Changes in the North Korean Economy and New Strategies of Inter-Korean Cooperation after UNSCR 2270

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I. Introduction

Recently, the North Korean economy has been suffering from the triple torture of international sanctions, the COVID-19 epidemic, and floods. Currently, the biggest difficulty for the North Korean economy is the suspension of imports and exports due to the border blockade, which is resulting in economic hardship. Due to UN sanctions, North Korea's exports have almost ceased from 2018, and in 2020, even imports have been stopped as the coronavirus spreads. A food shortage is expected to occur from the spring of 2021 as farming conditions have deteriorated due to flooding. At this moment, it seems more urgent for the North Korean economy to find out how to survive rather than to develop the economy, namely in terms of securing medical care and dealing with the import suspensions.

This study was conducted in 2019, before the spread of COVID-19 in North Korea, and analyzes changes in the North Korean economy during the period after 2016 when sanctions against North Korea were strengthened and North Korea showed the possibility of denuclearization, economic reform and opening. Therefore, some of the contents of this study may not be directly related to the current economic situation in North Korea, facing the three difficulties. However, the changes in North Korea from 2016 to 2019 will be a measure of the direction of the North Korean economy in the future.

The study consists of three parts. First is the policy change of the North Korean economy. Second, the actual changes in the North Korean economy were estimated through a structural analysis of North Korean imports. Third, the implications for North Korea were drawn from the cases of Vietnam and Myanmar, two Southeast Asian countries who have successfully transitioned into open market-oriented economies.

II. Changes in Economic Policy

The most radical policy change is that after Chairman Kim Jong-un came to power, North Korea abandoned the “parallel policy” of nu-
clear and economic development. While emphasizing the will to denuclearize, North Korea announced it would focus all efforts on “socialist economic development,” mobilizing all resources for economic development. The new strategy went beyond mere political slogans to systematically implement legislation and amendments. For instance, the government recently amended various laws such as the Agricultural Law, People’s Economic Planning Law, Enterprise Law, Trade Law, and Finance Law. The enactment of new legislature was insufficient from an international perspective, but it was a radical change for North Korea.

During the regime of Kim Jong-il, the father of Kim Jong-un, the market was considered a negative influence to the economy and suppressed, while the current Chairman Kim Jong-un does not suppress the market and actively uses it in the economy. Recently, North Korea is encouraging interactions between the planned economy and the market led by individuals. Of course, since the market is not recognized in official government documents, nor are market activities guaranteed through legislation, market use remains at an insignificant level, but still this is a radical change for North Korea, which operates the market in parallel with the planned economy.

Localization policy is one of Chairman Kim Jong-un’s successful policies to reduce imports and replace them with newly developed domestic products. North Korea has encouraged localization in the light industry, especially the food industry. In the North Korean market, the variety of food-related products produced within the country has expanded, and food ingredients account for a large portion of North Korea’s main imported products.

To attract foreign capital, North Korea designated a total of 27 special economic zones all over the whole country to promote a bold foreign-investment policy since 2013. The policies of the Special Economic Zones and Development Zones are difficult to see as new policies, but they are still different from the past in that they involve the installation of many regional development zones specialized in regional comparative advantage factors. This includes five central-level economic zones, four central-level economic development zones, and 18 regional-level economic development zones. However, these SEZs failed because no company was able to invest in North Korea due to the sanctions imposed, while the above-described strategies for focusing on economic development, market recognition and utilization, and localization policies achieved some results.

The series of changes promoted by Chairman Kim Jong-un cannot be achieved without the sanctions lifted. The UN Security Council has imposed a total 10 sanctions including UNSCR 2270 of March 2, 2016 on the North Korean economy. It is impossible to achieve a high level of economic growth without cooperation with the international community. Although North Korea is experiencing economic growth, other countries are developing at a faster rate than North Korea. The North Korean economy will become poorer unless investment is made from outside to further promote North Korea’s economic growth. However, sanctions are preventing the international community from investing in North Korea.
III. Economic Effect of Sanctions

North Korea’s imports during Kim Jong-un’s regime significantly decreased after UNSCR 2207. The impact of sanctions on the economy is expected to gradually increase. North Korea is experiencing difficulties to replace banned item due to the sanctions, with domestic products in most part at a low quality.

First, the share of imports in electronics, along with the clothing, plastics, and rubber sectors, has increased since the beginning of the Kim Jong-un regime. It has been influenced by North Korea’s political preference to science and technology, and modernization of production processes. But imports have almost stopped as they are subject to sanctions. With sanctions preventing the import of electronic products, this is having an adverse effect on North Korea’s technology-oriented policy.

