The Changing Role of Entrepreneurs in Kim Jong Un’s North Korea

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UNDERSTANDING NORTH KOREA SERIES

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Summary

North Korea’s entrepreneurs—the donju, or “money masters”—play a special role in brokering the state-controlled and informal economies, serving as smugglers, brokers, and financiers for North Korean citizens and the state. The North Korean state faces competing economic and political pressures: how can a revolutionary socialist state constrain the emergence of private-sector pressures while also dealing with the pragmatic need for entrepreneurs’ capital and services? While his father sought to repress individual money-making strategies, Kim Jong Un has not only incorporated entrepreneurial money-making capacity into his economic development goals. These economic trends have significant social implications for North Korea, carving out new spaces for conspicuous consumption while driving expanding economic inequality. Entrepreneurs’ incorporation into state-centered networks has the potential to transform North Korean society without challenging the existing political structure.
Introduction

Over the past thirty years, the rise of black and gray markets in North Korea have unmistakably transformed social relations between citizens and the government. What began as a survival strategy during a period of severe shortages of food and goods during the Great Famine in the 1990s has grown into a bona fide class of entrepreneurs\(^1\) who maintain the stability and development of the state economy. Commonly known as donju—“masters of money”—North Korea’s new entrepreneurs have risen in ranks from small-time smugglers under Kim Jong Il (r. 1994-2011) to elite financiers and suppliers of goods and services essential to Kim Jong Un’s economic development plans (r. 2011-present). The result has been an informal socioeconomic class system that intersects the historically rigid political caste system,\(^2\) leading to new lifestyles, the pursuit of social status, and incentives based on wealth rather than only political loyalty.

This paper explores two simultaneous trends in the state’s management of ersatz capitalists. Analysis simultaneously looks at three indicators vis-à-vis the role of donju: economic development patterns, ideological incorporation, and punishment. The paper draws from state media and secondary sources with information from author interviews with experts to explore how Kim Jong Un has responded to the growing entrepreneurial class in North Korea. First, I analyze the roots of donju market practices. I examine how this new unofficial and illegal class of moneyed elites simultaneously intersects, challenges, and upholds the official political classification system that undergirds the country. The paper then outlines how Kim Jong Un coopts middle-class wealth. Kim Jong Un’s Pyongyang-centered development draws on the ersatz capitalist class in North Korea. These changes have contributed to improved quality of life for the middle class and elite North Koreans while also driving income inequality in one of the world’s poorest countries.

North Korea Faces the Market

The emergence of a North Korean entrepreneurial class has been decades in the making, evolving from ad hoc survival strategies to de facto capitalist institutions. The class first emerged following the disastrous famine in the late 1990s, mainly working as loan sharks who helped fund illicit trade, smuggling, and bribery. The 1990s famine and accompanying floods and droughts brought with it mass starvation, leading to 250,000 to as many as 3.5 million deaths according to

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\(^1\) In this paper, I use the terms “entrepreneurs” and donju interchangeably to refer to lead brokers in the informal economy who manage the flow of goods and currency across borders and within the country. Analysts and researchers use different terminology to refer to these important brokers in the informal economy. Common English-language terms include merchant class, (upper) middle class, professional merchant, entrepreneur, non-Party elite, emerging capitalist class, and even “self-made bourgeois class.” For a comparison of these terms and their specific uses, see Matthew Pullen, “A Nascent Middle Class in North Korea: The Origins of the Donju and Their Relationship with the State” (MA Thesis, Seoul, South Korea, Seoul National University, 2017), 16.

one USAID estimate. The Arduous March (Gonanui haenggun) was compounded by preexisting economic mismanagement. The national Public Distribution System (PDS), responsible for the basic sustenance of the populace, broke down. Black markets replaced the PDS to make up for inadequate rations and the decline in food production and imports. While market activity violated the laws against capitalist enterprise, even state officials and police turned to illicit food sources, consumer goods, and raw materials as a survival strategy.

The Arduous March also sparked a mass exodus from the country to the Chinese borderlands. An estimated 250,000 North Koreans undertook the risky journey across the land border. In many cases, preexisting familial networks and ethnic ties with Korean Chinese in the Yanbian Autonomous Prefecture assisted North Koreans’ refuge and connected them to work opportunities. Importantly, these networks also joined North Koreans to sources of consumer goods and raw materials that they could smuggle back into North Korea to barter on the black market.

