to convince the populace that the regime provides for them well. In applying the idea of social contract, a state derives legitimacy by providing security and public service to the people in exchange for people giving up some of their freedom and rights.<sup>59</sup> Evidence shows that the DPRK government cannot meet the basic needs of the majority of the people. The PDS broke down during the famine and never recovered, and food and electricity shortages have

become the norm. People must fend for themselves, and they have turned to the market. Thus, the social contract is broken. People are increasingly aware of this fact. Outside information comes in along with imported goods into North Korea. The North Korean government can no longer claim that the people live in a workers' paradise when the people see South Korean dramas depicting abundance in food, electricity, and other goods that do not exist in North Korea or are in constant short supply. The state's efforts to crack down with draconian measures once in a while still cannot stop the people's thirst for information. Corruption also makes top-down control difficult to implement. Control is loosening despite the regime's efforts. A fundamental reform would offer better conditions to provide for the people, therefore placating the population, but is also fraught with danger for the regime, because greater access to information will reveal the regime's lies and undercut the regime's legitimacy.

### *Engagement and Coercion*

South Korea's Sunshine Policy provided unconditional aid and cooperation, hoping that North Korea would reform and open its doors. The Six Party Talks aimed to halt and reverse North Korea's nuclear weapons program, but North Korea is even further along with its program. The UN's COI report highlights the DPRK's gross human rights violations and calls for improving human rights. China has encouraged North Korea to reform, giving it the food and fuel it needed, along with investments. But the regime has not substantively changed its policies or behaviors. For the reasons explained above, the regime cannot change without jeopardizing its survival. Therefore, engagement with the North Korean regime does not seem to be a good option to yield the goals of denuclearization and improving human rights.

The UN as well as other individual member states have imposed economic sanctions on the regime that affect their nuclear weapons program. The sanctions also target a variety of front companies that support the Royal Court Economy as well as luxury goods imported for the elites, who support the regime's policy of pursuing nuclear weapons. The targeted sanctions are "designed to affect those whose mind we want to change."<sup>60</sup> The problem is inconsistent enforcement among the member states. The UN Security Council Resolution gives member states a wide latitude in implementation and leave it up to the member states to define "luxury goods."<sup>61</sup> For instance, the European Union considers a \$100 watch to be a luxury, while in Switzerland it is \$1,000. Meanwhile, China

never published the list. This discrepancy probably explains why North Korea was able to import over \$8 million worth of luxury watches. North Korea also changes the names of the front companies and replaces the sanctioned individuals to try to circumvent the sanctions. On this front, more can be done, such as greater cooperation in defining “luxury goods” and sharing the sanctions items list, as well as better enforcement. Also intelligence organizations should work diligently to find the new names of the state entities that are involved in the Royal Court Economy.

### ***Policy Options***

The system that Kim Il-sung and Kim Jong-il set up, now inherited by Kim Jong-un, is rigid and brittle. It is a totalitarian autocracy that uses fear and propaganda to control society and the people. The regime’s attempt to control the economy has failed miserably, producing famine and leaving individuals and the state’s various organizations to fend for themselves. To cope with the economic disaster and the weaknesses of central planning, other types of economies emerged such as the unofficial *jangmadang* market, the royal economy, and the military economy. The consequence for the regime is that central control is loosening. The regime allows this, however, because another famine would be dangerous for the regime’s survival. At the same time, a fundamental reform would allow too much loss of control, which could jeopardize the regime. Faced with this dilemma, the regime cannot change its behavior too much. So what are some policy options?

#### ***Policy Tool: Economy***

The *Jangmadang* has become a crucial part of the livelihood of North Koreans, with unofficial economic activities accounting for three quarters of their income.<sup>62</sup> One option is to encourage market development. The focus should be on stimulating the *jangmadang* activities of the masses. This is where the regime has the least control, but where change is most possible because the market is adaptable, unlike the sclerotic regime. Strengthening the market would give greater freedom to the people that the regime cannot or will not grant on its own. For instance, when merchants need to travel to buy and sell goods, freedom of movement becomes more possible, although it requires bribery. Such freedom is also facilitated by the emergence of private transportation services. Efforts to engage the masses by supporting the market could improve human rights conditions, one of the goals of foreign policy.

At the elite level, giving them options other than supporting the system as is could change their calculus. That is the attempt behind the luxury goods sanctions—for elites to change their mind about supporting the current policies of the regime.<sup>63</sup> These targeted sanctions could be tightened. At the same time, there could be some incentives for them as well.

