

# Is North Korean Economy Improving under Kim Jeongun's Regime?





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# Yeomeong Street in PyongYang





# Yeomeong Street in PyongYang





# Yeomeong Street in PyongYang





# Traffic congestion in Pyongyang





# More Cellular Phone Users

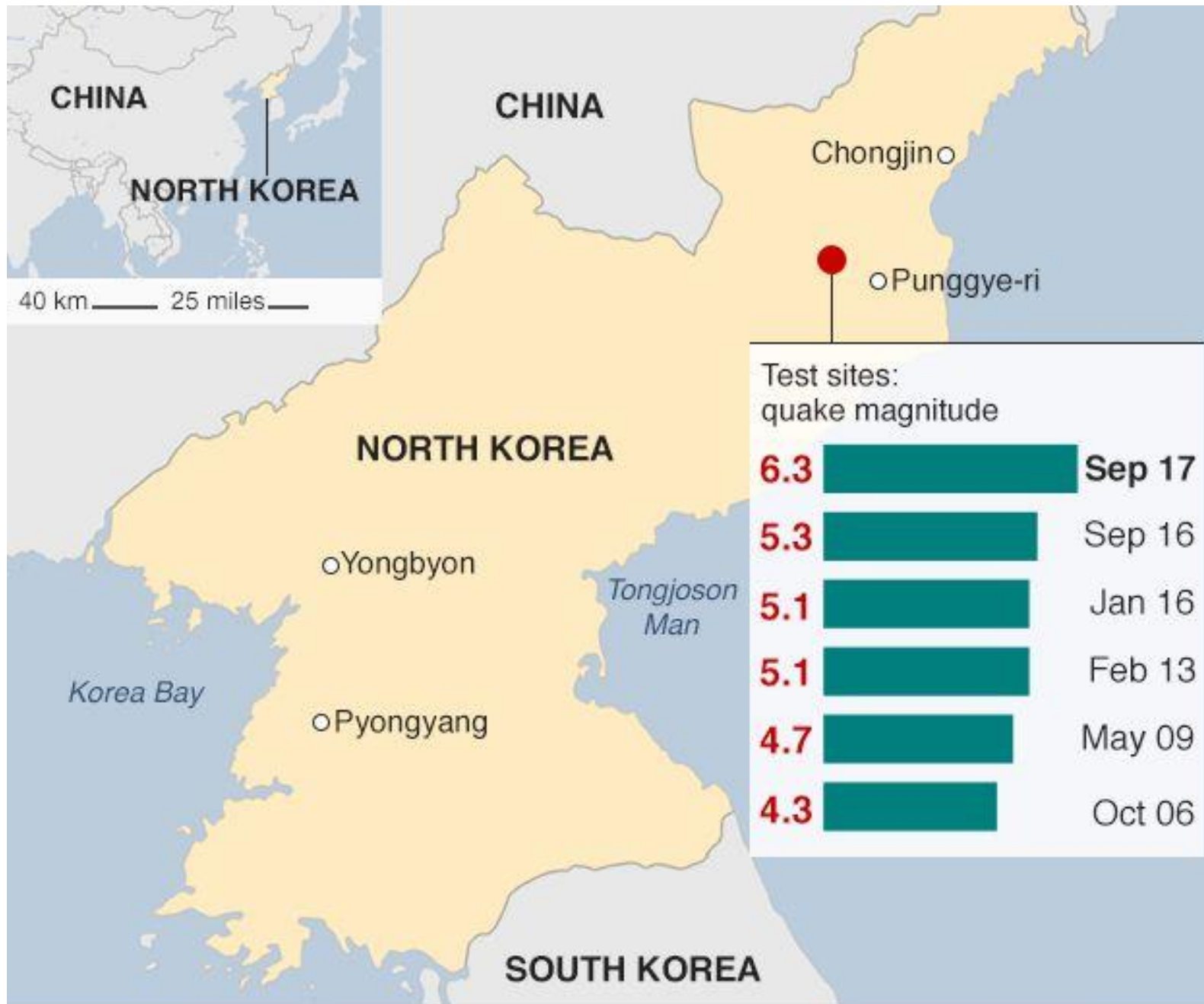