The state addressed the lack of food and goods by liberalizing the activities permitted at state-operated markets. As state capacity hallowed out, so too did its ability to surveil North Korea’s land border strictly. Border surveillance—where it was present—fell short as guards and government officials themselves turned to Chinese markets for goods or took bribes from smugglers. Importantly, these enduring networks also connected North Koreans to international food sources, hard currency, consumer goods, raw materials, drugs, and weapons that they could smuggle back into North Korea to trade on the black market.

At the policy level, the North Korean regime responded to illicit cross-border trade and marketization from below with their own economic liberalization. The July 1st Measures of 2002 introduced market economy features to combat the deficient ration system. The measures transformed existing farmers’ markets into general markets. According to one South Korean expert, the July 1st measures coincided with the rise of a “merchant class” that contributed to marketization and rehabilitated the economy. Market-based transactions in cash were put on official footing. As a result, the market sector of the economy has gradually increased in size. According to satellite imagery analysis, the state created 436 general markets by 2017.

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stabilized the economy and the distribution system while tightening policies and policing the markets became more restrictive. Until his death in 2011, Kim Jong Il officially sought to restrict foreign currency flows. Most notably, Kim Jong Il implemented a confiscatory currency reform in 2009 that increased the personal risk of participating in market activities. Ultimately the reforms failed, and the state tried to pedal back by offering wage increases. However, in the long run, the reform encouraged the dollarization of the economy and the rise of a new entrepreneurial class.

Ersatz Capitalists in a Socialist State

The North Korean state faces competing economic and political pressures: how can a revolutionary socialist state constrain the emergence of private-sector pressures while also dealing with the pragmatic need for entrepreneurs’ capital and services? The rise of North Korea’s ersatz capitalists complicates the official political system. As a revolutionary socialist state, North Korea’s political regime was founded on state control of a planned economy and eradicating the capitalist class. North Korea’s official political classification system—songbun—is based on allegiance to the regime, not wealth or income.9

There are three core classes in this system and status is designated at birth based on the political loyalty of parents and grandparents, making the classification a sort of feudal caste system within the totalitarian state. Political elites comprise a very small portion of the population, with the highest level of the “core classes” at the top of the songbun totem pole. Estimates for the “elite” membership range widely—from 20,000 to 200,000—but the consensus among outside experts is that it is more difficult to “move up” in rank than move down, resulting in a shrinking elite political class. The official class system affects all aspects of life for North Korean citizens: where they can live, where they can go to school, what jobs they can have, and even prospective marriage partners.10

These new entrepreneurs operate alongside the songbun system but are not part of the official three-part hierarchy. In fact, capitalists technically remain one of the enemies of the state—the bottom “hostile” class, according to the songbun system. However, over the last few decades, entrepreneurs have gained significant economic power and assets. Whereas North Korean entrepreneurs in the early 2000s pulled in annual earnings of around $50,000, entrepreneurs today may earn upwards of US $1 million each year.11 Donju have used this wealth to unleash and

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8 Some analysts have suggested the move sparked push-back from women working in markets, but most outside coverage seems to exaggerate the likely localized, disorganized, and limited protestations of individuals seeking their economic due, not necessarily anti-government statements. However, the state did ease back on market restrictions so the perception of failure had some policy effects. Marcus Noland, “North Korea’s Failed Currency Reform.” Peterson Institute for International Economics, February 5, 2010. https://www.piie.com/commentary/op-eds/north-koreas-failed-currency-reform
9 For a detailed report on songbun, see Collins, “Songbun Marked for Life: Classification System Songbun Marked for Life.”
direct the flow of capital, leading to the rise of a unique status separate from the official political caste system. These entrepreneurs and moneylenders “can be seen as both a product and driver of marketization,” write Kevin Gray and Jong-Woon Lee.12

Since the Arduous March, the donju have built a financial service sector to conduct money transfers via mobile phones for smuggled goods or transfer funds across the country. Donju have created a full-service banking network for domestic transfers and international remittances. Donju also set up remittance houses in China to conduct highly profitable global smuggling operations even after the hefty bribes they must pay border guards and surveillance officials. North Korean entrepreneurs continue moneymaking and financial transfers, but today they have diversified their economic activities, including retail, product and raw material distribution, and smuggling. They also play an essential role in connecting the state’s planned economy and the illicit markets. Donju supply state-owned factories with raw materials and other supplies, sharing their profits. Some North Korean businesspeople have even built their own production and distribution facilities.13