Given that the state enterprises and organizations often need to provide their own funding for operations, some of these could be targeted for engagement. The dilemma is that the leadership takes a big portion of the revenue to support its policies. The focus could be on choosing an industry or enterprise that builds and supports the market structure, further expanding and legitimizing the market. Encouraging investment in infrastructure could meet this criterion because good roads, reliable electricity, and convenient communications support market growth.

Based on the North Korean government's history of breaking contracts and confiscating investment assets, engagement should focus on encouraging adherence to the conditions specified in the contract, and apply penalty if not. The same for expropriation—both rewards and costs that encourage normal business practices should be attached. This firmness could help develop a habit of good business practices, which also can help attract further investments.

Another option is person-to-person level exchanges in education and training, especially in learning skills relevant to the market economy.

While benefiting from the current system, the elites also realize the need to find ways to change the current system because it is precarious. Offering them an alternative could change their projections about various policy choices and their personal futures.

### ***Policy Tool: Information***

Information is often undervalued as a policy tool. The U.S. can provide greater funding for Voice of America and Radio Free Asia to provide radio programming for North Koreans. Outside information raises awareness, which could elevate the people's expectations about what the government should provide and what policies it chooses. The North Korean government may not respond to growing demand for improving livelihood via reallocation of resources from the military to the consumption sector, but this may increase the pressure on the regime.

### ***Policy Tool: Diplomacy***

The U.S. and other countries have used diplomacy with North Korea on a variety of issues and goals related to denuclearization. One timely issue is the return of live Prisoners of War (POWs) to South Korea and other respective countries. The U.S. government negotiated with North Korea on the return of the missing personnel remains, for which North Korea provided labor and received payments, similar to other countries, such as Russia and China, that returned U.S. service personnel remains. The South Korean government estimates that there are about 500 POWs alive, many of which are held in prison camps in North Korea.<sup>64</sup> Some of these POWs are in their 80s and 90s, which leaves little time to reunite them with their families and to see their homeland. The South Korean government has brought up this issue multiple times, but North Korea denies their existence and refuses to discuss the matter. As more and more government entities seek hard currency, North Korea may respond to payments in exchange for live POWs. The deal must condition they be live POWs to ensure they are not killed in the process. While the idea of adding to the regime's coffers is distasteful, so is forgetting and disregarding these POWs. This move is not likely to threaten the regime, which makes it an achievable goal.

### ***Policy Tool: Military***

Military action is often seen as a coercive tool, such as air strikes and war. While all the instruments of national power should be considered, this should be the last resort or in response to an inevitable situation, such as a North Korean invasion. When it comes to engagement, the U.S. engages with the militaries of its allies and friends. This engagement can occur at various levels—strategic, operational, and tactical, and in different fields, such as intelligence, operations, and military education and training. Is it possible to engage with North Korean military? The U.S. has engaged with the KPA regarding the return of the missing personnel. The U.S. and other UN Command members meet regularly and have discussions with the KPA at Panmunjum. Perhaps they could be invited to select exchange events, such as a senior level course in cooperation that does not get into operational and tactical details. China has been invited to

such courses. Although it refused to participate on many occasions, it has participated in some military-to-military engagements.

Policy instruments rarely stand alone. Various policy tools should be well orchestrated to produce the desired effects.

### **Conclusion**

North Korea's totalitarian, autarchic, and theocratic regime represses its population with an elaborate control mechanism based on fear and information monopoly. The extreme centralization of control and human rights violations were justified as the only way to build an economically viable and socially just society. The authoritarian idea of society limits people's self-realization and autonomy. It insists that people understand their own life experience according to the official doctrine. This approach could be a fatal structural flaw for North Korea. As the weaknesses of the system, such as the regime's inability to feed its own population, are exposed and the society becomes more complex, modernization is necessary. The current system is unable to continue to function without structural differentiation, rational and effective direction, and people's participation in social processes. The gap between the rigid state and societal requirements will become even larger and more difficult to overcome. Attempts to reform this closed system invite outside information, which weakens the official narrative and the regime's legitimacy. But as the informal market expands and new information seeps inward, people's attitudes, experiences, and feelings are becoming increasingly in conflict with the official dogma.

At this juncture, engaging the regime is not likely to yield significant changes that will lead to North Korea's denuclearization and improving human rights because the Kim family is unwilling to give up its monopoly on power. Using economic instruments, we can support further development of the market at the individual level as well as with select industries that can foster the market economy. We should explore the under-used policy tool of information and be willing to explore the potential of coordinated military engagements to set the stage for achieving short- and long-term goals.

### **Notes:**

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<sup>3</sup> Scott Snyder, "Inter-Korean Engagement or Confrontation?: Lessons from North Korea's Responses to the 'Sunshine Policy,'" (draft, no date), U.S. Institute of Peace, Washington, DC, 14.

