

Economic informality: the case of North Korea

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In recent years numerous observers of North Korea, including [Haggard and Noland](#) ^[1] and [Lankov and Kim](#) ^[2], have drawn attention to the emergence of an informal economy in the DPRK, and have offered explanations based on circumstances specific to that country.



Beyond the specifics of the North Korean case, however, informal economic activity should be seen as a systematically observable phenomenon, for 'informality' is found in a diversity of economic systems. For example, among extant 'socialist' economies, recent experience in both North Korea and Cuba suggests that it has become impossible in recent times for authorities to ignore the breakdown of processes of production and distribution conducted according to orthodox socialist principles. The informal economy is also observable in contemporary '[developing economies](#)' ^[3], as well as in the post-industrial economies of '[advanced capitalist states](#)' ^[4]. The implication, that 'informal is normal', suggests the need for a general explanation of the phenomenon.

The idea of an 'informal sector' was introduced by Keith Hart to explain economic phenomena, in 1960s urban Ghana, at odds with the then-dominant economic 'development' orthodoxy. Later, Hart came to see *informality* as a 'remedial concept', needed to make sense of observable 'discrepancies' between the prescriptions of a prevailing economic orthodoxy and the 'concrete conditions' of economic life in the particular setting where that orthodoxy holds sway. Hart maintained that, where an economy is only partially 'institutionalized' to the dominant economic orthodoxy, this circumstance throws up behaviours we may recognise as [economic informality](#) ^[5].

Hart constructed his idea of informality in relation to notions of bureaucracy, which creates rules

to give *form* to its own activities and to those of whoever, or whatever, is regulated by it. In this way economic activity becomes liable to enumeration, and its status as being enumerated (or not) becomes a crucial marker of its formality (or informality). There are other criteria, emerging from a diversity of empirical circumstances. In general, however, it is the nature of bureaucratic frameworks and activity (as informed by an economic orthodoxy) which substantially determines the character, and designation, of economic activity as being either formal or informal. Informality challenges bureaucracy by failing to *conform*.

[In the Cuban case](#) ^[6] the palpable inadequacy of orthodox processes of production and distribution in the face of rising societal aspirations has resulted in recent official reform measures. These include an exploratory freeing of privately-provided petty services, together with a degree of land reform to stimulate private food production for market, both amounting to the legitimation of some private, informal, economic activity. By contrast, in North Korea we observe a curious situation, in which North Korean authorities ostensibly condemn while lower-level officials connive, permitting the emergence of spontaneous (read 'informal') production and markets for food and other commodities, which fill yawning gaps in official supply chains.

In relation to North Korea, Lankov and Kim remind us that 'no communist state has ever been able to eradicate private economic activities completely and despite their persistent efforts, all Leninist regimes have had to tolerate the existence of a "second economy"'. The [second economy](#) ^[7] operates outside the planning framework, is conducted for private gain, and/or involves 'knowing contravention of an existing law'. Entities thus engaged may be households, enterprises (including SOEs) or criminal organisations. The term 'second economy' arose in the Soviet Union, where it referred to economic activity (both legal and illegal) occurring outside 'the plan'. It has been asserted that the growing importance of such economic activity in the late-period USSR 'amounted to an implicit market reform within the Soviet economy', facilitating *perestroika*. Instances of the second economy, arising in the context of socialist command economic orthodoxy, may be seen as special cases of Hart's 'informal sector', but subsumed within his more generalised construct of *informality*.

Up until the early 1990s in North Korea strict rationing was in force, private production was discouraged and distribution was controlled by the official Public Distribution System (PDS). In the judgment of Lankov and Kim, 'the growth of private trade began with the collapse of the North Korean economy, which became noticeable in the late 1980s, prompted by the dramatic decrease in the scale of Soviet and Chinese aid. From around 1990 this economic crisis manifested itself in food shortages, which had developed into a large-scale famine by 1995'. The second economy emerged as a mechanism to cope with the failure of the PDS. Another observer commented that 'the marketization of the economy ... over the last 15 to 20 years has essentially been a by-product of state failure'. Under these circumstances, the economy 'marketized, not as any kind of conscious product of state policy, but rather [from the bottom up](#) ^[8]'. As this process proceeded, 'even local government, party offices and military units were forced into commercial activity. [Farmers' markets emerged](#) ^[9] in the countryside, while rice was traded in the cities; state-owned enterprises engaged in barter and cash transactions in order to stay afloat'.

Tensions arising from the state's inability to meet basic needs and the societal pushback represented by informal economic activity impelled a transition, (as Haggard and Noland describe it) 'from a planned state socialist system to a hybrid system in which the state has grudgingly acquiesced to a larger role for the market'. But this has not been a linear process, for 'policy has been ambivalent, sometimes acquiescing to facts on the ground, at other times attempting to reverse them'. Indeed, the accession to power of Kim Jong-un from late 2011 may be leading to 'ever more erratic swings between tolerance of market activity and efforts to suppress it'. While the evolution of North Korea's economic system is a work-in-progress, many ordinary people have discovered a capacity to 'get by', resorting to economic activities which external observers may see as informal (in Hart's terms) by reference to the ideology and norms of the State.

Initially this occurred in rural areas of the DPRK, and with respect to food production and marketing. The tendency has subsequently become more widespread, both geographically and in the scope and scale of activities conducted, to the point where it has been described as an '[underground economy](#)'^[10] and as [Kimchi capitalism](#)'^[11]. Evidence of North Korean informality is now seen wherever ordinary people find it necessary to resolve the discrepancies between *Juche* orthodoxy and the harsh reality of everyday life. In other economic systems, *mutatis mutandis*, evidence of discrepancies between prevailing economic orthodoxies and the 'concrete conditions' of daily life (whether, for example, in inner-Western Sydney or the squatter settlements of Port Moresby) may be adduced to illuminate the many faces of economic informality.

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[1] Haggard and Noland:

http://www.milkeninstitute.org/publications/review/2013_1/05-14MR57.pdf

[2] Lankov and Kim:

<http://hanvoiceresearch.wikispaces.com/file/detail/Lankov,+Kim+2008.pdf>

[3] 'developing'
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<http://www.oecd.org/inclusive-growth/ls%20Informal%20Normal%20Towards%20More%20and%20Better%20Jobs%20in%20Developing%20Countries%20.pdf>

[4] 'advanced' capitalist
states:

<http://books.google.com.au/books?hl=en&lr=&id=iQNJm6qqOIMC&oi=fnd&pg=PR2&dq=informality+in+advanced+economies&ots=2k03twqPao&sig=4prTdXb6vY15LYd4mvoqC2>

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[5] economic informality: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2294764

[6] In the Cuban case:

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[7] second economy: <http://www.answers.com/topic/second-economy>

[8] from the bottom up: <http://www.iie.com/publications/interviews/pp20110127noland.pdf>

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[10] 'underground

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[11] *Kimchi* capitalism:

<http://www.eastasiaforum.org/2013/07/02/could-kimchi-capitalism-bring-change-to-north-korea/>