# North Korea's Long Range Missile Experiment

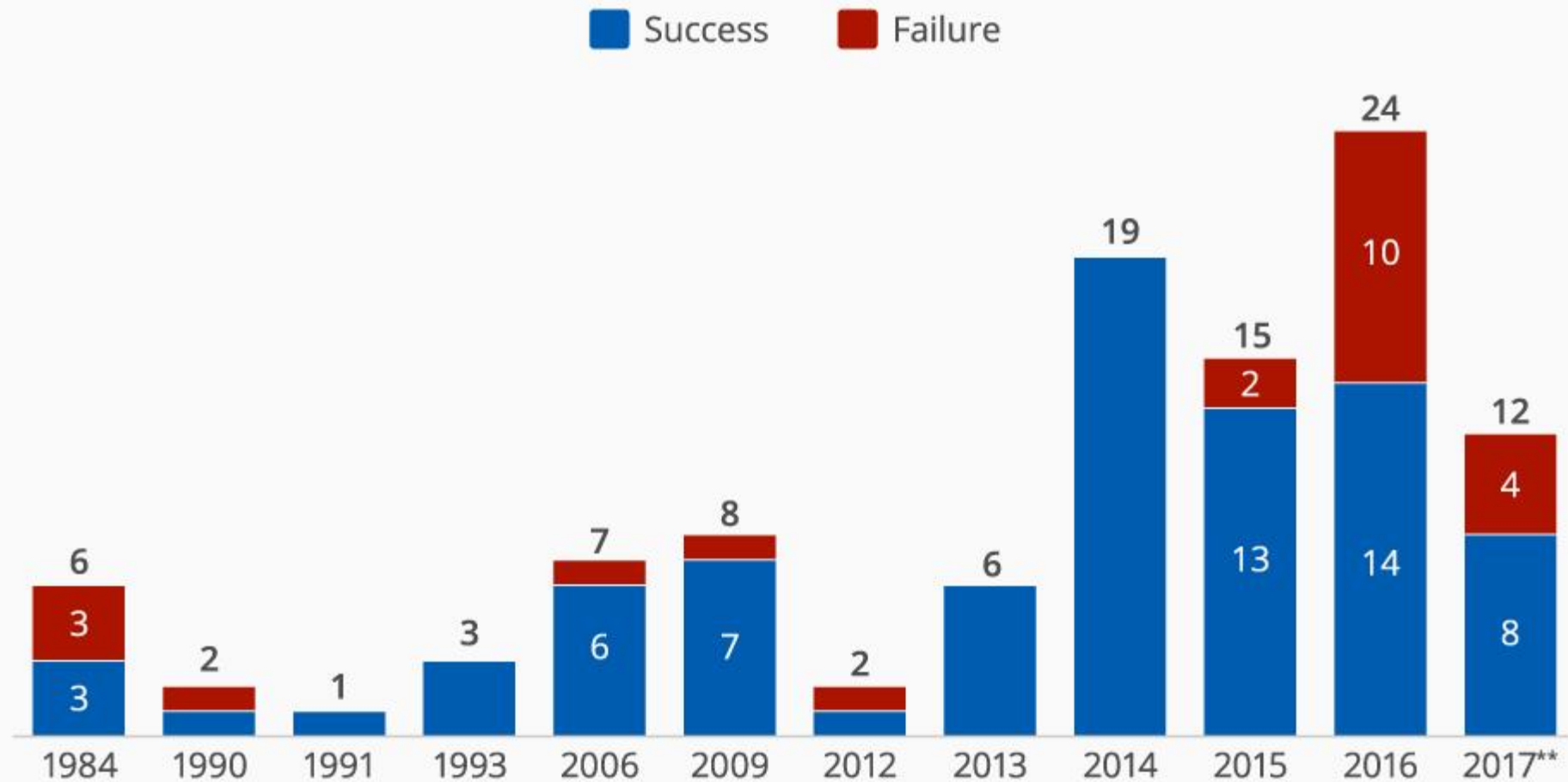






# The Worrying Escalation Of North Korea's Missile Tests

Number of successful/unsuccessful missile tests in North Korea (1984-2017)



\* Unknown results of tests not included. Missiles include intermediate, medium, short range & sub-launched ballistic missiles.