<sup>4</sup> C. Kenneth Quinones, "Japan's Engagement of the Democratic People's Republic of Korea," in Susan Boriotti and Donna Dennis, eds., *Korea in the 21st Century*, (Huntington, NY: Nova Science Publishers, 2001), 96.

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<sup>8</sup> Mathieu Duchâtel and Phillip Schell, "China's Policy on North Korea: Economic Engagement and Nuclear Disarmament," SIPRI Policy Paper 40, *Stockholm International Peace Research Institute*, December 2013, 3.

<sup>9</sup> *Ibid*, 25.

<sup>10</sup> *Ibid*, 26.

<sup>11</sup> "Investment in N. Korea has been a nightmare: Chinese Group," *The Dong-A Ilbo*, August 9, 2012, <http://english.donga.com/srv/service.php3?biid=2012080954748>.

<sup>12</sup> *Ibid*.

<sup>13</sup> Rhee Sang-Woo, *Bukhan Jeongchi Byeoncheon Shinjeongchejeui Jinhwa gwajeong (Evolution of North Korean Theocracy)*, (Doseo Chulpan Oreum: Seoul, 2014), 136. The author also states that North Korea has reached a theocracy based on the absolute power of one-person rule.

<sup>14</sup> Robert A. Scalapino and Chong-sik Lee, *Communism in Korea. Part 1: The Movement* (Berkeley: University of California Press, 1972), 205.

<sup>15</sup> Martin, Bradley K., *Under the Loving Care of the Fatherly Leader: North Korea and the Kim Dynasty* (New York: St. Martin's Press, 2004), 56.

<sup>16</sup> *Ibid*.

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<sup>17</sup> Tara O, "Human Rights Policies toward North Korea," *Korea Review*, Vol. 3-1, June 2013, 3-6.

<sup>18</sup> The state technically owned the title, but collectivization had not begun.

<sup>19</sup> Martin, *Under the Loving Care of the Fatherly Leader: North Korea and the Kim Dynasty*, 59.

<sup>20</sup> Rhee Sang Woo, 108-111; Carl Friedrich and Zbigniew Brzezinski, *Totalitarian Dictatorship and Autocracy*, 2d ed., (New York: Praeger, 1965), 15-27. I'm grateful to Dr. Rhee Sang-Woo for pointing out this source in his book *Evolution of North Korean Theocracy*."

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<sup>22</sup> *Ibid*, 99. Merkel describes the authoritarian characters of East Germany and other socialist countries.

<sup>23</sup> The author thanks L.J. Singleton, a long time North Korea analyst, for explaining and clarifying the roles of these organizations.

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<sup>26</sup> Lankov, Andre, *North of the DMZ: Essay on Daily Life in North Korea*, Jefferson: McFarland and Company, 2007, 202.

<sup>27</sup> Lankov, 174 and 203.

<sup>28</sup> Tai Sung An, *North Korea in Transition: From Dictatorship to Dynasty*, (Westport, Conn: Greenwood Press, 1983), 58-9.

<sup>29</sup> B.R. Myers, *The Cleanest Race*. (New York: Melville House, 2010), 47.

<sup>30</sup> Myers, 15, 34, 36.

<sup>31</sup> Dennis P. Halpin, "Welcome to North Korea's Game of Thrones," *The National Interest*, April 23, 2014, <http://nationalinterest.org/feature/welcome-north-koreas-game-thrones-10298>.

<sup>32</sup> Martin, 69.

<sup>33</sup> *Ibid*, 71, 749.

<sup>34</sup> *Ibid*, 88.

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- <sup>44</sup> *Ibid*, 3:01.
- <sup>45</sup> *Ibid*, 3:50.
- <sup>46</sup> James Pearson and Daniel Tudor, “Years after the famine, here’s how North Koreans really get by,” *Reuters*, April 13, 2015, <http://www.dailynk.com/english/read.php?num=13276&cataId=nk01500>.
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- <sup>50</sup> The UN Commission of Inquiry (COI) on Human Rights, *Report of the detailed findings of the commission of inquiry on human rights in the*

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<sup>51</sup> Julian Ryall, "Dennis Rodman Describes '7-star Party' Life Style of Kim Jong-un," *The Telegraph*, October 21, 2013, <http://www.telegraph.co.uk/news/worldnews/asia/northkorea/10392838/Dennis-Rodman-describes-7-star-party-lifestyle-of-Kim-Jong-un.html>.

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<sup>53</sup> "North Korea Drought 'Worst in a Century'," *Voice of America*, June 17, 2015, <http://www.voanews.com/content/north-korea-drought-worst-in-a-century/2825731.html>.

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<sup>55</sup> Kim Kwang Jin.

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