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North Korea's new capitalists and their workers: Business practice and labor relations

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ABSTRACT

Over the last two decades, North Korea has gone through a remarkable, though incomplete, transformation. Markets have proliferated and have largely supplanted the moribund state economy. This article discusses labor relations in North Korea's nascent private sector. It is based on interviews with a number of North Korean entrepreneurs who now reside in the South.

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1. Introduction

The last twenty years have been characterized by a dramatic social and economic transformation in North Korea. Indeed, until the early 1990s, North Korea was an extreme example of the Stalinist command economy. It disintegrated largely due to a number of massive exogenous shocks. North Korea today is a mixed economy that is, in many regards, remarkably similar to transition economies in China, Eastern Europe and the states of the former Soviet Union (Andrei Lankov and Kim Seok-hyang, 2008).

The complete absence of reliable statistics makes it difficult to estimate the scale of the private sector in the North Korean economy. It is interesting, though, to note that in 2008, Kim Byung-yeon and Song Dongho (2008) estimated that income from private activities amounted to 78% the total income of North Korean households.

The last two decades have seen the emergence of relatively large enterprises producing everything from running shoes to diesel oil, as well as providing a great variety of services. According to Kim Byung-yeon and Yang Moon-soo's (2012) estimate, in 2009 58.5% of all North Korean restaurants were privately owned (though often officially registered as state property). Many of these private enterprises has a large staff, numbering dozens of workers. Nonetheless, unlike other post-socialist economies, the North Korean government has never officially and legally accepted the existence of a private sector. While the authorities have often tacitly tolerated such activities, the unofficial economy still exists in a legal limbo because no North Korean law or set of regulatory instruments stipulates the rules governing any non-state owned enterprises (Jeong Hyung-gon, Kim Byung-yeon, and Lee Suk, 2012; Lankov et al., 2017).

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Understandably, this has created a large number of challenges for North Korean entrepreneurs, the activities of whom remain largely illegal. Some of the problems they face are connected to labor relations. The present article deals with labor relations and management within North Korean private businesses. Our major goal is to trace how North Korean entrepreneurs recruit and manage their workforce while maintaining an acceptable level of productivity in a highly adverse environment. This is the first study of labour relations in North Korean private enterprises.

North Korea is in many regards a laboratory for ideas about capitalism. North Koreans are as uninformed as any population in the world about the technicalities and formal institutions that undergird the market economy, and labor relations under such a system. The only model they can realistically draw on is the North Korean variety of Soviet-style state socialist labor relations. The degree of change and continuity in labor management and relations was also a major topic of inquiry.

There are few sources available when investigating labor relations in North Korea. Private enterprises with a hired workforce are not mentioned in the North Korean media, which still does all it can to maintain a facade of an exemplary socialist system. Therefore, the only way by which to obtain the necessary data was to interview people who used to manage private enterprises while in North Korea.

The current article is based upon a series of semi-structured interviews with a number of North Korean refugees now residing in South Korea. Each entrepreneur was interviewed for a minimum of several hours, while some were interviewed for more extended periods of time. Given the non-political nature of the topic, the principal incentive for interviewees to lie is simple enough, that is, to present oneself in a positive or important light. All interviewees were expressly informed of the purpose of the interview, and gave oral consent prior to the interview's beginning. Any questions of a psychologically stressful and sensitive nature were avoided.

The majority of people in our sample are males. As has been noted a number of times, women are overrepresented among the business people in North Korea (Lankov and Kim, 2014). But our choice of male interviewees reflects our interest in labour relations: we were looking for the entrepreneurs who in North Korea managed a larger workforce, and hence tended to run larger businesses. Due to the significance of personal connections with the overwhelmingly male North Korean bureaucracy, these people tend to be male as well. This also implies that most of the people in our sample came from a more privileged background – seemingly, another factor which increases chances of business success. Mr. Fish/Oil/Bus was a former commanding officers in the North Korean navy, Mr. Gold was a police official, Mr. Flats was a mid-level industrial manager – in other words, all these entrepreneurs came from more privileged social strata.

The article itself attempts to reconstruct a picture (admittedly very partial) of how entrepreneurs find and utilize specialized and unskilled labor. Given the lack of sources available, the present article is based on a small number of sources, the representativeness of which is at present ambiguous. Nonetheless, representativeness on matters related to the informal and/or illegal economies of many countries is a quality that is largely unattainable much of the time. To a certain extent, such experiences surely must be representative of broader trends within North Korean society, and therefore should be of value to those interested in the rise of the North Korean private economy.

2. The old system and its disintegration

The North Korean state was created under the tutelage of the Soviet Union in the late Stalin era. It initially adopted a rather extreme version of the Stalinist labor management system, a system well described by Donald Filtzer (2004). The state and its bureaucratic agencies were the only type of legal employers in existence. Unlike the Soviet Union and some countries of Eastern Europe, North Korean law left no space for self-employed people. It was a crime not to have a job with a state enterprise or agency. People who did not have a formal job could be (and frequently were) punished with a few months of incarceration.

The only major exemption from the above rule were married women who could officially register as full-time housewives, thus exempting themselves from obligatory employment with a state enterprise. However, housewives were not allowed to engage in private commerce and/or manufacturing, though in practice, this ban was not all that strenuously enforced (Kyungja Jung and Bronwen Dalton, 2006). Another, much smaller, group which was exempted were handicapped people, deemed unfit for work by the medical authorities.

The old system was characterized by rigidity: most workers were assigned a workplace after finishing their education, and for men, once they had finished military service. The same was true to some extent of all state socialist countries under central planning – most notably, China where the relaxation of the migration and employment restrictions began around 1984 (Rong Cui and Jeffrey Cohen, 2015). Changing one's workplace was possible, but it required prior permission from the authorities. It was especially difficult to move from one county/city to another: as a rule, such move was impossible. Because of this, many spent their entire working lives in just one enterprise (Helen-Louise Hunter, 1999). Promotion chances were determined largely by one's family background (songbun) and party membership. Thus, those with a bad family background and without Party membership had little chance of being promoted (Collins, 2012).

At the same time though, wages bore little relation to productivity. Cash wages were made still less significant by the existence of a comprehensive rationing system. Starting from the late 1950s, almost all major food items and essential consumer products were rationed by the state, with little or no possibility to purchase rationed foodstuffs outside the rationing system. Rationing of cereals was universal across the entire country, and the size of food ration was determined by one's place of work. For instance, as described by Stephan Haggard and Marcus Noland (2007, 51–78) those engaged in heavy manual labor would have received 900 g of cereals, around 50% of which would have been rice (the majority of employees

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