Second, the imports share of chemical items fell significantly along with metal items after the sanctions. Prior to sanctions, imports of high-tech chemicals that North Korea could not produce increased, indicating that North Korea’s chemical technology remains under-developed. It is believed that the chemical industry in North Korea was adversely affected as the import of chemicals decreased rapidly after the sanctions.

Third, the ban on imports of transportation equipment will contribute to the decline in productivity in North Korea. Imports of transport equipment items have increased due to real estate development policies, mainly in Pyongyang and Wonsan, and increased the purchasing power of North Koreans.

In countries like North Korea lacking the ability to produce essential goods they need, state-owned firms acquire foreign currency by importing intermediate goods to export consumption goods in the form of processing trade. Therefore, imports of intermediate goods are closely related to the utilization rate and production of companies. However, due to sanctions, processing trade in sectors such as textile processing and seafood processing has also been suspended, making it difficult for North Korea to earn foreign currency.

Due to the sanctions against North Korea, industrial transition policies have become difficult to achieve. This can be seen from the sharp decline in imports of mid- and low-end technology items as of 2017. In fact, in the early days of the Kim Jong-un regime, some possibility of technological transition was confirmed as imports of primary products and low-tech items decreased, while the growth of mid-low technology and high-level technology items was prominent. However, North Korea’s imports of intermediate goods have declined significantly in recent years, while imports of consumer goods have increased.

By linking imports to China with the distribution of companies by region in North Korea, it was confirmed that economic development has been concentrated in Pyongyang during Kim Jong-un’s reign. As time passed, the economic gap between Pyongyang and other regions widened. Economic policy under Chairman Kim Jong-un has been concentrated in Pyongyang, and the showy images of North Korea introduced in the media have appeared only in Pyongyang.
IV. Implications for North Korea from Southeast Asian Transition Countries

The outcomes of economic reform and open policies depend on the ability to finance foreign resources. In particular for countries that are diplomatically isolated due to economic sanctions such as North Korea, the normalization of foreign relations is essential. North Korea's reform and opening up policy is still in the initial stages compared to the case of normalization of foreign relations between Vietnam and Myanmar.

In light of Vietnam's case, it is believed that North Korea is now at a time to move from the “new economic policy” to the “Doi Moi policy.” The reform policy of Doi Moi in Vietnam has transformed the market economy and opened the door to foreign exchange, creating an active policy of openness. Without the acceptance of a market economy system beyond simple “openness,” there is a limit to overseas private financing. In order for North Korea to enter the second phase of the system transition experienced by Vietnam, it is necessary to introduce the market economy system and meet the requirements to lift the economic sanctions. However, North Korea maintains a passive attitude toward both requirements.

Figure 1. Current Status of North Korea's Reform Policy Compared to Vietnam

Source: Author's construction.

Figure 2. Current Status of North Korea's Reform Policy Compared to Myanmar

Source: Author's construction.
On the other hand, in light of the case of Myanmar, the relationship between North Korea and the United States seems to have entered the initial stage of normalization of relations between the two countries. The reason why Myanmar was able to advance from the 1st to the 2nd stage of reform and opening was because it adapted to the changing strategic interests in China and complied with the requirements to lift US sanctions. However, North Korea is unlikely to pursue political democratization like Myanmar, so it is likely that it will enter the third stage without experiencing the first and second stages of political transition like Myanmar. In particular, the implication of the Myanmar case for North Korea's reform policy is that despite the government's efforts to reform and open up, the economy remain sluggish even after lifting sanctions and economic transition if the government cannot provide an appropriate blueprint for the economy and solve fundamental problems, such as ethnic conflict on the domestic front in the case of Myanmar. For North Korea, denuclearization is the case. Therefore, North Korean authorities also need to prepare a national economic vision and plans for economic growth after denuclearization and the sanctions are lifted. It is necessary to utilize the technical support of international organizations in the initial stage.

V. Conclusion

North Korea's economy faces difficulties as the overall economy changed to a “high-cost economy” after UNSCR 2270. As the sanctions continued, the policy to endure the sanctions is being emphasized rather than one that focuses on the socialist economic development emphasized by Chairman Kim Jong-un. Productivity improvement and science and technology development are becoming more neglected as the North Korean economy changes to a structure that withstands sanctions. If the current phase is prolonged, there is a possibility that the whole economy will lose its growth engine as the entire economy changes into a high-cost “looting economy.” Then, despite the relatively consistent reform policy, it would be difficult for the reform and opening policy to produce results.

North Korea is trying to improve the environment for foreign investment by offering incentives, but this policy cannot be realized without lifting sanctions. It is difficult to attract foreign capital in the early stages of opening since the North Korean economy has a weak manufacturing base. It will also be difficult for North Korea to accept radical reform programs in order to gain financing from international organizations. Under these circumstances, South Korea should play a role in promoting North Korea's reform and opening policies.

References