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A YEAR AFTER KIM JONG-UN'S POLITICAL DEBUT

RISING TO FOREFRONT OF POWER HIERARCHY

After the party conference, N. Korea started engaging in a set of positive propaganda activities aimed at promoting Jong-un as the heir apparent.

North Korean leader Kim Jong-il has officially started the process of transferring power to his third son Kim Jong-un at a conference of the ruling Workers' Party of (North) Korea (WPK) in September 2010, the first of its kind in 44 years. Kim Jong-un, then 28, was appointed as vice chairman of the WPK Central Military Commission (CMC) at the conference of party representatives held on Sept. 28, 2010. A day earlier, the junior Kim with no military experiences was named a four star general in the (North) Korean People's Army (KPA).

In a move to showcase Kim Jong-un's debut in the power hierarchy, Kim Jong-il and his heir apparent had a photo session with key participants in the party conference at the Kumsusan Memorial Palace in Pyongyang, where the former leader Kim Il-sung's embalmed body is laid, according to the (North) Korean Central News Agency (KCNA) on Sept. 29. In the first photos and video clips unveiling the heir apparent to the world, Kim Jong-un was said to resemble his late grandfather and North Korea founder Kim Il-sung.

Kim Jong-un's Sudden Rise

Concerning the sudden move to establish the power succession, North Korea watchers believe that the health problems of Kim Jong-il, who suffered a stroke in August 2008, prompted North Korea to speed up the process of transferring power to Jong-un. In reality, many North Korea watchers in Seoul and abroad had paid attention to the hereditary power succession in the North since late 2008.

However, Kim Jong-un's rise to almost the top of the power hierarchy was settled after many twists and turns. The postponement of the conference of party representatives is a concrete example. North Korea announced in June 2010 that the

WPK will hold the party conference in early September, causing speculation that the North may name the successor to its ailing leader. However, the party conference was delayed without giving any special reason.

The delay of the party conference produced a lot of speculation about the North's internal situation, including the health problems of Kim Jong-il. Ahead of the opening of the conference of the party representatives, the North Korean leader, along with Jong-un, made his sixth visit to China from August 26-30, 2010 to get recognition of the planned power succession from its ally China. Thirteen days after they ended his visit to China, the South Korean spy agency said that it believed the North Korean leader made significant strides in gaining recognition from its ally China.

Kim Jong-il made his first visit to China in 1983, one year after his father Kim Il-sung officially informed the Chinese leadership, including Hu Yaobang, then-general secretary of the Chinese Communist Party, on the appointment of Jong-il as his successor. Kim Jong-il took the seat of power in 1994 when Kim Il-sung died. Kim Jong-un's swift rise to power ushered in the start of what could be the socialist world's first back-to-back father-to-son power transfer. Kim Jong-il was tapped to be the successor to his father in 1974 when he was 32.

According to sources familiar with North Korea, Kim Jong-il designated Jong-un as his successor among his three sons in January 2009 as Kim had believed Jong-un was the right person to lead the North. Kim Jong-il's first son Jong-nam lost the confidence of the senior Kim after he made trouble during his trip to Tokyo Disneyland on a forged passport in 2001. Kim Jong-il's second son Jong-chol is reportedly too timid.

Designated as the successor by his father, Kim Jong-un had often been referred to not by his name, but as "Boss Kim" among the North Korean media, while becoming gradually recognized as the country's next leader. The heir apparent's name had not been revealed by the North until the announcement of his appointment as a four star general.

Before the revelation of the existence of the heir apparent, massive events such as the "150-day battle" movement that started in May 2009, the May Day event of



North Korea's heir apparent Kim Jong-un (far right) is shown in a recently released photo, next to photos of his father Kim Jong-il (center) and grandfather Kim Il-sung. (Yonhap Photo)

that year and a large frame work in Pyongyang to celebrate the 97th birthday of the North's late founder Kim Il-sung were reportedly credited to Jong-un. *Rodong Sinmun*, one of the country's most influential newspapers, said on May 14, 2009 that North Korean citizens should inherit the spirit of the 70-day battle campaign while participating in the 150-battle movement.

The 150-day battle campaign was similar to the 70-day battle movement that ran between October and December 1974 to produce achievements for Kim Jong-il in the economic sector after he was named as the successor to his father in February of the same year.

North Korea allegedly changed Jong-un's birth year, which was known as 1983, to 1982 in a bid to match the last digit to that of his grandfather's year of birth as part of efforts to drum up the justification for him to be the successor. The year of birth for Kim Jong-il, known to be born in 1941, was allegedly changed to 1942 on documents.

Positive Propaganda Activities

Since 2009, North Korea has apparently spread a propaganda song praising Jong-un titled "Footsteps," which was reportedly written by top composer Ri Jong-o and is played regularly during public events. Its title began to appear in the North's media in February 2010, when the KCNA reported that soldiers in an army unit sang the song during Kim Jong-il's inspection visit there. The song surfaced again during an April 26 ceremony to mark the foundation of the North's army.

Starting June 2010, use of the expression "the party's center" as a way to refer to Jong-un appeared on the WPK's propaganda materials. The expression was also widely used after Kim Jong-il was nominated to succeed his father in February 1974. *Rodong Sinmun* wrote the phrase "the party's center" for the first time on Feb. 14, 1974, shortly after Kim Jong-il was nominated to succeed his father. On June 30, 2010, *Rodong Sinmun* stressed in an editorial that "All citizens should defend the central committee of the party led by Kim Jong-il to the death and unite around the party's center." Immediately after the party conference, North Korea started engaging in a set of positive propaganda activities aimed at promoting Jong-un as the socialist country's leader-in-waiting.

In an effort to support his heir apparent, Kim Jong-il gave key posts to the guardian group for the successor at the conference of the party representatives. Kim Kyong-hui, the younger sister of the North Korean leader, was appointed as the party's Politburo member and promoted to four-star general. Her husband Jang Song-thaek, was named an alternate Politburo member and as a member of the party's Central Military Commission. (Yonhap News)

STATUS AND ROLE AS POWER SUCCESSOR

Kim Jong-un's status within the power hierarchy appears to have been upgraded, while accompanying his father on an array of activities.

Ever since his political debut, Kim Jong-un has frequently been in the media spotlight, often accompanying his father on an array of activities within the socialist country. These days, the mysterious heir apparent appears to be on the road to the throne through his successor training in various fields, experts believe. The young crown prince sometimes boasts of his diplomatic skill and even exercises military commandship, though unofficially.

In his first official appearance, Kim accompanied his father while inspecting a military parade for the 65th anniversary of the founding of the Workers' Party of (North) Korea (WPK) on Oct. 10. His political stature was apparent when he was included as No. 2 after his father, on the roster of state funeral committee members for Jo Myong-rok, the first-vice chairman of North Korea's top powerhouse National Defense Commission (NDC), who died on Nov. 7 from heart failure.

The young Kim has also accompanied his father on inspection tours in recent weeks. The heir apparent son accompanied his father on 12 out of 14 inspection trips between July 1 and 25, according to an analysis of North Korean state media. The figure represents a sharp increase compared to the first six months of the year during which Jong-un accompanied his father on 35 out of 63 inspection trips.

Status within Power Hierarchy

This year, Kim Jong-un's status within the power hierarchy appears to have been upgraded. His name was recently called directly after his father's. Previously, Kim Jong-un's name was mentioned after that of Ri Yong-ho, the chief of the general staff who became a standing Politburo member. This led to the analysis that Kim Jong-un is now ranked No. 2 after his father.

Jong-un's image as a young leader was emphasized through North Korea's state media this year. In a quite unusual manner, North Korea held a meeting of young leaders on Feb. 26, urging them to play a bigger role in building a thriving nation and protecting the socialist system of the country. The Songun Meeting of Youth for General Mobilization held in February was the first time that the North has used "songun," or the military-first politics that have been leader Kim Jong-il's ruling ide-

ology, in the name for such a meeting.

On June 27 this year, the North gave its first apparent confirmation of reports that it is preparing for a second father-to-son succession. The implicit recognition came nine months after Kim Jong-un was made a four-star general and appointed as a vice chairman of the WPK Central Military Commission.

In a dissertation published on its official Web site, Uriminzokkiri, North Korea described last year's convention as "a historic opportunity that provided the basic conditions for guaranteeing consistency in the succession of the great *juche* (self-reliance) revolution." The *juche* principle is the backbone ideology of the socialist regime.

The Web site also stressed the importance of succession and listed the qualities required of a successor. "The issue of leadership succession is a vital matter related to a country's future," it said, adding that the process involves the inheritance of a leader's principles, achievements and appearance. This is the first time that the North disclosed the party conference as political event to give a credibility to the North's power succession. The North Korean leader has taken steps to extend his family dynasty to a third generation since he suffered a stroke in 2008.

Although the Web site does not mention Kim Jong-un by name, the statements reveal an underlying purpose to Kim Jong-un's hairstyle and attire at the convention, which closely resembled those of his late grandfather and North Korean founder Kim Il-sung. "North Korea may be promoting Kim Jong-un's qualifications as a successor within its borders, but it's probably not comfortable yet with publicizing them abroad," said a North Korea expert, who spoke on the condition of anonymity.

Leading Role in Policy Decision

Kim Jong-un has been on the fast track to becoming his father's successor this year, with the South Korean intelligence officials revealing that Kim Jong-un is currently head of North Korea's State Security Ministry, which is the North's top security and intelligence agency.

The State Security Ministry is an autonomous bureau directly under Kim Jong-il's command and has often been referred to as the "secret police." The ministry was separated from the regular police force in 1973. The department has been known to have great power over the lives of ordinary North Korean citizens and is thought to be behind severe violations of human rights.

"The position will suit the young successor well in order for him to take control of the WPK and the North Korean military's elite," said Cheong Seong-chang of the Sejong Institute, indicating that Kim Jong-il's plans are for the son to receive his

successor training in private, which would explain why Kim Jong-un has not received additional positions since last September.

The father and son were also reported by North Korea's official news agency to have made a visit to the secret police headquarters on April 15, founder Kim Il-sung's birthday. The South Korean government is carefully watching the situation but was unable to confirm the report.



North Korea's heir apparent Kim Jong-un inspects a factory in Pyongyang along with his father Kim Jong-il in the end of July. (KCNA-Yonhap Photo)

In March this year, North Korea dismissed its police chief, Ju Sang-song, due to health problems. The dismissal is unusual because in North Korea many high-ranking officials retain their posts until death. North Korea watchers said the decision could be part of measures to appoint figures close to Kim Jong-un to influential posts ahead of the father-to-son power succession. Ju had served as the police chief since 2004.

It was belatedly learned that North Korea rewrote major party regulations last year in an apparent bid to facilitate its hereditary power succession. In the revisions, the North allowed its leader-in-waiting to take full control of the state with greater ease. The revisions, approved at the party conference in September last year, also suggest that he would control both the party and the military.

A source said that the expansion of Kimilsung University is also related to Kim Jong-un. Radio Free Asia (RFA), a U.S.-based broadcaster, said in June that Kim Jong-un is the architect behind the enlargement of the university and that he wishes to see the most prestigious university in the North as a global world-class institute. Citing a source, RFA said that the leader-in-waiting is playing a leading role in the expansion of the university in hopes that the university could match major European universities. Kim Jong-un himself studied in Switzerland when he was a teen.

According to sources, the university's programs have been expanded a great extent with medical and agricultural colleges newly added to the university. The

three colleges now included in the Kimilsung University are Pyongyang University of Medicine; Pyongyang University of Agriculture; and Kyeungsang Sariwon University of Agriculture.

Series of Policy Blunders

Despite his political rise, a series of policy blunders in North Korea have dealt a blow to the leader-in-waiting. The North carried out a currency reform in 2009 but it is believed to have caused strong public backlash as it led to economic uncertainty with massive inflation and worsened food shortages.

The policy blunders have also “undermined social stability,” South Korean Unification Minister Hyun In-taek said in a recent public broadcast program. Hyun, who is in charge of relations with North Korea, also said North Korean leader Kim Jong-il’s plan to hand over his power to his youngest son is believed to be in progress.

Park Hyeong-jung, senior research fellow at the Korea Institute for National Unification in Seoul, said in a contribution that Kim Jong-un reportedly played a leading role in the currency reform of November 2009. But well known is the disorderly economic situation and the economic damage to North Korean citizens caused by the redenomination of the North’s bank notes, he said. This unsuccessful policy measure has reportedly resulted in the execution of 52 North Korean officials during eight months from Dec. 2009 to July 2010. (Yonhap News)

N.K. Leader’s Fund Manager Makes Public Appearance in 7 Months

The head of a shadowy North Korean agency charged with managing slush funds for leader Kim Jong-il has appeared in public for the first time in seven months. Jon Il-chun accompanied Kim on an inspection tour of a factory, the North’s state television reported on July 29, which was monitored on Aug. 8 by Yonhap News Agency. Jon, who has rarely been exposed to media, was last seen on Kim’s trip to a food factory in Pyongyang in December last year. He heads Office 39, which has often been referred to as Kim’s “personal safe” for its role in raising and managing secret funds for the aging leader. The office is also believed to be involved in counterfeiting US\$100 bills and drug trafficking. (Yonhap News)

GROWING PERSONALITY CULT FOR LEADER-IN-WAITING

Kim Jong-un's image as the next leader has mostly been boosted through the North's state media as well as a string of propaganda activities.

Despite economic difficulties and deepening isolation from the international community, North Korea has been speeding up its creation of a cult of personality around its heir-apparent Kim Jong-un. His image as the next leader has mostly been boosted through the North's state media as well as a string of propaganda activities by the North's major organizations, including its 1.2 million-strong military.

Kim's propaganda activities are in full swing this year. In a documentary aired by (North) Korean Central TV Broadcasting Station (KCBS TV) on May 11, traces of his personality cult are evident. The documentary, which showed the birthday of his father, North Korean leader Kim Jong-il, on Feb. 16, was a typical example of the socialist country's loyalty toward Kim Jong-il together with his youngest son, Kim Jong-un.

In the documentary, a placard appears onscreen at the military unit that reads, "Let's fight for the beloved supreme commander Kim Jong-il and honorable general Kim Jong-un." The image appeared to have been shot after senior Kim and his crown prince appreciated a performance by the military unit. This clearly shows that the North was trying to boost the atmosphere for justifying the hereditary power succession by emphasizing the country's obedience to the two Kims.

Traces of Kim Jong-un's Personality Cult

This documentary compiled footage from birthday celebrations for Kim Jong-il such as a flower exhibition of Kimjongilia, an ice festival, along with cultural and musical performances. During the performances, a chorus sang "Footsteps," the first song praising Kim Jong-un. In another event, women embroidered handicrafts with the lyrics of "Footsteps."

Introduced in the ice festival were sculptures depicting such objects as the president's clothes, general's clothes and commander's clothes, which appear to signify the three-generation succession from North Korean founder and permanent president Kim Il-sung to Kim Jong-il and Kim Jong-un. In February this year, North Korean TV also released a documentary in which Kim Jong-il and Kim Jong-un

attended military-related activities together.

Most recently, the newspaper for North Korea's youth organization published a lengthy article honoring the leader-in-waiting in an apparent move to consolidate support from young people. The newspaper, *Chongnyon Jonwi*, referred to Kim Jong-un as General Kim in its July 31 edition in an article focused on praising him and making a case for the hereditary power succession. The article was broadcast across the country by the KCBS TV on the same day.

Further references to Kim Jong-un as a four-star general have recently appeared, whereas previously he was referred to as the "Young General" or "Comrade General." He was named vice chairman of the Central Military Commission of the Workers' Party of (North) Korea (WPK) and a four-star general last year in the clearest sign yet designating the country's next leader.