The elite Pyongyang-centered order depends on illicit transnational activity and licit trade. This relationship reinforces continuity in the authoritarian politics that forms the core of the country’s regime.14 This order still depends on the local black markets and cross-border smuggling networks across the country and especially across the Sino-North Korean border. More recently, the regime has selectively incorporated the entrepreneur’s role in and influence on national development planning. As one indicator of the state’s relationship with entrepreneurs, North Korean state media at times highlight the contributions of individual investors—previously unthinkable in the collectivist economy—and at other times, the media feature crackdowns on “anti-socialist activities” such as involvement in real estate trade. For example, in a June 2020 article in the state-run newspaper the Rodong Sinmun, at least ten women were praised by name for their individual efforts in supplying construction supplies for Samjiyeon City construction projects designed to attract tourists. The official media’s portrayal of entrepreneurs suggests what sorts of business the state favors: the ones that serve the state economy.

Despite their influence and importance in the North Korean economy, entrepreneurs do not enjoy the same state-supplied protections afforded to the political elite. North Korea’s official political classification system is based on allegiance to the regime, not wealth or income.15 The

15 For a detailed report on songbun, see Collins, “Songbun Marked for Life: Classification System Songbun Marked for Life.”
entrepreneurs operate alongside this system but are still obliged to their inferior position on the political class ladder. The government frequently cracks down on illicit trade—seizing entrepreneurs’ assets, raiding their homes, or sending them to political prison camps. Reportedly most arrests under Kim Jong Un relate to charges of conducting foreign currency operations—often for the regime itself. In effect, the Kim Jong Un leadership has a parasitic, rather than symbiotic, relationship with entrepreneurs.

**Pyongyang and Beyond**

Unlike his father, Kim Jong Un has chosen to alternately coopt and turn a blind eye to the marketization trends that his father tried to keep in check. Kim Jong Un and his economic planners appear to recognize that the state has not only profited off their endeavors but also that he can leverage the entrepreneurs as part of a broader development strategy. As a result, he has unleashed North Korean individuals’ money-making capacity. Early in his rule, Kim reportedly told officials to overlook the use of foreign currency—primarily U.S. dollars and Chinese yuan—which flow through the North Korean official and black markets. The state even took the outstanding move of issuing bonds to extract currency from entrepreneurs to cover as much as 60 percent of the country’s budget amid the severe downturn while pinched from sanctions and coronavirus in 2020.

Kim Jong Un has furthermore extracted finance and goods through entrepreneurs’ wealth and networks. These funds aid his lifestyle development projects intended to curry favor from political elites. Kim Jong Un has cultivated a more cosmopolitan Pyongyang by encouraging foreign currency flow and funneling state resources into housing, consumer, and leisure projects. The lives of North Korean elites have improved remarkably over the past ten years concerning consumer choice, housing, and social pursuits. North Koreans have modernized their apartments with new appliances and technology (relatively speaking). For at least a decade, middle-class North Koreans have modernized their apartments with new appliances and technology including landline and mobile phones, radios, “notel” (notebook-televisions), washing machines, and other amenities.

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Kim Jong Un has also built new high-rise apartments such as Ryomyong Street (in 2017) and Mirae Scientist Street (in 2015) to reward North Koreans for their political loyalty and professional contributions in specific industries, especially science and technology. To North Koreans, these apartments are symbols of wealth and status that fuel “voluntary compliance’ to the regime and its policy direction.” Kim Jong Un has also built up multi-use consumer and lifestyle spaces such as the Ryugyong Service Complex (opened 2013), which focuses on health-themed shops and facilities including a “café, a sauna, a wading pool, a beauty salon, skin care services, a table tennis and billiards room, as well as a fitness facility.” Other department stores, such as Daesong Department Store (opened in 2019) sell foreign brands like Adidas and Fila as well as high-end brands like Chanel and Rolex. Despite international sanctions banning luxury goods, the regime smuggles in these consumer goods using its illicit transnational networks—including via donju.