The youth organization, the Kimilsung Socialist Youth League, is affiliated with the WPK and reportedly boasts 5 million members aged 14-30 out of the country's total population of 24 million. Analysts said that the North used the youth organization paper as it recognizes the importance of the young generation in justifying the dynastic power succession.

Paik Hak-soon, a senior research fellow at the Sejong Institute, an independent think tank near Seoul, said the newspaper's article appeared to be aimed at winning allegiance from young people and consolidating their support in the country's power transfer process.

North Korea began to engage in a series of propaganda activities immediately after the party conference last September. State media released the first verifiable images of Kim Jong-un as an adult. A few days later, the media reported the heir apparent watched a military exercise with his father, his first public field activity since his debut as a four-star general. Then he watched a music concert commemorating the 65th birthday of the WPK, which falls on Oct. 10, with his father.

Series of Propaganda Activities

"Footsteps," the propaganda song praising the junior Kim, has been a regular fixture of such public events since 2009. Reportedly written by top composer Ri Jong-o, the song has been widely interpreted by North Korea watchers in Seoul as extolling Kim Jong-un's valor. Its title began to appear in North Korean media in February 2010, when the North's official KCNA reported that soldiers in an army unit sang the song during Kim Jong-il's inspection visit there.

A number of news reports and propaganda messages from the North shed light on the nation's modernization of computer-related infrastructure in production

facilities, frequently referred to as computer numerical controlled (CNC) technology, drawing speculation that such achievements may be credited to Kim Jong-un.

Still, rumors say that secretaries of the North's ruling party suggested observing Kim Jong-un's birthday as "the nation's big holiday" but Kim Jong-un rejected it. On Kim Jong-un's birthday last January, the North's TV broadcasting station aired a one-hour-long documentary pledging allegiance to the leader-in-waiting.

The film opens with a scene from current leader Kim Jong-il's inauguration as supreme commander of the military 19 years ago, during which his father, North Korea's founder Kim Il-sung, prompts a round of applause from the audience after demanding absolute obedience to his son. The following scenes display laudatory letters and messages from former officials of the socialist nation's 1.2 million-strong military.

The documentary appeared to stress the legitimacy of the ongoing father-to-son power succession across three generations by mentioning Kim Jong-il and his heir-apparent, Kim Jong-un, side by side and in a larger font than other texts. It also gives the impression that Kim Jong-un is carrying on the tradition of revolution started by his grandfather.

In July this year, the pro-North Korean residents group in Japan came out to idolize Kim Jong-un. The pro-Pyongyang General Association of Korean Residents in Japan, also known as "Chongryon," had been relatively calm over the North's dynastic power transfer, but in this instance a leading official of the group made a speech praising and pledging loyalty to the leader-in-waiting.

Rumors Related to Kim Jong-un

According to an anti-Pyongyang activist group in Japan, Ho Jong-man, vice chairman of the Chongryon, made the first reference to Kim Jong-un by name at the official meeting of the group's central committee. The vice chairman reportedly made a speech before some 350 people in support of the junior Kim, saying, "Let's serve General Kim Jong-un, shine the tradition of Paektu to the millennial generation and obey the leadership of the general."

Previously, the Japan-based organization had not mentioned the heir-apparent by name and instead used abstract expressions merely describing "the country's successor" due to some anti-Kim Jong-un sentiment in the Chongryon society. Sources said the Chongryon was recently ordered by Pyongyang to strengthen its ideological education, starting from the establishment of Kim Jong-un's personality cult from June this year. (Yonhap News)

KIM JONG-UN'S GUARDIANS AND SUPPORT GROUPS

Kim Jong-un will succeed his father first by obtaining control of the military and then by using the military to take general power.

As widely believed, North Korea's political and military figures are basic support groups for the regime's heir-apparent Kim Jong-un. Such backers were given key posts during the conference of the Workers' Party of (North) Korea (WPK) last year. The guardian groups for the leader-in-waiting are now paving the way for the hereditary power succession.

Quite naturally, the power structure in North Korea is changing to revolve around Kim Jong-un, and he is already a considerable authority even within the military. At the party conference, North Korea carried out a generational change of its power elite, with younger generations in their 40s and 50s swiftly replacing older ones.

Analysts said Kim Jong-un will succeed his father by first obtaining control of the military and then by using the military to take general power. In the reshuffle, Pyongyang removed veterans from North Korean founder Kim Il-sung's generation and replaced them with officials from Kim Jong-il's generation, although those leaders are still old and aging. In addition, the North has been adding those in their 30s and 40s to mid-level positions in the military, the party and the Cabinet.

Roles of Kim-Jang Couple

But the most influential guardians are relatives of the Kim dynasty. Kim Kyong-hui, the younger sister of the North Korean leader, was named to the party's Politburo, further backing speculation that she will serve as patron of her nephew Jong-un. She has also been promoted to four-star general. Her husband, Jang Song-thaek, who was earlier promoted to vice chairman of the National Defense Commission (NDC), was named an alternate member of the party's politburo.

The Kim-Jang couple should play a key role in facilitating Jong-un's power succession. Kim Kyong-hui's promotion to four-star general demonstrates Kim Jong-il's intent to protect his son within the military. At the same time, the Kim-Jang couple is expected to manage the party. Jang currently heads the party's administration department, which is regarded as the most powerful post within the party.

A younger group led by Jang Song-thaek has reportedly insisted Kim Jong-un's

status as successor-designate should be formalized as soon as possible when considering Kim Jong-il's poor health. Jang's rise was expected, and others supporting Kim Jong-il's



Kim Jong-un (far left) is seated with his father Kim Jong-il (center) and his guardians during a photo session in March this year. (KCNA-Yonhap Photo)

hereditary succession were promoted en masse. On the occasion of the Sept. 28 party conference, Choe Ryong-hae, Kim Kyong-hui and Kim Kyong-ok, all of whom are civilians, were decorated with the military ranks of general, along with Kim Jong-un, while some in the younger group including Ri Yong-ho and Kim Yong-chol were promoted to the military's top brass.

Choe Ryong-hae, a former provincial party secretary from North Hwanghae Province, rose quickly to join the North's inner circle. He was also appointed to the party's Politburo as an alternate member and to the party's Central Military Commission (CMC) as a member. Choe's family ties to the Kims explain his political rise. He is the second son of Choe Hyon, one of Kim Il-sung's closest comrades. He is also known to have maintained a close friendship with Kim Jong-il since childhood and to have a good relationship with Jang.

Ri Yong-ho, chief of the general staff of the North's Korean People's Army (KPA), was named one of the five Politburo presidium members following his promotion from general to vice marshal in the military. Ri also became a vice chairman of the party's CMC along with Kim Jong-un. A previous commander of the Pyongyang Defense Command, Ri is also known as the top artillery expert in the North. Ri is expected to play a key role once Kim Jong-un takes control of the military.

Mun Kyong-dok's rise draws special attention. North Korea watchers belatedly learned of his appointment as chief secretary of the WPK Pyongyang chapter. Through the reshuffle last September, he was given three key posts in the party all at once – alternative member of the party's Politburo, secretary of the party Secretariat and Central Committee member of the WPK. The 54-year-old is the youngest of the high-ranking party officials, many of whom are in their 70s and 80s.

Other influential supporters are Kim Pyong-hae and Kim Kyong-ok. A close friend of Kim Jong-il, Kim Pyong-hae is currently a party Politburo alternate member. Kim Kyong-ok, the first-vice director of the party Organization and Guidance Department, was also named a four-star general last year.

North Korea on March 16 dismissed its police chief, Ju Sang-song, due to health problems. But North Korea watchers in Seoul said the decision could be part of measures to appoint figures close to Kim Jong-un to influential posts ahead of the father-to-son power succession. In April this year, the North's Supreme People's Assembly named Ri Myong-su, a known strong supporter of the junior Kim, as minister of people's security.

Meanwhile, a slew of elderly politicians were removed from key posts. The disappearance of NDC Vice Chairman O Kuk-ryol from the list of top party positions leads some to believe that a number of military elders who opposed the rapid rise of Kim Jong-un have been weeded out. Recent reports have it that North Korea's defense chief Kim Yong-chun has been sidelined in the country's ongoing power transition process due to apparent tensions between his loyalists and supporters of the heir apparent.

Influential Supporters

It is known that the Workers' Party is clandestinely operating a surveillance and inspection group within the party, which is ultimately designed to facilitate a smooth transfer of power. Sources said this organization is similar to the three revolutionary movement groups in the 1970s when Kim Jong-il was designated to succeed power from his father, Kim Il-sung.

The inspection group members are monitoring detailed movements and activities by ordinary residents as well as party staff members. The surveillance group members are dispatched by the central party to each party chapter of provinces, cities and counties because there is a need for the party to check in advance whether possible commotions arise from public disapproval of Kim Jong-un's succession. The group members are also known to ferret out corruption scandals, dole out bribes in official posts.

For instance, some North Korean officials have been blamed recently for building their own houses using state-controlled building materials. Embezzlement or misappropriation of funds has become a social ill these days in North Korea as corrupt officials are often found to have embezzled money in the course of building 100,000 houses in Pyongyang as well as the Huichon Power Generation Station.

Amid the power succession campaign, North Korea in June voted in local elec-

tions to elect some 28,000 deputies to local people's assemblies as state media stepped up calls for loyalty to the WPK and leader Kim Jong-il has been trying to hand power over to his youngest son.

Though the elections are considered a formality to rubber-stamp candidates hand-picked by the ruling party, Pyongyang's main *Rodong Sinmun* newspaper said that North Koreans should support candidates so as to display the country's unity. It also said the country's revolution has been "progressing at a high level since the historic convention" of the ruling party last year.

But officials in Seoul said the succession plan was hitting snags outside the inner ruling circles, if not within. Sources within the South Korean government said Pyongyang's attempts to proclaim itself a strong and prosperous nation next year, the 100th anniversary of Kim Il-sung's birth, are going badly, as predicted. The country faces economic difficulties and international sanctions for its missile and nuclear tests.

Another factor negatively affecting the power transfer is Kim Jong-un's two older brothers, who apparently fell out of favor for reasons outsiders can only speculate about. Some experts say the Kim Jon-un's leadership will be shaky if his father dies. And there is the possibility of a power struggle among the three brothers.

Kim Jong-nam, Kim Jong-il's eldest son, had been regarded as the favorite to succeed his father up until the mid-2000s, but he reportedly fell out of favor due to his wayward lifestyle. Jong-nam is known to have lived mostly abroad, often spotted by the media in Japan, Macao and Europe.

Kim Jong-il's second son, Kim Jong-chol, born in 1981, is regarded by his father as too "girlish." His father did not give much weight to his political leadership. Jong-chol spent much of his youth in Switzerland with his younger brother, Jong-un. (Yonhap News)

Inter-Korean Trade Via Joint Industrial Zone Increases 19 Pct in H1

Trade volume between South and North Korea reached US\$825 million in the first six months of the year, up 19.5 percent compared to the same period last year, the Unification Ministry said on Aug. 1. The cross-border trade volume jumped more than 135 percent compared to the January-June period in 2009, the ministry said.

ASSESSMENTS OF KIM JONG-UN'S LEADERSHIP

North Korea has tried to use the images of its previous two leaders in order to help Kim Jong-un establish himself as the leader-in-waiting.

Less than one year after North Korea's heir apparent Kim Jong-un came to power, his leadership has received a mixed assessment from North Korea watchers in Seoul and abroad. Some people observed that his ability to lead seems to have been tarnished by consecutive failures of projects he pushed, while others had a more positive assessment of the junior Kim, saying that he has shown his leadership skills by controlling the North's military with help from his father and current North Korean leader Kim Jong-il.

Chinese Minister of Public Security Meng Jianzhu said the leadership of the North's heir apparent appeared steady during his recent visit to Pyongyang. Even though he is young, Kim Jong-un should not be looked down upon, Meng said in an interview with a Chinese newspaper after he visited North Korea from Feb. 13-15. The reorganization of the North's power structure was underway to support the leadership of Kim Jong-un, Meng added. In particular, Meng stressed that the junior Kim appeared to have seized significant power within the military on the back of Kim Jong-il.

Series of Policy Blunders

However, a series of policy blunders have dealt a blow to North Korean leader Kim Jong-il's son and heir apparent Kim Jong-un, a ruling party lawmaker in South Korea said on June 22, citing Seoul's spy chief Won Sei-hoon. The spy chief reportedly said during a closed-door session of the parliamentary intelligence committee that Kim Jong-un's "leadership has been undermined as he failed in the currency reform and built only 500 houses, though he planned to build 100,000."

Started in September 2009, the project originally aimed to construct 100,000 houses in Pyongyang by 2012, the 100th anniversary of the birth of North Korea's founder Kim Il-sung. The socialist country has reportedly pushed the project so that Kim Jong-un can have an achievement in the economic sector. But watchers in Seoul have said the North would likely need to modify the plan due to its sluggish economy.

The failure of the currency reform is another example of a policy blunder that

could hurt Kim Jong-un's authority. In late 2009, the North suddenly knocked two zeros off its currency in an attempt to curb soaring inflation. However, the measure, which was done under the leadership of Kim Jong-un, was immediately regarded as a failure because it pushed up prices and increased confusion in the market rather than ease inflationary pressure.

The North's failed currency reform sparked a backlash from citizens as it caused massive inflation and worsened economic difficulties. However, North Korea used the measure as means for expediting the third-generation power succession by Kim Jong-un, a move explained by Cho Bong-hyun, a researcher at the IBK Economic Research Institute in Seoul. The socialist country attempted the currency reform as part of its efforts to strengthen its hold on its people, according to Cho.

In a bid to conceal Kim Jong-un's failures, it is said that Kim Jong-un has become deeply involved in the socialist country's policy and security affairs starting this year. Won, the South's spy chief, also said at the parliamentary session that the North's heir apparent appears to be trying to exert his influence by taking a hard-line stance and resorting to military adventurism, such as the shelling of a front-line South Korean island.

"I understand Kim Jong-un is involved in security affairs," said a source familiar with North Korean affairs in Seoul, stressing that Kim is thought to be behind Pyongyang's demands for the return of four North Korean residents who sought asylum in South Korea in February 2011. The source also said the junior Kim is especially focused on the issue of defectors.

Skeptical Views

North Korea has intensified its crackdown on defectors to strengthen social discipline since Kim Jong-un was designated as heir apparent in September last year. Some watchers speculate that the effort to curb defectors is driven in part by North Korea's push to strengthen the junior Kim's position in its power hierarchy.

Experts in Seoul view the crackdown as an attempt to restore the North's social class system, which has been weakened by years of food shortfalls, a weak economy and energy shortages. But watchers are skeptical about the move's chances for success. "North Korea may be desperate to clamp down on defectors in an effort to tighten loosened social discipline as it tries to bolster successor Kim's power, but it will not be able to find a fundamental solution without solving the economic crisis," one of the experts said.

Another example of changes in the North's power structure is North Korea's defense chief Kim Yong-chun's weakening position in the North's hierarchy. Kim,

minister of the North's People's Armed Forces, has reportedly been sidelined as a result of the socialist country's ongoing hereditary succession process because of the rapid appearance of Kim Jong-un's supporters. The defense chief is known to have the trust of Kim Jong-il and serves as vice-chairman of the powerful NDC. "I believe Minister Kim's weakening position is due to generational conflicts and rivalries between his forces and Kim Jong-un's younger loyalists within the military," one watcher said recently.

Yoo Ho-yeol, a North Korea expert at Korea University in Seoul, said that Kim Yong-chun may be taking a step back to make way for a generational change ahead of Kim Jong-un's succession. The scenario is plausible given that Ri Yong-ho, who at 68 is almost eight years younger than Kim Yong-chun, received higher-ranking posts within the ruling Workers' Party in 2010.

It is noteworthy that Kim Jong-un's weakening authority is closely related to his insufficient charisma. In the context of North Korea's ruling system, a leader's charisma is very important. However, Kim Jong-un, who is just in his 20s and has no ruling experience, doesn't have the charisma of his grandfather Kim Il-sung and his father Kim Jong-il.

Insufficient Charisma

Accordingly, North Korea has tried to use the images of its previous two leaders in order to help Kim Jong-un establish himself as the leader-in-waiting. Immediately after the junior Kim rose almost to the top of the power hierarchy, Kim Jong-il reportedly said that he firmly believes that the commanding members of the People's Army will continue to support the leadership of the party and complete the revolutionary exploit that first began at Mt. Paektu, which symbolizes the Kim dynasty. North Korea also set up signs across the country which included the slogan "Boss Luck" to raise the junior Kim's profile as the country's next leader.

North Korean leaders also appear to have attempted to use Kim Il-sung's image to help Kim Jong-un. In the first released photos and video clips unveiling the heir apparent to the world, most watchers were astonished to see a round-faced man who resembled his late grandfather and North Korea founder Kim Il-sung.

With such an astonishing revelation, they are unsure whether the junior Kim may have undergone plastic surgery to look more like his late grandfather. An expert claimed on June 28 this year that the North's leader-in-waiting has had plastic surgery six times to look more like Kim Il-sung, while stressing that the junior Kim had the surgeries between 2007 and 2010 before he officially debuted as his father's successor in September last year. (Yonhap News)

CURRENT STATE OF KIM JONG-UN POWER SUCCESSION

It is expected that for Kim Jong-un to attract the voluntary support of the populace will prove to be a far more difficult challenge.

By Cheong Seong-Chang

(Senior Fellow of the Sejong Institute near Seoul, Korea)

Contrary to the predictions of many North Korea experts, the socialist country publicly formalized the succession structure of General Secretary Kim Jong-il's third and youngest son, Kim Jong-un, in the third conference of representative of the Workers' Party of (North) Korea (WPK) in September last year. On Sept. 27, 2010, a day ahead of the WPK conference, Kim Jong-un received the rank of four star general in the (North) Korean People's Army (KPA) and named vice chairman of the WPK Central Military Commission (CMC) at the conference, effectively placing him second-in-command of military affairs within the North Korean power hierarchy.

Afterwards, Kim Jong-un's active public appearances further cemented his new role as the North's second-in-command and heir apparent to the North Korean regime. An analysis of the public appearances of Kim Jong-un in comparison to the other top power elites of the North Korean regime in the three months following the WPK conference reveals that he had more appearances than both his uncle-in-law Jang Song-thaek, head of the WPK Administration Department, and his aunt Kim Kyong-hui, head of the WPK Light Industry Department.

Joint Rule by Kim Jong-Il and Kim Jong-un

Additionally, by assuming many of his father Kim Jong-il's traditional duties, such as the inspection of industrial facilities, the reception of foreign dignitaries, overseeing public performances, and visiting military installations, he has appeared to be actively involved in governing the affairs of state alongside his father. As such, the rise of Kim Jong-un as the heir apparent to the socialist regime reveals that North Korea is not simply a socialist state based on Stalinism but rather a unique "Absolute Sovereign Stalinist State."

In reality, the joint rule of Kim Jong-il and Kim Jong-un began the moment North Korea decided that the junior Kim would succeed the senior Kim in January 2009.

However, the activities of Kim Jong-un were not made public until his confirmation at the WPK conference in September 2010.

Beginning early 2009, Kim Jong-un began exerting influence on personnel management among the top North Korean power elite, with the support of Jang Song-thaek, director of the WPK Administration Department, and Ri Je-gang, first-vice director in charge of organization and guidance of the WPK. Additionally, with the backing of Kim Jong-gak, first-vice director of General Political Department of the People's Army, he moved to exert his control over the top military brass. Especially with his appointment as chief of the State Security Ministry in March or April of the same year, Kim Jong-un was able to effectively keep an eye on the actions of the North Korean power elite. Through these actions, North Korea was able to build a "monolithic leadership system of the heir apparent" from the very start.

By the second half of 2009, Kim Jong-un began directing national policies that did not require immediate oversight from Kim Jong-il, with the advice of Ri Je-gang and Jang Song-thaek, and received direct reports from the General Political Department of the People's Army and the public security organizations. Beginning 2010, a system was established so that virtually all reports going up to Kim Jong-il had to pass through Kim Jong-un first, and it appears that the WPK conference that year was planned under his oversight.

The third conference of the WPK was an important turning point for the public joint rule of Kim Jong-il and Kim Jong-un. Following the WPK conference, Kim Jong-il and Kim Jong-un were both seated in the first row in a picture to commemorate the occasion. On October 10 of the same year, he was publicly seen standing alongside his father in a parade to commemorate the 65th anniversary of the WPK.

Absolute Authority and Control over the Armed Forces

Likewise, after the WPK conference, the North Korean news outlets have allocated a relatively larger amount of time to coverage of the junior Kim accompanying his father on inspection tours, confirming his status as Kim Jong-il's right-hand man as well as the nation's joint ruler. Also, the news outlets began to steadily reveal details of Kim Jong-un's previously undisclosed leadership prior to the WPK conference.

For instance, on Dec. 22, 2010, the KCNA released a photograph of Kim Jong-un's guidance tour of the Huichon Youth Electric Machine Complex conducted on Dec. 20, 2008, while *Rodong Sinmun* published an article on his visit to a machine factory in Huichon on May 9, 2009, both events long before he was publicly designated as his father's successor. The equal publication of Kim Jong-il and Kim Jong-

Following the WPK conference, Kim Jong-un had solidified his position as his father's successor, advising Kim Jong-il in various public displays and promoting his own cult of personality. However, for ordinary citizens, their loyalty to the new heir apparent, while vastly varied based on geographical region, occupation, and age, is nonetheless thought to be minimal.

un's inspection tours gives insight into the fact that Kim Jong-un is now considered to be at an equal leadership position as his father. Coming into 2011, it was revealed that a monument commemorating the visit of Kim Jong-il and Kim Jong-un in April 2009 was raised at Wonsan Agricultural College, indicating that Kim Jong-un's own cult of personality is approaching the level of his father.

North Korea's succession theory dictates that the heir apparent is equivalent to the current Suryong (absolute leader) in possession of "absolute authority" and the "decisive role" in the revolutionary struggle. Therefore as Kim Jong-un was appointed successor to his father in January 2009, it can be assumed he has held absolute authority since that date.

Anticipating critical international scrutiny over the feudal three-generation succession, the North Korean media mentioned Kim Jong-un's name after those of several members of the WPK Politburo Presidium such as Kim Yong-nam, Choe Yong-rim and Ri Yong-ho in publications covering various official events immediately after the WPK conference in September 2010. However, by November 7 of the same year Kim Jong-un's name was announced immediately following his father's in the state funeral committee list of Jo Myong-rok, former first-vice chairman of the National Defense Commission (NDC). Furthermore on Feb. 16, 2011, in commemoration of Kim Jong-il's birthday, Kim Jong-un's name was announced before Ri Yong-ho, member of the Politburo Presidium and chief of the General Staff of the KPA, and starting March 7, before Choe Yong-rim, premier and member of the Politburo Presidium.

Now by openly announcing Kim Jong-un immediately after Kim Jong-il in all official events, the North Korean regime is no longer attempting to hide Kim Jong-un's status as his father's heir apparent. A new sign of Kim Jong-un's rising influence and confidence, the days when he sheltered from international criticism regarding the three-generation succession and showed deference to Politburo elders is rapidly coming to a close. On July 2, 2011, the North's official Korean

Central TV Broadcasting Station aired a reel showing Choe Thae-bok, a Politburo member of the WPK Central Committee, bowing deeply to Kim Jong-un, while implying his status among the North Korean political elite as second only to his father Kim Jong-il.

In the third party conference, the WPK Central Military Commission, in which Kim Jong-un holds the position of vice chairman, increased its authority and influence by amending the regulations of the party, thereby securing Kim Jong-un's dominance over military affairs as a matter of policy. The WPK Central Military Commission had traditionally wielded authority over armed forces command, high ranking military personnel assignments, decisions on military policy, and the war industry, but was limited in its influence as an "emergency consultation organization." However, in the conference of the WPK, the Central Military Commission was elevated to an organization responsible for the supreme standing body of the armed forces to "organize and guide every tasks over all military affairs between party congresses." With the inclusion of the KPA's top brass in the augmented Central Military Commission, Kim Jong-un has been granted the authority to directly control the North Korean armed forces.

Due to the sudden increase in the power of the WPK Central Military Commission at the third party conference, it has taken over many of the roles on behalf of the NDC, and has contributed to the declining influence of the NDC. Because of this, at the meeting between delegations from the North's NDC and Chinese People's Liberation Army held in October 2010, Ri Yong-ho, vice chairman of the WPK Central Military Commission but who holds no official position in the NDC, headed the North's delegation. Additionally, in the aftermath of the party conference, the North Korean media has announced the vice chairman of the WPK Central Military Commission before that of the NDC vice chairman, highlighting the supremacy of the Central Military Commission.

Variables for Kim Jong-un's Power Succession

Following the WPK conference, the KPA has been slowly encouraged to accommodate the command system to be controlled by Vice Chairman of the WPK Central Military Commission Kim Jong-un, who is presented to have the full support of Chief of the General Staff of the People's Army Ri Yong-ho under the approval of his father Kim Jong-il. This is opposed to the previous system in which Kim Jong-il exercised absolute control over the armed forces through his position as the Supreme Commander of the KPA.

As a result of this, in the event of the unexpected death of Kim Jong-il, Kim

Jong-un, through his position as the Vice Chairman of the WPK Central Military Commission, will be able to wield effective military power and secure his succession to political power.

Following the WPK conference, Kim Jong-un had solidified his position as his father's successor, advising Kim Jong-il in various public displays and promoting his own cult of personality. However, for ordinary citizens, their loyalty to the new heir apparent, while vastly varied based on geographical region, occupation, and age, is nonetheless thought to be minimal. Particularly, the currency reforms conducted in November 2009 severely devalued the money earned by the wealthy classes and ordinary traders through free market activities, dampening the overall economy and fomenting distrust among the populace toward the authorities.

In this atmosphere, the North Korean leadership published a joint New Year's editorial in 2010 and 2011 that promised to improve the livelihoods of the people, develop light industry and agriculture. However, as news broke in January 2010 that the South Korean government had drafted secret plans for the administrative takeover of the North in the event of a political collapse, North Korea declared a "retaliatory crusade" and launched a torpedo attack on the South Korean warship Cheonan that March.

Because of these provocations, South Korea, Japan and the U.S. strengthened their sanctions on the North, worsening conditions for its residents. The shelling of Yeonpyeong Island in November 2010, conducted after the WPK conference, highlighted the ineffective response of the South Korean government and considered a "successful mission" for Kim Jong-un's interests. However, this incident drew widespread condemnation from the international community, and saw the suspension of humanitarian aid to North Korea.

Since Kim Jong-un was picked to inherit his father's political position, he has covertly developed unprecedented economic cooperation between North Korea and China in his affirmative stance on reform and openness. Currently in 2011, the North is expanding its development of the Sinuiju region in addition to the existing Rason Special Economic Zone with Chinese assistance. While public support for Kim Jong-un may increase should he successfully open the nation to China and improve the quality of life in the North, the question lies in how much of an economic recovery he can bring about and how far this new leader is willing to suppress the North's military adventurism. Although Kim Jong-un has managed to secure the support of the North's political power elite through his effective use of the security agencies and the armed forces, it is expected that attracting the voluntary support of the populace will prove to be a far more difficult challenge. (Yonhap News)

SEEKING THE RESUMPTION OF THE SIX-PARTY TALKS

N. Korea and the U.S. held rare talks in New York in late July on how to resume the stalled six-party talks for the North's denuclearization.

By Lee Kwang-ho

After years of tension, a glimmer of hope appears on the volatile Korean Peninsula as regional powers as well as the divided Koreas are moving toward resuming the stalled six-party talks. The thawing mood for dialogue started in late July when North Korea and the United States, Cold War enemies, held rare talks in New York on how to resume the multilateral disarmament negotiations to end the North's nuclear weapons program.

North Korea's First-vice Foreign Minister Kim Kye-gwan traveled to New York at the invitation of the United States and met with Stephen Bosworth, the State Department's special representative for North Korea policy, on July 28 and 29. The Kim-Bosworth talks, the first in 19 months, were aimed at exploring ways to restart the six-party talks that also involve South Korea, China, Japan and Russia.

As North Korea's Kim described, the atmosphere was good, but Kim and Bosworth offered no details on whether substantial progress was made during the meeting held at the U.S. Mission to the United Nations. Kim called the talks

"very constructive and business-like," while Bosworth said the U.S. is open to dialogue with North Korea as long as it is serious about denuclearization.

The U.S. has tried to limit media expectations, characterizing the meetings as "exploratory and preliminary" to see if the unpredictable socialist nation is ready for full-scale dialogue on bilateral ties and denuclearization.

Kim Kye-gwan's Visit to New York

Wrapping up a weeklong stay in New York, Kim expressed satisfaction on Aug. 2 with the results of his talks with U.S. officials. Tensions between Pyongyang and Washington or between the two Koreas don't benefit either side, the North Korean diplomat said, hinting at his country's willingness to take the necessary steps. Kim also said that more bilateral meetings are needed before multilateral negotiations can resume.

In a brief statement, Bosworth stressed, "We reiterated that the path is open to North Korea toward the resumption of talks on improved relations with the United States and greater regional stability if North Korea demonstrates through its actions that it sup-

ports the resumption of the six-party process as a committed and constructive partner,” he said.

In New York, meanwhile, Kim attended a seminar on Aug. 1 with American experts on Korea, hosted by the National Committee on American Foreign Policy (NCAFP).

Despite the seemingly constructive results, the State Department would not confirm whether the U.S. agreed to have additional bilateral talks with North Korea, citing the need to consult with the other members of the six-party talks on terminating the communist nation’s nuclear weapons program. “We thought that these were good meetings, that they were constructive. And we’re going to consult with our partners on the way forward,” State Department spokesman Mark Toner said at a press briefing. But the North’s foreign ministry announced earlier that it agreed to hold additional talks with Washington.

With regard to the North’s uranium enrichment program (UEP), Toner reiterated that Pyongyang should live up to its international obligations to abandon all of its nuclear programs in exchange for economic and political benefits. Speaking to reporters in New



First-vice Foreign Minister Kim Kye-gwan talks to press as he leaves his hotel to meet with U.S. Ambassador Stephen Bosworth at the U.S. Mission to the U.N. in New York on July 28. (AFP-Yonhap Photo)

York, the North Korean first-vice foreign minister claimed its UEP is to “produce electricity.”

Pyongyang claims the uranium enrichment program is for peaceful energy development, but experts believe it will give the country a new source of fission material to make atomic bombs, in addition to its widely known plutonium-based nuclear weapons program. Also, other analysts believe the North’s revelation of potential progress toward the UEP appeared to be aimed at bolstering its bargaining position if the six-party talks resume.

The State Department spokesman gave no clear answer when asked about the U.S. position on whether further inter-Korean talks are needed in the so-called second stage of the denuclearization process.

South Korea and the U.S. have been pushing for a three-tiered approach – inter-Korean dialogue, Pyongyang-Washington talks and then the six-way nuclear talks. North Korea is also being pressured by Washington to do what it can in mending ties with Seoul, which have fallen to the worst level in decades after Pyongyang conducted two deadly attacks last year against a South Korean warship and an island near the tense western sea border.