Kim Jong Un has also utilized the entrepreneurial enterprises to offset the constraints of international sanctions. North Korea’s entrepreneurs and money-launderers have developed a systematized trade network of their own through the land border with China to import raw materials and processed goods. Sanctions against North Korea have affected mainly lower-class North Koreans hardest, and the North Korean “One Percent” have avoided their bite.

Cooption and Political Control

While money provides power, North Korean entrepreneurs work under pervasive government surveillance and tight control on movement within the country. Kim Jong Un keeps the potential influence of entrepreneurs in check because his country’s political system remains based on political class. Making money for political elites may offer opportunities to entrepreneurial North Koreans, but it also presents significant risks. Entrepreneurs can conduct business based on 1) whether easy pathways for corruption exist, 2) officials’ demand for and interest in “insurance” or bribes, and 3) the ability of entrepreneurs to deliver economic growth and returns on investment.

To escapes crackdowns, North Koreans pay “insurance”—bribes—to local elites and security officials. As such, government officials and cadres can profit off the work of entrepreneurs by taking bribes or by investing in and profiting off the entrepreneurs’ economic activities. North Korean law bars state officials and Party cadres from working or investing in private business ventures. Many political elites use a proxy, often a relative, as cover for their business and

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21 Young-Ja Park, “Eight Changes in North Korean Economy and Society under the Kim Jong Un Regime” (Seoul, South Korea: Korea Institute for National Unification (KINU), December 2018), https://www.kinu.or.kr/pyxis-api/1/digital-files/7681af7a-b948-40ea-9e19-a5336ae72c02.


investment activities. But despite their higher class, political elites also face high risks when conducting private business. During his ten years of rule, Kim Jong Un has purged or executed dozens of wealthy elite and likely hundreds of lower-level officials on charges of conducting illicit trade. Most notably, the charges against Kim Jong Un’s infamously executed uncle, Jang Song Thaek, included corruption and economic mismanagement. The fact that Kim Jong Un has made elites’ personal financial status contingent on loyalty to his leadership suggests his tight control of elites and the relationships between political elites and entrepreneurs.

In 2012, North Korea introduced the Socialist Corporate Responsible Management System (Sahoejuui gieom chaegim gwallije). By 2017, North Korea appeared to shift away from centralized planning at a fundamental level. According to the Kim Il Sung University’s newspaper, “Net profits gained by individual corporations are fundamental to the establishment of a powerful economy.” Amid the severe downturn, while pinched from both sanctions and coronavirus in 2020, in April 2020 the government also issued government bonds to extract currency from private citizens for the first time since 2003. Targeting the entrepreneurs in particular, the state designed these bonds to cover as much as 60 percent of the country’s economic downturn. The coronavirus border closures portend significant effects on the state-entrepreneurs relationship. Without smuggling networks to China, Kim Jong Un likely will not be able to meet his economic goals, including construction projects and infrastructure development.

Conclusion

While this paper focuses on state cooptation and social control strategies, it also has implications for questions on the future impacts of marketization on political transformation or social change in the totalitarian state. If Kim Jong Un continues to involve citizens’ private money-making activities in his economic strategy, he will have to manage a complex set of political and economic relationships. In the longer term, we should expect Kim Jong Un to continue to extract resources from the entrepreneurs while excluding them from political and economic decision-making. The North Korean government—from Kim Il Sung to Kim Jong Un—operates according to the accepted wisdom that marketization trends could undercut political control and ideological commitment as new sources of power rise outside the direction of the planned economy. Rather than agents of political change, North Korean entrepreneurs are embedded in existing political structures. As such, their socioeconomic roles serve political stability even amid social transformation.

Moreover, after years of market liberalization, North Korea’s further seclusion and toughened border-control measures in the face of the coronavirus pandemic threaten the contribution of entrepreneurs, which depend so much on international exchange of goods and financial networks. Trade with China, which accounts for 90 percent of North Korea’s trade, dropped over 80 percent from 2019 to 2020.\textsuperscript{27} Despite temporarily opening to transborder railways in late January, the Chinese Customs Bureau reports trade remains at 20 percent of pre-pandemic closures.\textsuperscript{28} This trend means that for the foreseeable future, the pandemic layered on top of stringent economic sanctions directly threatens Kim Jong Un’s dependence on the entrepreneurs that help his economy run.