South Korea has been softening its position toward the three-stage issue in recent weeks to keep the momentum going as North Korea and the U.S. thaw their icy relations. The issue could be solved if Pyongyang “makes a minimum gesture” to appease the South Korean public, observers say. In Seoul, a South Korean official said the recent talks between North Korea and the U.S. in New York may not immediately resolve their differences but represent a positive “first step” toward more discussions.

Pyongyang’s Peace Gestures

The official said the Kim-Bosworth meeting was “an extension” of an earlier inter-Korean meeting during a regional security forum in Indonesia. The first formal dialogue between the Pyongyang and Washington in 19 months followed rare inter-Korean dialogue on denuclearization on July 22 on the sidelines of the ASEAN (Association

of Southeast Asian Nations) Regional Forum (ARF) in Bali.

Wi Sung-lac, Seoul’s top nuclear envoy, and Ri Yong-ho, his North Korean counterpart, agreed to work together to resume the stalled multilateral talks on ending the North’s nuclear program “as soon as possible.” The inter-Korean dialogue in Bali is the fulfillment of the first of a three-stage approach being promoted by South Korea and its allies to reopen the six-party forum.

The two sides also reaffirmed their willingness to implement the Sept. 19, 2005 statement in which the North agreed to give up its nuclear program, Ri said, adding the talks were held in a “frank and serious” mood.

For the current process to move forward, Pyongyang is asked to put into action its commitment under the 2005 agreement to abandon all nuclear weapons and allow the return of outside inspectors in exchange for economic and political incentives. But the six-party talks have been stalled due to Pyongyang’s nuclear and missile tests in 2009 and U.N. sanctions on the regime.

In July 2009, the North’s No. 2 leader, Kim Yong-nam, told an international forum that the six-party talks had come to a permanent end. Until now, the North has refused to discuss its nuclear program one-on-one with South Korea as Pyongyang has so far used its nuclear weapons program as important

leverage in its efforts to improve ties with Washington.

A senior South Korean diplomat to the U.N. on Aug. 1 cautioned against hasty optimism over negotiations with North Korea. On the North's intentions behind its recent peace gestures, the official, speaking to reporters on the condition of anonymity, said Pyongyang hopes to "induce comments that recognize it as a nuclear state, or lead to interpretations as such, win recognition from many countries for a power succession, and draw investment or assistance amid economic difficulties." He said he expects the North to use a typical tactic to separate talks with the U.S. from relations with South Korea to maximize its gains. He emphasized the need for close coordination between Seoul and Washington.

Preconditions for Six-party Talks

With the recent move toward dialogue, regional powers began to make a flurry of diplomatic gestures. Kim Kye-gwan headed to Beijing for talks with the North's traditional ally, while a few days later the South Korean foreign minister Kim Sung-hwan traveled to Moscow where he met with his Russian counterpart to discuss the North Korea issue and the six-way talks.

The Chinese foreign ministry released a statement calling for an early resumption of the six-party talks. Early resumption of the talks "will benefit all sides,"

China said in the statement. "We hope to see all partners join in the effort to create the necessary conditions for immediate resumption of the talks."

U.N. Secretary-General Ban Ki-moon called the current mood positive during a meeting with South Korean reporters in New York. "What is important is that there was contact," the former South Korean foreign minister said. "The back-to-back talks will make positive contributions ... in building up trust among concerned parties in the six-way talks." Specifically, a senior South Korean official flew to Washington recently and consulted with U.S. officials on the North's possible return to the bargaining table when it is ready to present a new stance.

South Korean officials have said that the preconditions for the North's return to the talks include the return of IAEA inspectors to the nuclear facilities of the reclusive nation, a halt to its uranium enrichment program and a moratorium on nuclear and ballistic missile tests, according to diplomatic sources.

Meanwhile, Pyongyang and Washington reportedly agreed to allow the exchange of letters between families separated by the war. As many as 100,000 ethnic Koreans living in the U.S. have families in the North, according to unofficial data. Such correspondence, if realized, could pave the way for the temporary reunion of the families. (Yonhap News)

REALITY OF N. KOREA'S NUCLEAR ARMS PROGRAMS

Although estimates on North Korea's nuclear capabilities vary, most experts agree that it is now a 'fully fledged nuclear power.'

Even as North Korean First-vice Foreign Minister Kim Kye-gwan visited New York at the end of July for a meeting with U.S. State Department officials in a rare bilateral engagement between the two countries, fears continue to grow in the international community that North Korea has made significant progress in expanding its nuclear arsenal. With the promise of renewed six-party talks on the horizon, North Korea has recently attempted to downplay its nuclear capabilities, with Kim's remarks that the socialist country possesses only its publicly revealed uranium enrichment facilities in Yongbyon and no covert nuclear facilities.

However, the South Korean government and other independent organizations maintain that the North's nuclear capacity is much further developed than it officially lets on, with a high likelihood that additional covert facilities and enhanced technologies have been pursued since or even before its first nuclear test in 2006. As indications emerge of the North's growing interest in nuclear arms and its state-of-the-art facilities, it appears likely that North Korea has succeeded in converting its domestic uranium enrichment project into a viable tactical arsenal.

Nuclear Weapons Capability

Some analysts fear that the scale of North Korea's nuclear development project is an indication that the North no longer views its nuclear arsenal as a mere leverage point to blackmail the international community, but as means to an end as they seek the realization of the regime's goal to become a powerful nation by 2012. The North has pressed on with its nuclear progress at considerable financial cost and in the face of tightened economic sanctions.

While the U.S. has officially avoided recognizing North Korea as a nuclear armed state -- fearing that acknowledgement itself would lend legitimacy to its illegal development -- various estimates place North Korea's current nuclear arsenal at around five to 12 warheads. Given the current state of exacerbated tensions on the Korean Peninsula and the North's long history of shady association with "rogue nations," speculation surrounding North Korea's nuclear capabilities is drawing close attention.

Due to the secretive nature of the socialist country, very few concrete details behind its current nuclear weapons capability can be independently confirmed. However, the North Korean atomic program has been closely scrutinized since the days of the first nuclear crisis in the early 1990s, when evidence first emerged that the North was intentionally violating its commitments under the Non-Proliferation Treaty. Although the North had publically shut down its plutonium-based program with its ratification of the Geneva Agreed Framework between two countries in October 1994, evidence uncovered during the height of the Second North Korean nuclear crisis in 2002 revealed that North Korea had in fact been developing a clandestine domestic program based on Highly Enriched Uranium (HEU) for several years, with heavy foreign assistance.

Given the North's vast natural uranium reserves, the Pyongyang regime had a strong incentive to develop an alternative HEU project while its plutonium extraction facilities were under close scrutiny. Both processes can be used to build nuclear weapons, as the International Atomic Energy Agency (IAEA) estimates a minimum of either eight kilograms of plutonium or 25kg of HEU for a single functioning warhead.

North Korea's HEU technology was developed in close cooperation with Pakistan at some of the highest levels. Abdul Qadeer Khan, the founder of Pakistan's nuclear weapons program, reportedly visited North Korea 13 times in return for Pakistan's access to advanced ballistic missile technology. On July 6, *The Washington Post* reported that North Korea had transferred more than US\$3 million in bribes to Pakistani officials in order to secure nuclear weapons technology in the late 1990s.

Pyongyang's Nuclear Ambitions

North Korean officials acknowledged the HEU development effort officially when Stanford professor Siegfried Hecker visited the uranium enrichment facility in Yongbyon on Nov. 20, 2010. With Pakistani assistance, North Korea's current HEU production has become the current method of choice for nuclear weapons development, with approximately 40kg produced annually in state-of-the-art facilities. According to Olli Heinonen, former deputy director general of the IAEA, "We can expect its HEU stocks to exceed its current plutonium stockpile after three years."

With two separate tests confirming the realization of North Korea's nuclear ambitions in 2006 and 2009, a myriad of questions behind Pyongyang's current nuclear capabilities remain unresolved. Back in 2006, the low explosive yield of the first North Korean nuclear test was seen by many as an indication of its failure, with the

former French Minister of Defense Michele Alliot-Marie commenting, “If this was a nuclear explosion, it would be a case of a failed explosion.” It was widely believed at the time that North Korea largely lacked the advanced precision industries essential in fabricating a deployable warhead.

However, recent evaluations of North Korea present indications of a significantly evolved nuclear arsenal. Pyongyang now sees its nuclear arsenal as a viable alternative to its aging and cost-prohibitive conventional armed forces, seeking official recognition as a nuclear armed state from the U.S. in a manner similar to India and Pakistan.

Although estimates on North Korea’s nuclear capabilities vary, most experts agree that it is now a “fully fledged nuclear power.” Hecker estimates that North Korea possesses “four to eight” nuclear weapons with a yield of 20 kilotons, similar to the atomic weapon deployed on Nagasaki in 1945.

According to a statement released by South Korean Minister of Defense Kim Kwan-jin this June, he said that it was highly likely that the North has succeeded in manufacturing smaller and lighter warheads capable of tactical deployment, “as a number of years have passed since the 2006 and 2009 nuclear tests.” Japan’s defense white paper, published in early August, said that North Korea is believed to have secured the technology to miniaturize its nuclear weapons, a development that could theoretically enable it to mount a nuclear warhead on a missile.

It is probable that North Korea has begun research into the development of a significantly more powerful thermonuclear “hydrogen bomb,” given the three- to nine-year timeframe it took the first four world nuclear powers to transition from fission to fusion based weaponry.

Also, in terms of its deployment capability, North Korea’s new ballistic missile launch site in Tongchang-ri, located in North Pyongan Province, is nearing its final stages of completion, fueling speculation that the North has succeeded in fabricating a nuclear warhead sophisticated enough to be deployed on a long-range missile. Former U.S. Secretary of Defense Robert M. Gates warned in January 2011 that North Korea “was within five years” of building a missile capable of striking the continental U.S.

A few, such as Peter Vincent Pry, a former CIA nuclear weapons analyst, believe that the international community may be underestimating North Korea’s nuclear arsenal. He sees North Korea’s first low-yield tests not as an indication of their failure, but their success as Electromagnetic Pulse (EMP) weapons capable of disrupting electric power grids and communications hundreds of miles within their blast radius.

This would be particularly effective against the North’s densely populated neigh-

bors South Korea and Japan. Experts also maintain that a North Korean nuclear device does not require any real degree of advanced sophistication to do enormous damage, as a radioactive “dirty bomb” can be easily designed for maximum fallout damage.

With North Korea’s demonstrated nuclear capabilities, fears of international WMD proliferation are also on the rise. While the U.S. has officially removed North Korea from the list of countries that support terrorism in 2008, there are growing concerns that financially strapped, diplomatically isolated North Korea could see its nuclear technology as a potential bread basket.

According to a U.N. report released last year, North Korea had at least offered the sale of nuclear-related technologies to Syria and Myanmar, and there are concerns that given the North’s long history of black market commercial activities, that they may offer fissile material to known terrorist organizations. It has been estimated that North Korea sold over 500 ballistic missiles worldwide between 1987 and 2009, and a recent report from Japan’s *Sankei Shimbun* suggested that the North sent more than 150 nuclear- and missile-related experts to Iran in May this year. (By Bradley Cho)

N.K. Vows to Bolster Nuclear Deterrent to Cope with U.S. Threat

North Korea threatened on Aug. 17 to strengthen its nuclear deterrent as it denounced South Korea and the United States for conducting their annual military drills that Pyongyang sees as a rehearsal for invasion. The two allies kicked off the computer-aided Ulchi Freedom Guardian exercise on Aug. 16 to improve their defense posture against North Korea and simulate destroying North Korea’s weapons of mass destruction.

The North’s Foreign Affairs Ministry accused the U.S. of seeking to strip the North of its nuclear deterrent, calling the participation of a special team tasked with destroying the North’s nuclear weapons “very ill-boding.” “It is self-evident that the (North) should put spurs to bolstering its nuclear deterrent for self-defense both in quality and quantity to cope with this situation,” the Foreign Affairs Ministry said in a statement carried by the KCNA.

The statement warned of unspecified “merciless counteraction” against any U.S. attempt to do harm to the North. Still, the North also reaffirmed its commitment to keep peace and denuclearize the peninsula through dialogue and negotiations. The North, which conducted nuclear tests in 2006 and 2009, has made similar threats in recent years to boost its nuclear deterrent force in an apparent reference to its nuclear weapons programs.

N. Korean State Media Stops Slandering S. Korean President

According to an analysis of the North's reports, Pyongyang's media has not released any reports slandering President Lee since Aug. 5.

North Korea has recently stopped criticizing South Korean President Lee Myung-bak in its state media in what could be a subtle signal that Pyongyang wants to improve soured ties with Seoul.

The North drastically reduced its smear campaign against Lee before and after top nuclear envoys of the two Koreas met on the sidelines of a regional security meeting in Indonesia in July.

The North's media has not released any reports slandering President Lee since Aug. 5, according to an analysis of its reports by Yonhap News Agency.

The (North) Korean Central News Agency (KCNA) and other state media had carried more than a thousand articles from May 11 to Aug. 4, most of which accused Lee of being a "traitor."

Claiming that South Korea is aiming to slander the North's "great socialist system," the North has incessantly described President Lee as a "puppet traitor" and "the worst man in history," likening him to an animal.

The harsh words were a reminder of tension on the divided Korean Peninsula over the North's two deadly attacks on the South last year that killed 50 South Koreans.

In addition to its ceased criticism of Lee, the North went one step further on Aug. 9 by deleting the word "traitor" from a rerun of a radio broadcast first aired in June when referring to the conservative South Korean leader.

In contrast to Pyongyang's recent move, the regime had accelerated its smear campaign against President Lee from early May when the South Korean leader offered to invite his North Korean counterpart Kim Jong-il to a nuclear summit to be held in Seoul next year.

South Korea was chosen in April last year as the host for the next Nuclear Security Summit in March, a symbolic selection of a country where North Korea's nuclear defiance has presented multiple crises.

By late May, the North Korean media was slandering Lee in direct reports an average of 7.3 times per day. The North especially stepped up its harsh rhetoric, referring to Lee as "traitor" or "mad dog" starting on June 1, when the North disclosed secret contact between South and North Korean officials in China to push for an inter-Korean summit.

North Korea claimed that South Korean officials offered a cash envelope for the summit talks between Lee and Kim.

North Korea's verbal hostility against South Korea over controversial issues had grown harsher in an apparent bid to create conflicts in the South and to change its "confrontational policy" toward the North.

Pyongyang poured out a barrage of rhetoric against Seoul on such issues as the repatriation of North Korean defectors and the South's move to legislate a North Korean human rights bill.

The North has been frequently releasing warnings of "merciless retaliation" against any South Korean move to destroy its socialist system.

North Korea's rhetoric strengthened following Kim's weeklong trip to China in late May.

It also came after South Korean Marines, some military units and reserve forces were found to have used portraits of Kim Jong-il, his heir apparent, Kim Jong-un, and even his father, Kim Il-sung, as targets for shooting drills.

In June alone, the North's media poured forth a total of 504 stories slandering Lee. Also in July, the North continued badmouthing President Lee as South Korean frontline army units posted hostile slogans and placards that the North described as a "declaration of war."

But the North's harsh rhetoric began to abate from late July when nuclear envoys from the two Koreas met in Bali, Indonesia. The surprise meeting between Wi Sung-lac of South Korea and his newly appointed North Korean counterpart, Ri Yong-ho, provided a ray of hope for the future of the deadlocked six-party talks.

The meeting later paved the way for rare talks in New York between North Korea and the U.S. on how to resume long-stalled talks on ending Pyongyang's nuclear weapons programs.

North Korea's First-vice Foreign Minister Kim Kye-gwan traveled to New York at the invitation of the U.S. and met with Stephen Bosworth, the State Department's special representative for North Korea policy, on July 28 and 29. The two former Cold War enemies conducted high-level talks that both sides called "constructive."

On Aug. 8, the North also left out specific mention of Lee in its open letter to the U.S. and South Korea to cancel their annual joint military exercise in the mid-August, linking the proposed move to better relations with Seoul and Washington.

The move comes as South Korea and the U.S. prepare to mobilize tens of thousands of troops in a computer simulated war game to enhance their ability to deter possible North Korean aggression.

The two sides also plan to practice removing North Korean weapons of mass destruction during the Ulchi Freedom Guardian exercise set to run from Aug. 16 to 26, according to a South Korean official. (Yonhap News)

<Internal Affairs>

20 Million Tons of Rare Earth Minerals Buried in N. Korea

About 20 million tons of rare earth minerals have been found buried in North Korea, a pro-North Korean newspaper said on July 23, as the cash-strapped nation is working on developing the materials for economic growth.

Choson Sinbo said in a report datelined Pyongyang that the North has promoted its national resource development agency as part of efforts to launch a rare earth development project in a full scale.

According to resource development senior officials, the amount of rare earth buried in the North amounts to approximately 20 million tons.

Estimates on the amount could rise if the current digging work finds new burial grounds or more elements deeper in existing sites, said the Tokyo-based paper, which serves as a channel for Pyongyang to deliver messages.

So far, no exact amount of rare earth deposits in the reclusive socialist nation has been confirmed.

The largest burial deposit was discovered in North Phyongan Province, the newspaper said, while the rest of the elements were distributed in the southern and northern parts of the nation.

The North is working on using the rare earth minerals in manufacturing industries and is considering joint projects with other nations, Kim Heung-joo, a vice chief of the state-run resource development agency, was quoted as saying by the newspaper.

The government will put limits on its output and exports of rare earth materials, Kim added.

Rare earth minerals are compounds of rare earth metals, including cerium and neodymium, which are used as a crucial element in semiconductors, cars, computers and other advanced technology areas. Some types of rare earth materials can be used to build missiles. (Yonhap News)

Candidates Win 100 Pct Approval in N.K. Local Elections

North Koreans voted for all candidates in local elections on July 24, the country's official news agency said July 26, the latest reminder that the polls are a formality in the socialist country.

The (North) Korean Central News Agency (KCNA) said 99.97 percent of all registered voters voted for a total of 28,116 candidates for deputies in people's assemblies across the country.

In North Korean elections, turnout is usually near 100 percent and candidates, hand-picked by the ruling party, are elected with absolute support.

North Korean leader Kim Jong-il also cast his ballot at a polling station in Pyongyang, along with his heir-apparent son Kim Jong-un and a senior party official, according to the KCNA.

Earlier on July 24, North Koreans voted in local elections as state media stepped up calls for loyalty to the ruling Workers' Party and leader Kim Jong-il as the totalitarian leader has been trying to hand power over to his youngest son.

Kim cast his ballot at a polling station in Pyongyang, along with his heir-apparent son Kim Jong-un and a senior party official, according to the KCNA. Kim met with candidates at the station and asked them to sincerely carry out their duties, KCNA said.

About 28,000 deputies to local people's assemblies are expected to be selected in the vote, though the elections are considered a formality to rubber-stamp candidates hand-picked by the ruling party. In North Korean elections, turnout is usually near 100 percent and candidates are elected with absolute support.

The KCNA said 99.97 percent of voters except those on foreign tours or working in oceans cast their votes.

Local elections are held every four years. About 27,390 deputies were elected in 2007.

Voting stations were crowded with colorfully dressed people even before polls opened, with percussion bands staging performances in a festive mood, KCNA said. As of noon, turnout was 84.66 percent, it said.

Pyongyang's main *Rodong Sinmun* newspaper said in an editorial that North Koreans should support candidates so as to display the country is united around the party.

It also said the country's revolution has been "progressing at a high level since the historic convention" of the ruling party, referring to the Workers' Party convention held in September last year where leader Kim's youngest son, Jong-un, was elected to key party posts.

The convention marked the first time the North has unveiled the son as the heir-apparent to the family dynasty. The succession would mark communism's second hereditary power transfer. The elder Kim inherited power from his father, the country's founder Kim Il-sung, who died in 1994. (Yonhap News)

North Korea Enacts Environment Protection Regulations

North Korea has enacted enforcement ordinances for an environment protection law to improve its citizens' health and provide better living conditions, the North's news outlet said on July 26.

"The Cabinet of the Democratic People's Republic of Korea (DPRK, North Korea) recently released a decision on enacting regulations for the implementation of the Law on the Protection of Environment," the KCNA said.

The regulations are aimed to "improve the people's health and provide them with better living and working conditions," the news agency added.

According to the KCNA, the regulations consist of four chapters and 60 articles, which stipulate the principle of environmental protection and guidelines for preventing environmental pollution.

The previous regulations for the environment protection law, which were endorsed by the Cabinet in October 1999, have become invalid after the enactment of the new regulations, the KCNA said. (Yonhap News)

North Korea Kicks off Arirang Festival in Pyongyang

North Korea said it has started a massive dance and gymnastics extravaganza in an apparent bid to highlight unity as the country is struggling to recover from a recent deadly typhoon and heavy rain.

The Arirang Festival opened with a huge sea of cheers at May Day Stadium in Pyongyang on Aug. 1 evening, just hours after the North announced that gusting winds and flash floods had left dozens of people dead or injured.

The typhoon and heavy downpours also destroyed 2,900 homes across the country and submerged or washed away nearly 60,000 hectares of farmland, a development that has apparently dampened the festive mood.

Still, the North's Culture Minister An Tong-chun said in a speech at the stadium that "Arirang would instill fresh energy and courage into the servicepersons and people, and demonstrate the appearance of singlemindedly united socialist Korea," according to the KCNA.

Senior North Korean officials, including Vice Premier Kang Nung-su, and foreign guests watched what the KCNA described as fantastic scenes of fascinating art in three-dimensional space.

The festival features tens of thousands of young gymnasts performing synchronized acrobatics, dances and flip-card mosaic animations in what is believed to be

the largest gymnastics show in the world.

The performance, named after a famous Korean folk song, has been held almost annually since 2002, when it debuted to celebrate the 90th birthday of North Korea's late founder, Kim Il-sung, the father of the country's current leader, Kim Jong-il.

"The performers made a grand epic representation of the exploits President Kim Il-sung and leader Kim Jong-il performed" for the country, the KCNA said in a dispatch on Aug. 1 night.

According to the North's news media, the grand gymnastic and artistic performance "Arirang" consists of eight chapters and nineteen scenes.

The festival has been a constant subject of outside criticism as it mobilizes young children for rigid training without providing them with sufficient nutrition.

Critics also say the show is a propaganda tool to extol leader Kim Jong-il, who runs a massive cult of personality around his family.

In 2000, Kim watched a massive performance with then-U.S. Secretary of State Madeleine Albright, and its highlight was a giant mosaic displaying a soaring rocket.

Kim reportedly told Albright, "This will be our last missile," though the North test-fired ballistic missiles later in 2006 and 2009.

The massive event is set to run until Sept. 9, according to the KCNA. (Yonhap News)

Kim Jong-il's Sister Accompanies Leader on Inspection Trip

Kim Kyong-hui, the only known sister of North Korean leader Kim Jong-il, accompanied her brother on a recent inspection trip to a chemical factory, the North's media said on Aug. 8.

It was her first public appearance in two months following reports in South Korea that she was sick. A South Korean tourist spotted her at a Moscow airport in early June, walking with a slight stoop, according to an intelligence source in Seoul.

On Aug. 8, the KCNA said the 65-year-old sister accompanied her brother on an inspection visit to the Feb. 8 Vinalon Complex, a chemical textile factory. She currently heads the ruling Workers' Party's light industry department.

She and her husband, Jang Song-thaek, a key party member, are known to be big supporters of the leader's third son and heir-apparent Kim Jong-un in the ongoing hereditary succession process.

North Korea touts vinalon, a synthetic fiber, as the material of “Juche,” or the country’s primary ideology of self-reliance. (Yonhap News)

Typhoon Muifa Causes Casualties, Damages in North Korea

More than 10 people were killed or injured in North Korea after typhoon Muifa pounded the country’s western coastal regions, the North’s media reported on Aug. 9.

The killer typhoon cut a large swath of destruction as it traveled across North Korea after making landfall on the country’s west coast, the KCNA said.

Downpours submerged many homes and destroyed an estimated 1,000 hectares of crop and toppled 1,000 roadside trees in North Hwanghae Province, said the report, monitored in Seoul.

Heavy property damage was also reported in adjacent South Hwanghae Province where more than 100 houses and 10 public buildings were destroyed, the report said. Some areas were left without electricity.

North Korean state media had earlier reported that heavy downpours in recent weeks left dozens of people dead and wreaked havoc across the country.

Last week, South Korea offered North Korea 5 billion won (US\$4.6 million) in emergency relief aid, but turned down the communist state’s request to provide food, cement and heavy construction equipment. (Yonhap News)

North Korea Launches New Commuter Ferry in Taedong River

Fresh commuter ferry services in the Taedong River that launched in mid-June have gained popularity among Pyongyang citizens, the North’s media said on Aug. 9.

The ferry between Tongan-dong, Central District, and Jongbaek 1-dong, Rakrang District, was named Passenger Boat No. 37, Radio Pyongyang, a North Korean broadcaster for foreign countries, said.

“The commuter ferry services have gained popularity among citizens in Pyongyang though the services are still quite new,” said Jong Jong-hwa, captain of the commuter ferry, in an interview with the broadcasting station.

She also said the ferry services cut travel time between the two areas.

The ferry can accommodate up to about 60 and runs from 10 a.m. to 5 p.m., the station added.

North Korea has been operating other commuter ferries in the Taedong River, which runs through the capital of Pyongyang, since the mid 1980s, according to the North's accounts.

The North's news outlets claimed that about 5,000 commuters per day in Pyongyang have used the ferry services. (Yonhap News)

N.K. Stresses Generation-to-Generation Loyalty on Liberation Day

North Korea on Aug. 15 emphasized its late founder Kim Il-sung's role in Korea's liberation from Japanese colonial rule, in a move to induce citizens' loyalty to current leader Kim Jong-il and his heir apparent Kim Jong-un.

In an editorial to mark the 66th anniversary of Korea's independence from the 1910-45 Japanese colonial rule, *Rodong Sinmun*, newspaper of the North's ruling Workers' Party, said, "Today is a day when the origin of the socialist (North) Korea starts" thanks to Kim Il-sung's anti-Japanese activities. "Our country is the (North) Korea of Kim Il-sung and the nation of Kim Il-sung."

Stressing the importance of current leader's Kim Jong-il's military-first politics, the newspaper said the North Korean leader keep the wishes of his father Kim Il-sung for a liberalized country on his mind. The country's military-first politics means that the military should be prioritized by all sectors in the North.

By employing phrases like "the revolutionary tradition of Mt. Paektu" and "succeeding the lifeline of the socialist (North) Korea," when lauding hereditary power succession, *Rodong Sinmun* also stressed indirectly the need for loyalty from one generation to the other, specifically for Kim Il-sung and Kim Jong-il as well as heir apparent Kim Jong-un.

Meanwhile, North Korean leader Kim Jong-il and Dmitri Anatoliyevich Medvedev, president of the Russian Federation, exchanged congratulatory messages on the 66th anniversary of Korea's liberation.

"I wish you success in your work, convinced that the relations between the DPRK (North Korea) and the Russian Federation will develop in line with the common interests and desire of the peoples of the two countries," Kim Jong-il said in the message released by the KCNA.

On the same day, the KCNA reported that Medvedev said in his message, "We have willingness to boost cooperation with the DPRK in all directions of mutual concern including a three-party plan encompassing Russia, the DPRK and the Republic of Korea (South Korea) in the fields of gasification, energy and railway construction." (Yonhap News)

<External Affairs>

North Korea, Syria Ink Economic Deals in Four Sectors

North Korea and Syria have recently signed agreements to further cooperate in the sectors of trade, information, economy and science, according to North Korean and Syrian news outlets.

The Syrian Arab News Agency (SANA) said on July 15 that the two countries on July 14 signed agreements to promote mutual cooperation in major sectors, without elaborating on details of the agreements.

Earlier, the KCNA said on July 9 that a North Korean government economic delegation led by Ri Ryong-nam, minister of Foreign Trade, left Pyongyang for Syria to take part in the seventh meeting of the North Korea-Syria Joint Economic Committee held in Damascus, the capital of the Middle Eastern country.

In another dispatch on July 17, the KCNA said Ri and his party paid a courtesy call on Syrian Prime Minister Adel Shaffar on July 14.

During the meeting, Shaffar expressed “the expectation that the bilateral ties would further develop through the meeting of the joint committee,” the KCNA added.

According to SANA, Ri stressed that North Korea will support the measures of the Syrian government for national stability and security in a ceremony to sign the agreements.

North Korea set up diplomatic relations with Syria in 1966. The two countries held the first meeting of the bilateral joint economic committee in April 1993. (Yonhap News)

North Korea Slams Obama’s Meeting with Dalai Lama

North Korea on July 18 slammed U.S. President Barack Obama’s meeting with Tibetan spiritual leader Dalai Lama as an act that has “interfered with China’s internal affairs” and caused conflicts between China-American relations.

“It is apparent that the Dalai Lama tried to raise his personal profile by negotiating with senior American politicians to win support for his separatist line,” the North’s main newspaper, *Rodong Sinmun*, said in an editorial.

The report carried by the KCNA echoed a Chinese statement that criticized Obama’s meeting on July 16 with the Nobel Peace Prize laureate, warning it could

hurt relations between the two countries.

The Tibetan leader, branded by China as a separatist, was in Washington from July 5-16 for a Buddhist ritual and meetings with U.S. political leaders, including House Speaker John Boehner.

“By inviting the Dalai Lama to its country and inciting Tibetan independence, the U.S. is continuing an anti-China scheme, interfering with China’s internal affairs,” the paper said, reflecting the stance of China, the sole major ally of the impoverished North. (Yonhap News)

North Korea Blasts Japan for Fresh Provocation over Dokdo

North Korea on July 20 blasted Japan for what it said was a scheme to lay claims to the South Korean islets of Dokdo, days after a group of Japanese lawmakers announced it will visit the nearby island of Ulleung.

In a commentary carried by the North’s official Web site, Uriminzokkiri, the communist state warned against inaction, saying Dokdo was a treasure of the Korean people that should be passed down for generations.

South Korea’s easternmost islets of Dokdo have long been a major thorn in relations between Seoul and Tokyo, as the latter periodically renews its territorial claims, often in school textbooks.

“We are determined to take 1,000 times our people’s revenge for Japan’s reactionary moves, which, far from apologizing or compensating for the immeasurable unhappiness and pain inflicted upon our people, only scheme to take away our land,” the commentary said.

The Koreas reject Japan’s claims to the islets as nonsense, saying they reclaimed sovereignty over their territory at the end of Tokyo’s 1910-45 colonial rule of the peninsula.

“The entire people must unite to resolutely crush the scheme to seize Dokdo, in order that the Japanese reactionaries may never again set sight on our land. This is our generation’s demand and the call of the people,” the commentary said.

The remarks came five days after four lawmakers of Japan’s conservative opposition Liberal Democratic Party announced that they will visit Ulleung Island, sandwiched between South Korea’s east coast and Dokdo, in early August.

The announcement, coupled with the Japanese foreign ministry’s recent instructions to avoid Korean Air flights, caused a furore in Seoul, with South Korean Prime Minister Kim Hwang-sik on Tuesday expressing “deep regret” over the double move.

Japan's foreign ministry officials were told to refrain from taking Korean Air flights for one month starting this Monday to protest the airline's special flight over Dokdo in mid-June.

The lawmakers have already booked their flight to Seoul on Aug. 1 and plan to return home three days later, a source told Yonhap News Agency on the condition of anonymity. The group had said it will visit Ulleung Island from Aug. 2-3 during its four-day stay in the country. (Yonhap News)

Chinese Navy Flotilla Makes 4-Day Visit to North Korea

A flotilla of exercise warships of the Chinese People's Liberation Army (CPLA) Navy made a four-day goodwill visit to North Korea from Aug. 4-8, its first in 15 years, according to the North's media.

The flotilla, which consists of the exercise warship Zheng He and its escort warship Luo Yang, came into the port city of Wonsan in Kangwon Province on Aug. 4, the KCNA said.

The flotilla's visit was meant to mark the 50th anniversary of the conclusion of the North Korea-China treaty of friendship, cooperation and mutual assistance, the KCNA said.

The same day, the Navy Command of the (North) Korean People's Army (KPA) gave a reception for the sailors of the Chinese flotilla led by Vice Admiral Tian Zhong, commander of the North Sea Fleet of the CPLA Navy in Wonsan, with Admiral Jong Myong-do, commander of the KPA Navy, and Yom Pong-jin, chief secretary of the Wonsan City Committee of the North's ruling Workers' Party, in attendance.

In a speech made at the reception, KPA Major General Kim Myong-sik said, "The flotilla's visit to the DPRK (North Korea) marks a significant occasion in developing the traditional DPRK-China friendship and cooperative relations between the navies of the two countries onto a new stage."

Vice Admiral Tian said the flotilla's visit to North Korea "is aimed at contributing to developing friendly relations between the two countries."

While in Wonsan, the Chinese naval officers and sailors met with Vice Minister of the People's Armed Forces Pak Jae-gyong and watched a performance staged by the Song and Dance Ensemble of the KPA Navy at Kalma Theatre in Wonsan on Aug. 6.

On Aug. 7, the flotilla hosted a reception aboard the training ship Zheng He for senior North Korean officials from the party and the military, the KCNA said. (Yonhap News)

N. Korea Considering Family Reunions for Korean-Americans

North Korea said on Aug. 11 it is considering holding a reunion of Korean-Americans with family members they left behind in the North decades ago, a rare conciliatory gesture toward Washington.

North Korea's "Red Cross Society is positively examining the issue from a humanitarian viewpoint" in response to recent U.S. proposals for talks to discuss the reunion of separated families, a spokesman for North Korea's Ministry of Foreign Affairs said.

"If both sides promote cooperation, beginning with such humanitarian issues, it will help build mutual confidence required for solving complicated problems in the future," he said in a comment carried by the KCNA.

The comment came days after the U.S. State Department expressed support for family-to-family contacts between Korean-Americans and their relatives in the isolated socialist country.

Millions of Koreans have been separated from their family members since the 1950-53 Korean War ended in a truce, not a peace treaty. (Yonhap News)

N. Korea Blasts U.S. Support of Japanese Name for East Sea

North Korea blasted the United States on Aug. 14 for using Tokyo's name for the body of water between the Korean Peninsula and Japan instead of Seoul's preferred appellation.

South Korea has recently stepped up its campaign to have the international community recognize the waters as the East Sea, following revelations that the U.S. advised the International Hydrographic Organization to keep the name "Sea of Japan."

Koreans argue that both names should be used concurrently for now, as the name Sea of Japan was unfairly established during Tokyo's 1910-45 colonial rule of the Korean Peninsula.

In a commentary carried by the North's official website, Uriminzokkiri, North Korea said the U.S. position is "a heinous act that evokes national anger" and encourages "Japan's distortions of history and reinvasion scheme."

The socialist country also accused the South Korean government of considering the issue a low-priority matter, saying it was "not standing up for itself and keeping a humiliating stance." (Yonhap News)

Seoul Expresses Regret of N.K.'s Actions over Mt. Kungang Resort

South Korea quickly expressed deep regret as North Korea said it will dispose of South Korean assets at the Mount Kungang resort, a development that is likely to further worsen the already frayed ties between the two countries.

The Unification Ministry in Seoul, which handles inter-Korean affairs, said on July 29 that North Korea delivered a notice that it will dispose of the South Korean assets at its scenic mountain resort in the coming week.

The move came hours after South Korea urged North Korea to agree to talks aimed at resolving the dispute over the assets for the stalled joint tour programs at Mount Kungang.

Pyongyang has threatened to dispose of the assets unless South Korean business representatives join an international tour program for the resort under the North's new law.

North Korea told the South in messages that it was compelled to take unspecified steps to dispose of the assets beginning on July 29 and that the business representatives can visit the resort in the next three weeks to consult on how to handle their assets, the Unification Ministry said.

The North said the business representatives can either join the international tour program or lease, transfer or sell their assets by visiting the resort during the next three weeks. Otherwise, the North will dispose of the assets.

The Unification Ministry warned that the North will be held accountable for all consequences resulting from its disposal of the assets, estimated to be worth about 300 billion won (US\$284 million).

"The government will explore every legal and diplomatic means available to protect the property rights of our companies," ministry spokesman Chun Hae-sung said in a press release.

South Korea had invested tens of millions of dollars in building hotels, restaurants and a golf course at the resort since 1998 when the North opened it for South Korean tourists. The cross-border project was once hailed as a key symbol of inter-Korean reconciliation after decades of enmity.

However, Seoul halted the tour programs in 2008 following the shooting death of a South Korean female tourist at the resort, stripping the North of a key source of much-needed hard currency.

Earlier this year, the North announced a law designed to develop the resort as a special zone for international tours after unilaterally terminating exclusive tourism rights for Hyundai Asan, a key South Korean tour operator at the resort. (Yonhap News)

S. Korea Returns Fire After N.K. Shell Falls near NLL

South Korea fired three shots toward the tense western sea border after one North Korean shell apparently fell near there, the military here said on Aug. 10.

The Joint Chiefs of Staff (JCS) said the South's Navy heard North Korea fire three artillery shots toward the Northern Limit Line (NLL) around 1 p.m. on Aug. 10, and then responded around 2 p.m. with three warning shots.

"We estimated that one North Korean shell dropped near the NLL," a JCS official said. "We haven't noticed any particular movements in the North Korean military but we're maintaining a defense posture."

The official said the North Korean shots appeared to have come from Yongmae Island, about 11 kilometers north of the NLL and some 20km northeast of Yeonpyeong Island. The South's warnings shots were launched from Yeonpyeong, the official said.

The official explained that the South took its time to assess the situation before firing warning shots.

"If we had sustained any damage or if the shots had landed near our vessel, then we would've responded immediately," the official said. "But the shot appeared to have fallen near the NLL, and we directed our warning shots toward the line."

Another JCS official said it was difficult to determine whether the North's Korean shell had actually crossed the NLL because of the lack of visibility in the Yellow Sea.

Meanwhile, North Korea said on Aug. 11 that its military did not fire artillery shots in the West Sea, claiming that the South Korean military was disseminating false reports.

"The South Korean military warmongers spread misinformation that the army of the DPRK (North Korea) perpetrated a shelling provocation," the North's official Korean Central News Agency (KCNA) said, quoting Pyongyang's head delegate to the inter-Korean military working-level talks.

As a basis for misinformation, the KCNA said, "There was normal blasting in the area of South Hwanghae Province close to the five islands in the West Sea of Korea on Aug. 10 as part of the brisk construction of a gigantic object aimed at improving the people's standard of living."

Last November, North Korea shelled Yeonpyeong Island, killing two civilians and two Marines. It was the North's first attack aimed at South Korean territory since the end of the 1950-53 Korean War, and its second deadly provocation against the South in 2010. (Yonhap News)

THE MARKETIZATION OF THE NORTH KOREAN ECONOMY: A FOCUS ON THE COMMODITY AND DISTRIBUTION SECTORS

I. Introduction

Under the “July 1 Economic Management Improvement Measure” in 2002, North Korea embraced limited market mechanisms that have become part of the country’s formal planned economy. The regime created “general markets” (jonghap sijang) and undertook economic and corporate reforms, bringing about significant changes in market economic activities through enterprises and individuals. What has become known so far about North Korea’s marketization, however, is just the kinds of trading taking place in markets and the regime’s sporadic attempts to curb them.

There appears to have been remarkable progress in marketization in North Korea’s commerce and distribution sectors. But it is very difficult to gauge how much of this sector has been marketized due to a lack of credible information on how much private markets account for North Korea’s state-directed commerce and distribution sectors.

It is more difficult to assess marketization in the country’s production sector with a lack of reliable and verifiable data, too. This study addresses the marketization of the North Korean economy in the commodity and distribution sectors. It focuses on changes in policies and institutions that have affected marketization and patterns of economic participants responding to those changes.

By Choi Soo-young,

*Senior Research Fellow,
Korea Institute for National
Unification in Seoul, Korea*

II. The Institutionalization of the Market

1. Evolution of Consumer Goods Market

Until the early 1990s, North Korea periodically alternated between strengthening and softening state control over the farmers markets (*nongmin sijang*) that it considered to be a supplementary element in maintaining national distribution networks led by state-run stores. The farmers markets were just selling points for limited items such as foodstuffs and small basic necessities. During the “Arduous March” in the mid-1990s, however, the farmers markets grew into a place where almost all items were available, including grain and industrial products, which the regime had forbidden.

With the breakdown of the public distribution system in the wake of the famine in the mid-1990s, markets became the principal means of subsistence among North Korean people. Starving people turned to private markets to make up for shortages of food and basic necessities, and the regime, unable to adequately feed them, tolerated the spread of markets.

As markets sprang up across the country, the central authorities put them together and compartmentalized them for easy control, while placing administrators and police in marketplaces for taxation, management and surveillance. Stalls within the markets were staffed only by those authorized by authorities, called “market

sellers.” In this course, farmers markets underwent fundamental changes and turned from simple and quick open-air gatherings of traders in street-level markets into advanced markets with permanent booths and substantial structures, with most having a brick wall.

The critical momentum for expansion of private markets came with the July 1, 2002, reform packages that gave markets official status, while easing the country’s heavily centralized policymaking process and introducing some market-oriented and competition elements. But restrictions on markets and private economic activities followed the reform measure years later, shutting markets down in a bid to reassert the primacy of the central distribution system. In a bid to address public grievances about short supply caused by market crackdowns, the regime sought to import more consumer goods from China, but this measure was short-lived due to fiscal restraints. As a result, people once again flocked to markets and trade was reactivated.

In March 2003, North Korea came up with a groundbreaking measure that transformed farmers markets into legally sanctioned “general markets” that handle a much broader range of items in an apparent bid to place unofficial market activities under state control.¹⁾ The regime described the opening of the general markets as a “symbolic incident that showed the depth and width” of the July 1 reform measure.²⁾

Under the 2003 measure, the authorities designated where a market should be

located and how many stalls should be installed on the basis of the city's size and population. The government built market buildings and leased stalls and booths there to public entities and individuals. Almost all items were allowed to be traded in the general markets, except key national items such as military supplies. Prices were set by the market principle of supply and demand, with price ceilings set for key daily necessities such as rice, shoes and soap. Prices were generally set by haggling.

The central authorities actively intervened in the newly authorized general markets and tried to arrange administrative structures to monitor and govern them. Every market was divided into different sections, each selling a certain kind of item, such as rice, vegetables and fisheries products. Stalls were numbered to ease administrative tasks. Market sellers wore armbands in different colors to indicate which goods they traded. They wore clothes and caps with the designated color to differentiate themselves from non-market sellers.

In particular, the authorities focused their efforts on tax collection in order to boost state revenues, which were to be used to buttress and revitalize the formal state sector of the economy. The authorities levied "fees for marketplace use" from stall holders in addition to income taxes of "payment to state" from market traders.

But since 2006, the regime has tried to reestablish state control over the sprawling markets. The Workers' Party Central Committee issued a decree in October

2007 calling markets a "den of non-socialism that must be abolished." In January 2009, the government issued a notice that the permanent general markets would revert back to being farmers markets.

Despite the strong anti-market measures, they have grown remarkably. Marketplaces have installed roofs and stalls so that one building houses the entire trading space, much like big discount stores in South Korea and elsewhere. Stores for items unavailable on the general market have also appeared in North Korea. This change happened under North Korean leader Kim Jong-Il's 2007 instruction on markets.

2. The Emergence of Industrial Markets

Until the early 2000s, North Korea had no markets for industrial goods, which are products that companies purchase to make other products. This is because the state was supposed to provide all necessary materials for production to every enterprise under the centralized planned system. But the central distribution mechanism was ineffective during the country's worst economic crisis in the mid-1990s, and the state could not supply materials needed to keep factories running. Against this backdrop, North Korea began to allow in October 2001 the "socialist market for goods exchanges" that could trade industrial goods.

In a statement made on Oct. 3, 2001, North Korean leader Kim Jong-il said: "The socialist market for goods exchanges is necessary as a supplementary tool to

acquire materials on the basis of supply of materials and production under central planning."³⁾ Under Kim's instruction, factories were allowed to trade part of what they produced at the market to acquire raw materials to keep production going. All transactions in the socialist market for goods exchanges required permission from the authorities and took place through barter with cash payment prohibited. But the authorities largely turned a blind eye to cash transactions to help enterprises get more industrial goods at the market. Prices of industrial goods were set by bargaining between buyers and suppliers.

The markets for imported goods appeared in 2005 as another form of industrial market in North Korea.⁴⁾ Among them, Potonggang Market was established in June 2005 jointly with China to provide imported industrial goods to North Korean manufacturers. According to the *Choson Sinbo*, the Tokyo-based pro-Pyongyang newspaper seen as the mouthpiece of North Korea, the Potonggang Market offered a variety of imported industrial items, such as construction materials, chemical goods, rubber, machinery and fertilizer, effectively serving as an industrial market for North Korean manufacturers.⁵⁾ The Potonggang Market had subsidiaries in major cities, such as Wonsan, Hungnam, Chongjin and Nampho. Payment could be made in the form of cash and bank transfers as well as bartering.

III. The Marketization of the Commerce and Distribution Sectors

1. Market Goods and Their Source

The legally sanctioned general markets were allowed to trade diverse types of goods, including domestically manufactured goods and imported commodities, except key state distribution items selected by the Commerce Ministry. Worth noting is that the authorities did not care where market goods came from, according to accounts from North Korean defectors.⁶⁾ The North's commercial law revised in June 2006 stipulates that authorities will not ask to see market sellers' identification or inquire about the origin of market goods. The regime appears more focused on facilitating supply and distribution of merchandise through markets rather than tracing the origins of what's being sold.

Thanks to the loose watch, the general markets have been able to trade a wide range of items ranging from agricultural goods, industrial products, electronic devices, furniture and medical supplies, among others. The regime had a list of banned items, but almost all of them appeared at general markets by March 15, 2009.

A majority of goods traded at the general markets is considered to have come from China, with North Korean defectors putting estimates at 70 to 80 percent. In the case of industrial products, nearly all items were made in China, they say. The

Chinese goods sold in the North Korean markets were largely imported via informal border trading by vendors offering consumer goods. Domestic offerings include mundane items such as clothes, soap, shoes and stationery items such as pencils, most of which come from households, according to their testimonies.

2. Growth of Private Business

Before the general markets were introduced in North Korea, private business activities were forbidden. But the legally sanctioned general markets motivated individuals to pursue private profits through brisk business activities. Whereas the previous farmers markets were mainly used as a means of subsistence by North Koreans, the general markets have become a place where participants seek to make private profits and manage to accumulate personal wealth.

As individually made items were permitted to be traded at the general markets under Cabinet Decree No. 24, residents struggled to make whatever they could to sell at market. In the past, individuals made snacks, bread and candies for sale in farmers markers. But with the emergence of the general markets, they moved onto more profitable items such as clothes, hats and footwear. Individuals gradually sought to produce in larger quantities for bigger profits and lease equipment and facilities from factories and enterprise for increased output. This means that because individuals thought they could sell homemade items at mar-

ket, they were actively engaged in private activities to make money. As a result, more and more people have been engaged in private production and private sales for private profits through private markets.

However, people could hardly expand their private market activities without breaking laws because individuals were not allowed to possess means of production. That's why individuals paid fees to use the names of public entities to use their means of production and launch economic activities in areas in which they didn't have access as individuals. Through brisk market activities, some residents gained big money.

In North Korea, wealthy individuals are called "donju" (money holder). Some of these so-called donju run restaurants, shops, karaoke bars and computer cafes under the name of public entities. Some individuals were involved in foreign trade under the borrowed name of legitimate organizations and earned big money. The wealthy individuals usually bribe police and officials, which made it unlikely for the regime to launch massive crackdowns on illegal private economic activities.

3. The Marketization of State Stores and Diversification of Distribution Channels

The fundamental problem of North Korea's state-run stores, which have served as the main national distribution channels, is a constant lack of supply. Thus, they have failed to stock their shelves with goods for sale. The supply

problem of state shops further worsened with the emergence of the general markets stuffed with goods for trade. Ill-supplied state shops could not attract customers despite their slightly lower prices, which the state set artificially. Therefore, state stores were increasingly eclipsed by private markets.

In the face of this challenge, the regime applied market prices at state shops to attract more goods, and leased part of the stores to public entities, such as social organizations, enterprises and trading companies, and levied fees from them. The public shops usually have contracts with producers to secure stable supplies. The result is that state-dominated distribution networks were diversified with the emergence of public-run shops as well as the general markets. The public stores offered dual pricing, applying state-set prices to goods produced under state planning. The other goods are subject to contract prices reached between the shops and producers, usually at the same level of market prices.

In another effort to invigorate troubled state-run stores, the regime allowed them to sell imported goods in late 2003, and let trading firms supply imported goods to designated state shops to help them ensure stable supplies. Prices of imported goods offered by state shops were a little lower than market prices. State stores could not offer much lower prices than those in the market for fear that trading companies would shun providing goods to state shops and instead supply private markets at higher prices.

Since the July 1, 2011, reform package, the role of commerce in North Korea has been converted from “rationing to the people” to “distribution and sale of goods,” and markets have been authorized as a legal means of commodity distribution, which weakened the role of state stores. To survive these changed circumstances, some state-run shops also adopted a new supply method based on contracts with producers to ensure stable supplies of goods. The remaining state stores introduced some market functions, which facilitated marketization of the state-guided distribution mechanism.

The Cabinet decrees on the general markets also stipulated establishment and operation of wholesale markets. The rule calls for wholesale markets to use cash to purchase goods produced by state enterprises and individuals as well as imported items from trading firms, and hand them over to retail merchants in the general markets. As commodity demand from the general markets increased, wholesale markets were created in several places in the country. For example, the Sunam Market in the city of Chongjin on the eastern coast served as a major trading hub for Chinese goods that came through the Rason area, the North’s special economic zone on the border with China and Russia.

Another wholesale market, Pyongsong, on the outskirts of Pyongyang, has served as a gateway to the capital. Traders who weren’t allowed into the restricted capital gathered in the Pyongsong Market where they made deals with merchants from

Pyongyang. Some of the main items traded in the Pyongsong Market included imported home appliances and light industry goods, while the Sunam Market traded mainly fisheries products. A wholesale market in Musan and Hyesan, both on the border with China, handles herbs and metal products. As commerce and distribution were also opened to foreign investors, the North Korean regime pushed to build department stores and shopping centers in major cities including Pyongyang and Chongjin, jointly with overseas partners from China and Russia, among other countries. In addition, 24/7 convenience stores and wholesale shops for special items opened in North Korea, targeted for the emerging wealthy class in the country. In this course, the country's commerce and distribution networks have been diversified and specialized.

IV. The Marketization of the Manufacturing (Enterprise) Sector

1. Enterprise Marketization for Survival

Enduring the economic crisis in the mid-1990s and poor supplies of materials from state planners, North Korean enterprises found a self-rescuing measure by selling part of their products to buy materials necessary to keep production going. This new enterprise practice took place in underground markets, straying from the decades-long centralized planned formu-

la. By the late 1990s, enterprises were spontaneously marketized for survival as a way to secure supplies of raw materials largely through company-to-company transactions.⁷⁾

The regime did not give a green light to enterprises' involvement in markets, but was forced to acquiesce as the central planners could not provide enough materials for manufacturers. As a result, enterprises had discretionary powers to a certain degree, free from total control from state planners. Thus, it can be said that the primitive stage of "insider control" took place in enterprises across North Korea, which eroded state control over the economy.

But there were clear limits in companies' unauthorized participation in markets. As the government banned cash transfers among enterprises, transactions were conducted on the basis of bartering, which hampered brisk transactions. Cash payment was partly allowed only for transactions among small firms in local provinces and transactions between firms and individuals.

Enterprises used their hard-won self-control in production and sales just to survive and maintain production, rather than actively pursuing extra profits. To a certain extent, company-to-company transactions to acquire raw materials contributed to the country's manufacturing sector at a time when the central supply system was malfunctioning. However, as the company-to-company transactions were not fully legalized, they could not produce extra goods for sale in markets,

and thus failed to reach marketization in production.

2. The July 1 Measure and Enterprise Reform

The July 1, 2002, reform measure appears to have been a strategic choice for North Korea in the face of growing marketization of the economy amid state planners' weakening grip. Rather than seeking to restore the ill-functioning, centrally planned mechanisms and tightening regulations on enterprises, the regime chose to absorb the marketized corporate conditions into the formal state sphere in a desperate attempt to keep the crumbling socialist mechanism afloat. Following the July 1 package, North Korea provided a freer hand to factory managers and expanded the autonomy of enterprises, while scaling down state control over enterprises and factories. Management rights in factories were transferred from Workers' Party secretaries to managers. The role of a party chapter in an enterprise was limited to political arrangements.

State planners set up only key indicators, such as electricity generation, steel output and construction, giving enterprises the right to detail state-set production outlines. As a test case since 2004, managers in selected factories have been fully in charge, from setting production plans and wages for workers to labor management. Manufacturers were allowed to sell their surplus goods that exceeded production goals as approved by the authorities.

In order to evaluate enterprises' performances, the authorities introduced a kind of balance sheet that showed a firm's revenues, costs and other indicators, which was used as motivation for bigger production with lower costs.⁸⁾ The July 1 measure also gave companies the right to set their workers' wages within a certain range set by the government. In a further step taken later, the regime abolished the wage range target and granted companies the right to dispose of their products freely only after they paid taxes to the state. Under this measure, companies could raise workers' wages to help them offset rising inflation.

In additional measures to grant enterprises more autonomy, the authorities permitted direct dealings between companies in the socialist market for goods exchanges to help them acquire raw materials. Enterprises were also allowed to set prices of their products to reflect market demand. In addition, they were permitted to dispose of small, idle facilities after winning approval from local regulators. In the past, the state allocated labor forces to factories, mines and farms, but under corporate reforms, enterprises could dispatch idle workforces to mines, farms or other work sites for their own profits. The July 1 reform package was the regime's ex post facto approval of the changes that had already taken place, which featured marketization from below. North Korea's enterprise reform is similar to that which China carried out in its early stage of reform and openness.

3. Expanded Market Participation by Enterprises

Up until the 1990s, factory managers illegally turned to an underground market system to secure much-needed raw materials at the risk of punishment. Following the 2002 reform measure, however, such market-oriented behaviors were effectively approved and even encouraged as part of efforts to normalize crippled production. The rigid principle of bartering, which was a major obstacle to corporate efforts to acquire materials, was finally phased out, and enterprises were allowed to purchase and sell products at the socialist market for goods exchanges. Manufacturers can only boost production if they secure enough materials. In turn, they can only sell such goods at the market if there is demand. That is the way North Korean enterprises have expanded their market participation for the past decade. This is how cash has become vital for their survival.

The new phenomena tempted enterprises to do whatever they could — legally or illegally — to acquire cash. Companies permitted workers to be absent from work sites only with cash bribes, in violation of laws. Enterprises lent their names to individuals who wanted to run shops, bathhouses and restaurants in return for cash. Companies also engaged in unofficial deals with other companies to secure cash.⁹⁾ Trading companies lent their licenses for transactions with foreigners to local firms in exchange for cash. In many cases, enterprises were

more interested in earning cash through illegal means and market activities, rather than achieving state-set production goals. Such market-oriented activities have eroded the state planning mechanism. But the authorities have yet to impose restrictions on the deviant behaviors by enterprises, in contrast to on-again, off-again repression of the marketization of the commerce and distribution sectors.

VI. The Effect of Marketization and the Regime's Response

1. The Effect of Marketization

To be sure, the main objective of the series of economic reform measures North Korea took over the past decade was to revive the dilapidated economy while keeping the basic principles of the state-directed planned economy intact. By embracing market phenomena that were already happening across the country, the regime wanted to boost industrial productivity, strengthen the capacity of the state to regulate market activities and build a fiscal system that would enable the state planners to restore their role.

It was not easy for North Korea to prevent the spread of markets that grew spontaneously in response to the malfunctioning state rationing system. In this sense, it was an inevitable choice for the regime to formally accept general markets in a bid to ease the imbalance in the distribution sector and normalize the crippled production sector. But the central

authorities have approved market elements to the extent that they do not challenge the centrally planned economy. The spread of markets helped relieve dire shortages and eased inflation caused by demand outstripping supply, but marketization of the North Korean economy has yet to trigger a remarkable increase in the production sector.

The economic reform measure aimed at normalizing the state-directed management of the economy by introducing market elements caused unexpected negative consequences. Companies, including even state enterprises, dared to violate rules and conduct production activities outside the boundary of the official planned economy. Individuals bribed officials and managers to leave their workplaces to pursue private profits in markets. Thus, the material basis of the official centralized planned economy was gradually eaten away, draining the resources the state could mobilize.

2. Countermeasures

In response to negative political and social fallout from the marketization of the economy, the North Korean regime has backtracked on economic reform starting in 2005. The regime declared a return to the central distribution system in October 2005 and banned trading of food in general markets, forcing citizens to purchase food and commodities in state shops at state-set prices. But the bans were effectively lifted soon after, as the state could not carry out its promise of

the resumption of public rationing. The authorities also prohibited male adults aged 17 or above from trading in markets. In a further step, the authorities raised the minimum age of women allowed to work in markets and imposed other restrictions.

Under the 2002 reform package, individuals were allowed to run public shops if they won approval from the Commerce Ministry, but the newly imposed restriction banned that practice. The regime also imposed restrictions on trade of imported goods mainly from China. In November 2008, the government announced its decision to close down general markets effectively on January 2009 and restore farmers markets. But in the face of strong public backlash, the regime postponed the measure's implementation, leaving general markets in place.

Instead, the regime issued a bigger list of items in March 2009 that should not be traded in markets. The regime also restricted trading of foodstuffs in markets in May of that year. A month later, it ordered the closure of the Pyongsong wholesale market and imposed tougher restrictions on foreign currency-earning firms and organizations. The new round of restrictions on markets was highlighted in November 2009, when the country conducted a currency revaluation, lopping off two zeros from the nominal value of the local currency and banning the use of foreign currency.

The toughened control and restrictions on markets in recent years paradoxically shows that the regime's campaign to clamp down on the private markets has

not worked. When crackdowns intensify, illegal dealings tend to take place more surreptitiously and are unlikely to cease. A majority of North Korean people ignored the government's anti-market measures and dared to bribe officials, who then turned a blind eye to illegal activities in markets. Local officials responsible for enforcing laws also remained doubtful about the measures against markets. Even the toughest restrictions on markets that came in parallel with the 2009 currency reform backed off just two months later.

As the currency redenomination deteriorated the already collapsing economy and sparked strong public protest, the authorities acknowledged its failure and came up with new measures to address the situation. The government again permitted markets to reopen and trade in food, industrial products, imported goods and other banned items. The government also reversed its ban on the possession of foreign currency and its use in hotels and other places for foreign visitors. In short, bowing to public outcry, the regime eased restrictions on market dealings and use of foreign currencies in an effort to address the fallout from its crackdowns on markets.

Surely, North Korea is in a dilemma over the burgeoning marketization of its economy. Its routine restrictions have proved ineffective and tougher crackdowns have only triggered public grievances and deepened the country's instability. North Korea seems to have realized that crackdowns could not prevent rapid

expansion of markets. In short, the North Korean economy has been marketized to a certain degree through the course of the regime's repressions and retreats reflecting its efforts for survival.

6. Conclusion: The Level of the North Korean Economy's Marketization

The marketization of the North Korean economy is believed to have been under way since the July 1, 2002, package and subsequent reform measures. At least in the sector of commodity exchanges, or commerce and distribution, there seems to have been substantial progress in marketization evidenced by the emergence of various markets that trade a variety of items. But trading of commodities in markets does not necessarily mean that the market economy is blooming all throughout the North Korean economy.

It can be said that marketization in North Korea's distribution sector was slow due to poor supplies of commodities. Domestic production for sale in markets was very weak and sluggish, which hampered broader marketization of the North Korean economy. Individuals' participation in the distribution and service sectors through markets was somewhat active, but commodity production by individuals shrunk due to the increased presence of Chinese goods in the North Korean markets. Thus, marketization in the commerce and distribution sectors could not lead to an increase in production, which was necessary for the extensive marketi-

zation of the North Korean economy. Following the 2002 reform, the North Korean government has levied taxes on the newly established market economy and used tax revenues to maintain the troubled state and public sector. Thereafter, North Korea has relied increasingly on surplus values generated by the market economy.

Enterprises have participated in markets for commerce and distribution, but they are still under state planning and control when it comes to production. Their production beyond the centrally planned mechanism still remains meager. Reform is necessary for North Korean enterprises to increase production and improve productivity, but the regime has refrained from undertaking broader reforms for fear that it could threaten its political survival. Drastic reforms such as privatization of state enterprises were not in the minds of the North Korean leadership from the beginning of its 2002 reform campaign.

For the past decade, market participation by enterprises and individuals in the commerce and distribution sector has expanded. But there are few manufacturing firms established to meet the demand from markets. As a result, the marketization of the North Korean economy has taken place only in the limited areas of the commerce and distribution sectors. The limited marketization has come under on-again, off-again state restrictions and controls when the regime perceived negative fallout. Thus, the marketization of North Korea's production sector still remains very primitive.

Notes:

- 1) North Korea issued Cabinet Decrees No. 24 and No. 27 in May 2003, which detailed the establishment and management of markets. The North's official Korean Central News Agency on June 10, 2003, announced that farmers markets have been expanded into "general markets."
- 2) *Choson Sinbo*, December 2003.
- 3) Kim Jong-Il's statement on economic management improvement on Oct. 3, 2001, entitled, "On Improving Socialist Economic Management System to Reflect Present Demand."
- 4) *Choson Sinbo*, Oct. 26, 2005.
- 5) *Ibid.*
- 6) Yang Moon-su, *Marketization of the North Korean Economy* (Seoul: Hanul, 2010), p. 228.
- 7) Lee Suk-ki, "An Analysis on Changes of North Korean Enterprises and Behaviors," *Change and Marketization of North Korea's Economy* (Seoul: Korea Institute for National Unification, 2009), pp. 164-167.
- 8) Lim Su-ho, *Co-existence of Planning and Markets* (Seoul: Samsung Economic Research Institute, 2008), pp. 190-191.
- 9) Lee Suk-ki, *op. cit.*, p. 177.

18 Banks in Business in North Korea

<Yonhap from SEOUL/ July 16, 2011>

— A total of 18 banks are in business in North Korea, the Voice of America (VOA) said on July 16.

— Quoting data released by Bankers' Almanac, a leading provider of reference data on the banking industry, the VOA said that among the North Korean banks, Amnoggang Development Bank, which is under sanctions by the U.S., is the biggest bank in the North with assets of more than US\$526.5 million.

— The 18 banks include the Central Bank of the Democratic People's Republic of (North) Korea, Tanchon Commercial Bank, Korea Daesong Bank, Amnoggang Development Bank and the Bank of East Land, according to the VOA.

N.K. Asks U.N. Agency for Assistance in Economy Education

<Yonhap from SEOUL/ July 21, 2011>

— North Korea has asked an agency of the United Nations to help educate its officials on how to develop its economy, preferring to learn from experts from South Korea to reduce language barriers, a senior U.N. official said on July 21.

— “North Korea has recently delivered a message through its envoy to Bangkok to teach (officials) how to develop economy,” said Nam Sang-min, an official at the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).

— UNESCAP, headquartered in Bangkok, is one of five regional commissions under the U.N. and was established in 1947 to encourage economic cooperation among its member states. The U.N. regional body currently manages various projects on energy, environment, transportation and regional development.

North Korea Takes Seventh at International Math Olympiad

<Yonhap from SEOUL/ July 23, 2011>

— North Korea finished seventh among 100 countries at the 52nd International Mathematical Olympiad (IMO) held in the Netherlands, U.S. international broadcaster Radio Free Asia (RFA) said on July 23.

— North Korean students secured three gold medals and three silver medals, with Mun Hak-myong finishing 25th among 564 participants, the RFA said.

— North Korea secured a total of 157 points at the IMO held from July 17 to 23, RFA said, adding China ranked first with 189 points followed by the United States with 184 points and Singapore with 179 points.

— North Korea took part in the olympiad from 1990 to 1992 and has participated the last five years since 2007. North Korea ranked eighth in 2007, seventh in 2008

and fifth in 2009.

U.N. Relief Agency Plans to Reopen Office in North Korea

<Yonhap from SEOUL/ July 27, 2011>

— A United Nations relief agency is planning to reopen its office in North Korea, an official at South Korea's foreign ministry said on July 27.

— Valerie Amos, head of the U.N. Office for the Coordination of Humanitarian Affairs (OCHA), is scheduled to visit North Korea around October to discuss details on reopening the Pyongyang office, the official said on the condition of anonymity. The agency shuttered its operations in Pyongyang in 2005 at the request of the North.

— “It is correct that the OCHA has decided to reopen its office in Pyongyang, although I don't know the exact date of the reopening,” the official said.

North Korea Picks U.S. Firm for Mount Kumgang Tour Business

<Yonhap from NEW YORK/ August 3, 2011>

— North Korea has signed a deal with a New York-based company for tours to the Mount Kumgang resort, once jointly run with a South Korean conglomerate, a Korean-American businessman said on Aug. 3.

— Park Il-woo, also known as Steve Park, who has long conducted business with the socialist nation, said his firm recently signed a memorandum of understanding (MOU) on the Mount Kumgang tourism business. He is the president of Korea Pyongyang Trading U.S.A., which imports a North Korean liquor branded Pyongyang Soju.

— He said he plans to visit North Korea this weekend or next week to discuss concrete business plans. He expressed confidence that he will be able to attract substantial U.S. investment for the business.

North Korean Visitors to U.S. Up over 50 Pct in H1: Report

<Yonhap from SEOUL/ August 6, 2011>

— The number of North Koreans who visited the United States in the first half of the year jumped by more than 50 percent on-year, a U.S. report claimed on Aug. 6.

— Radio Free Asia (RFA), citing data from the Department of Homeland Security, said 139 North Korean nationals entered the country during a six month period this year, up from 89 tallied in the same period last year.

— It said that despite the drop in official contacts between Washington and Pyongyang, and a general cooling off in bilateral relations, there was a rise in the inflow of North Korean nationals into the country.

PEOPLE

Kim Jong-il (김정일) : General Secretary of the Workers' Party of (North) Korea (WPK), Chairman of the National Defense Commission (NDC), Supreme Commander of the (North) Korean People's Army (KPA)

- July 17 watches a concert staged by the Unhasu Orchestra at the newly rebuilt Unhasu Theatre to mark its opening along with his heir apparent son Kim Jong-un.
- 22 visits the Taedong River Combined Fruit Farm and Taedong River Combined Fruit Processing Factory, along with Kim Jong-un.
- 22 watches a performance given by the National Symphony Orchestra together with Kim Jong-un.
- 22 The KCNA says that Kim Jong-il has recently met with a Chinese friendship delegation and a delegation of the Chinese People's Association for Friendship with Foreign Countries and the China-Korea Friendship Association.
- 25 inspects the Command of the KPA Navy, along with Kim Jong-un.
- 27 watches a performance staged by the State Merited Chorus on the 58th anniversary of the truce agreement that ended the 1950-53 Korean War, along with Kim Jong-un.
- 27 attends a banquet hosted by the WPK Central Military Commission and the NDC to mark the 58th anniversary of the truce agreement that ended the 1950-53 Korean War, together with Kim Jong-un.
- 28 visits the May 11 Factory that produces electronic goods, accompanied by Kim Jong-un.
- 29 receives a message of sympathy on severe flood damage in North Korea from Chinese President Hu Jintao.
- Aug. 4 sends a reply to Chinese President Hu Jintao, expressing thanks for Hu's message of sympathy over the floods that hit some areas of the North.
- 8 visits the Feb. 8 Vinalon Complex in South Hamgyong Province, along with his younger sister Kim Kyong-hui, a member of the Political Bureau of the WPK Central Committee, and her husband Jang Song-thaek, an alternate member of the Political Bureau.
- 15 receives a message of greeting from Dmitri Anatoliyevich Medvedev, president of the Russian Federation, on the 66th anniversary of Korea's liberation from the Japanese colonial rule over the Korean Peninsula.
- 15 sends a message to Dmitri Anatoliyevich Medvedev, president of the Russian Federation, on the 66th anniversary of Korea's liberation.

Choe Yong-rim (최영림) : Premier

- July 22 inspects the Kim Hyong Jik University which is under renovation.
- 26-27 makes a spot inspection on the construction sites of the Pyongyang Folk Park, Taekwondo complex and the exhibition of August 3 consumer goods produced in Pyongyang.
- Aug. 2 visits the flood-affected areas of South Hwanghae Province.
- 2-3 inspects industrial facilities, including the May 18 large forging plant of the Chollima Steel Complex, the combined processing shop No. 1 of the Taean Heavy Machine Complex and the large truck assembling shop of the Sungri Motor Complex.
- 4 visits the Rakwon Machine Complex and the Sinam Cooperative Farm in Ryongchon County, North Pyongan Province.
- 6-10 inspects the national exhibition of August 3 consumer goods, the Anju Insulating Material Factory, the Rakrang District Fuel Station, the Pyongyang 326 Electric Wire Factory and the East Pyongyang Thermal Power Plant.
- 12 visits the construction site of the Wonsan Army-People Power Station in Kangwon Province.

Yang Hyong-sop (양형섭) : Vice-president of the SPA Presidium

- July 25 has a talk with outgoing Cuban Ambassador to North Korea Jose Manuel Galego Montano at the Mansudae Assembly Hall in Pyongyang.
- Aug. 13 meets with the Russian Orthodox Church delegation headed by Yegorievsk Archbishop Mark, chairman of the Committee for Coordinating Overseas Institutions of the church.

Pak Ui-chun (박의춘) : Foreign Minister

- July 18 holds talks with Gombojab Zandanshatar, minister of External Relations of Mongolia, in Ulaanbaatar, the country's capital.
- 22 has talks with his Chinese and Russian counterparts Yang Jiezhi and Sergei Lavrov on the sidelines of the ministerial meeting of ARF in Indonesia.
- 26 hold talks with his Malaysian counterpart Datuk Anifah Aman in Kuala Lumpur. 27 hold talks with Singaporean Foreign Minister K. Shanmugam in Singapore.
- 30 returns home after attending the ministerial meeting of the ASEAN Regional Forum and visiting Mongolia, Malaysia and Singapore.

Kim Kye-gwan (김계관) : First-vice Foreign Minister

- July 29 visits to New York. During the stay in New York, he holds a two-day meeting with Stephen Bosworth, U.S. special representative for North Korea policy, at the U.S. Mission to the U.N. in New York.
- 3 arrives in Beijing on his way to Pyongyang, ending his visit to New York.

Ri Jong-san (리종산) : Vice Marshal of the (North) Korea People's Army

- 23 dies of long illness at the age of 87.

CHRONOLOGICAL REVIEW

(Local Events)

- July 16 The KCNA says the State Bureau issued new stamps to mark leader Kim Jong-il's unofficial visit to China from May 20-26.
- 18 The KCNA says meetings where voters nominated candidates for deputies to provincial (municipality), city (district) and county people's assemblies took place across North Korea.
- 20 The KCNA says coal mines in the North suffered damage from heavy rainfalls that hit the country from July 12 to 15.
- 20 Nominations for deputy positions at people's assemblies of provinces (municipalities), cities (districts) and counties in North Korea is completed.
- 24 The KCNA says 99.97 percent of voters except those on foreign tour or working in oceans participated in the election of deputies to the provincial (municipal), city (district) and county people's assemblies of North Korea.
- 26 The KCNA says the Cabinet of North Korea has released a decision on enacting regulations for the implementation of the Law on the Protection of Environment.
- 26 A national meeting is held at Pyongyang Indoor Stadium to celebrate the 58th anniversary of the conclusion of the ceasefire agreement of the 1950-53 Korean War with KPA Vice Marshal Ri Yong-ho in attendance.
- 28 The KCNA says many areas of North Korea have been seriously affected by heavy rainfalls again.
- 29 The KCNA says the Taedong River Combined Fruit Processing Factory was built in Samsok District, Pyongyang.
- Aug. 1 The performance of Arirang, the grand gymnastic and artistic extravaganza, starts at the May Day Stadium in Pyongyang.
- 3 The national exhibition of August 3 consumer goods opens at the Three-Revolution Exhibition in Pyongyang.
- 10 The KCNA says typhoon Muifa left more than 10 casualties and 240 houses destroyed when it hit from Aug. 7-9.
- 12 A Pyongyang international exhibition of new products and trade advertisements opens at the Pyongyang International Cultural Centre.
- 13 The KCNA says a tideland reclamation project has made progress around Rongmae Islet, opposite to Haeju Bay in South Hwanghae Province.
- 13 An event takes place to mark the fifth anniversary of the opening of Jongbaek Church in Pyongyang with the participation of a Russian Orthodox Church delegation headed by Yegorievsk Archbishop Mark.

Aug. 15 An event for the 66th anniversary of Korea's liberation is held in Pyongyang with members of the Council for the Reunification of Tangun's Nation in attendance.

(Foreign Events)

- July 17 Kim Kum-ok wins the women's marathon race of the Fifth Military World Games held in Rio de Janeiro, Brazil.
- 18 A delegation of the Press and Information Department of the Vietnamese Foreign Ministry led by Director General Nguyen Phuong Nga arrives in Pyongyang.
- 20 An agreement on friendship and exchange and cooperation in education and scientific research is signed between North Korea's Kimilsung University and Cairo University of Egypt on July 20.
- 22 A spokesman for North Korean Foreign Ministry says that the North Korean government decided to dispatch its ambassador to the Association of Southeast Asian Nations (ASEAN).
- 23 A delegation of the North Korean Ministry of Fisheries led by Minister Pak Thae-won leaves Pyongyang to attend the Asian Regional Ministerial Meeting on Aquiculture for Food Security, Nutrition and Economic Development to be held in Sri Lanka.
- 26 Talks are held in Kuala Lumpur between North Korean Foreign Minister Pak Ui-chun and his Malaysian counterpart Datuk Anifah Aman.
- 27 A delegation of Lao People's Army led by Sanyahak Phomvihane, chief of the general staff, flies into Pyongyang.
- 27 Talks between North Korean Foreign Minister Pak Ui-chun and Singaporean Foreign Minister K. Shanmugam are held in Singapore.
- 28 Talks between a KPA delegation and a delegation of the General Staff of the Lao People's Army are held in Pyongyang.
- 28 A Chinese tourist group by the Pyongyang-Xi'an international air service led by Zhuang Jun, general manager of the Chinese Kanghui Xi'an International Tourist Agency, arrives in Pyongyang.
- 30 Glyn Ford, member of the National Policy Forum of the British Labor Party, flies back home, ending his 13-day visit to North Korea.
- Aug. 1 A spokesman for the Foreign Ministry says North Korea remains unchanged in its stance to resume the six-party talks without preconditions at an early date and comprehensively implement the September 19 joint statement on the principle of simultaneous action.
- Aug. 4 Russian Ambassador to North Korea Valery E. Sukhinin hosts a reception at the embassy in Pyongyang to mark the 10th anniversary of Kim Jong-il's visit to Russia and the adoption of the North Korea-Russia Moscow Declaration.

- 4 The Navy Command of the KPA gives a reception in honor of the sailors of the flotilla of training ship and frigate of the Chinese People's Liberation Army (CPLA) Navy headed by Vice Admiral Tian Zhong, commander of the North Sea Fleet of the navy, on a goodwill visit to North Korea.
 - 5 Vice Marshal of the KPA Kim Yong-chun meets with leading officers of the flotilla of training ship and frigate of the CPLA Navy.
 - 8 The flotilla of the CPLA leaves Wonsan Port after its four-day goodwill visit.
 - 9 Jang Ung, president of the International Taekwondo Federation, returns home, winding up his visit to Japan that started July 13.
 - 11 A spokesman for the Foreign Ministry says the U.S. has recently proposed that North Korea discusses the issue of the reunion of Korean-Americans with their separated families and relatives.
 - 11 A delegation of the State General Bureau of Tourism headed by its General Director Kim To-jun leaves Pyongyang to visit Mongolia.
 - 13 A delegation of schoolchildren led by Ryom Yun-hak, president of the Mangyongdae Schoolchildren's Palace in Pyongyang, leaves Pyongyang to participate in a friendly meeting with international children in Beijing.
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Publisher : Park Jung-chan

Editor-in-Chief : Kim Sung-soo

Managing Editor : Chang Yoon-joo

Editor : Kwak Seung-ji

Staff Writers : Lee Kwang-ho, Nam Kwang-sik

Contributors : Bradley Cho

Copyreaders : Adam Lipper, Hannah Bae, Jonathan Sanfilippo, Elaine Ayo

Subscription inquiries and address changes should be mailed to : The Editor, **VANTAGE POINT**

YONHAP NEWS AGENCY, 67 Center One Bldg. Suha-dong, Jung-gu, Seoul, 100-210, Korea

P.O. Box Kwanghwamoon 1039, Korea Tel : 82-2-398-3519 Fax : 82-2-398-3463

Internet Address : <http://www.yna.co.kr>

E-mail Address : vpnk@yna.co.kr.

Subscription rates (mailing cost included) : US\$70.00 for one year, US\$7.00 per copy

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Publication Registration No : Culture RA-08259

Printed by The Korea Herald Company, Seoul, Korea