\*\* As of May 29th, 2017

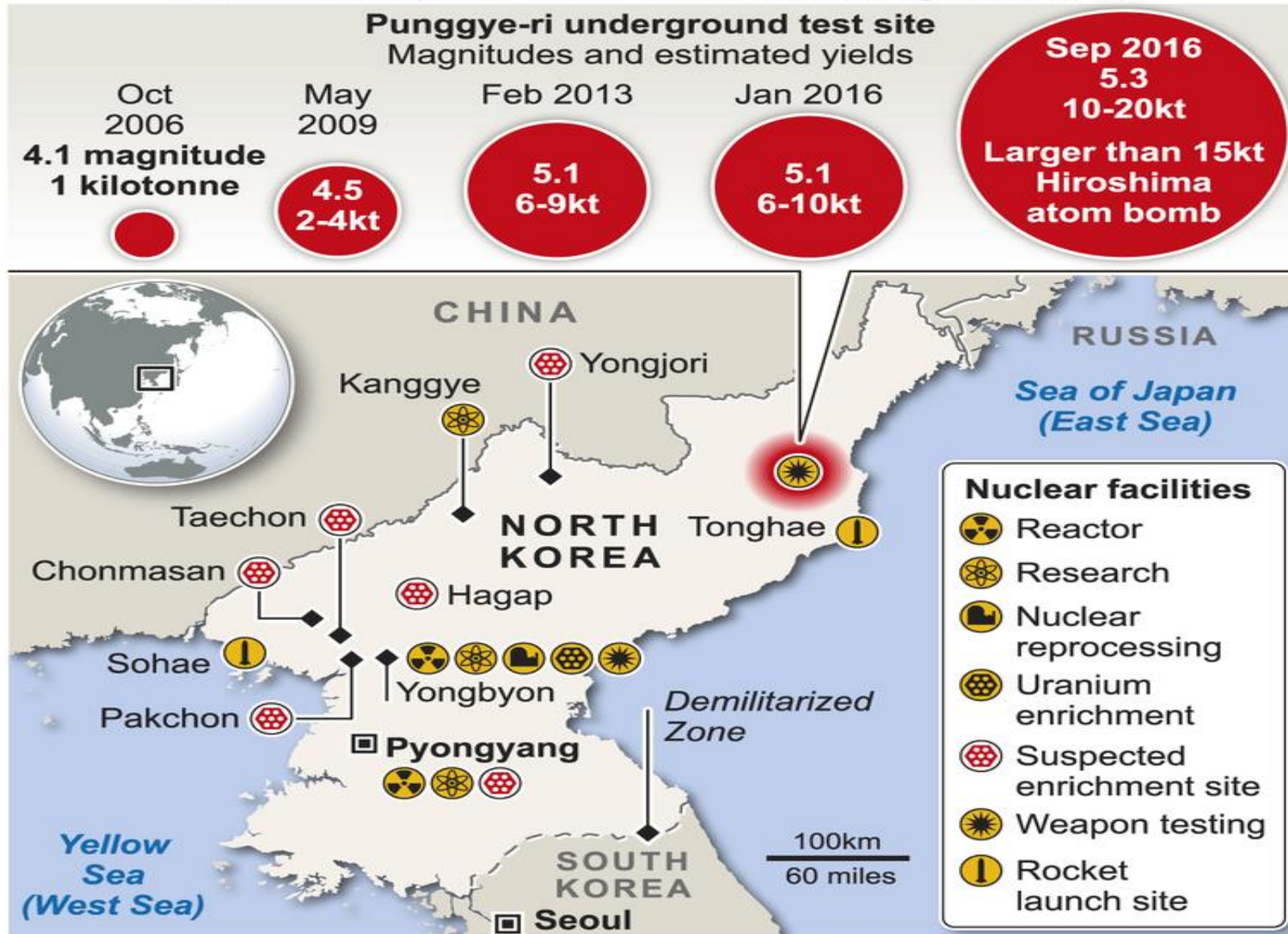


# North Korea's Nuclear Bomb Tests



# North Korea's nuclear tests

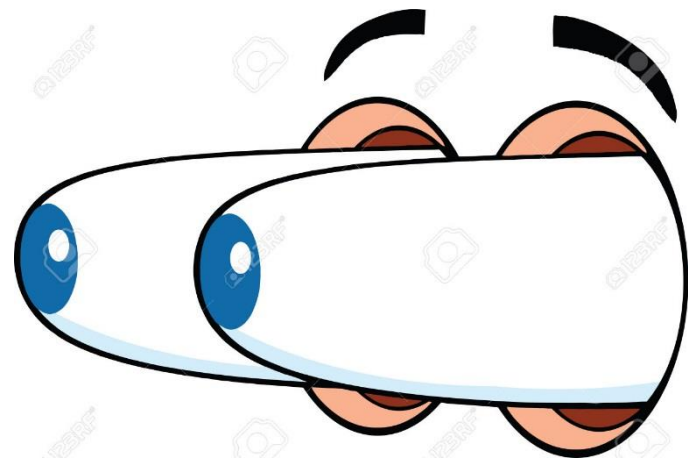
North Korea says it has successfully carried out its fifth and largest test of a nuclear device. The U.S. Geological Survey measured an "artificial earthquake" at 00:30GMT with a magnitude of 5.3



So

Seeing  
is Believing?

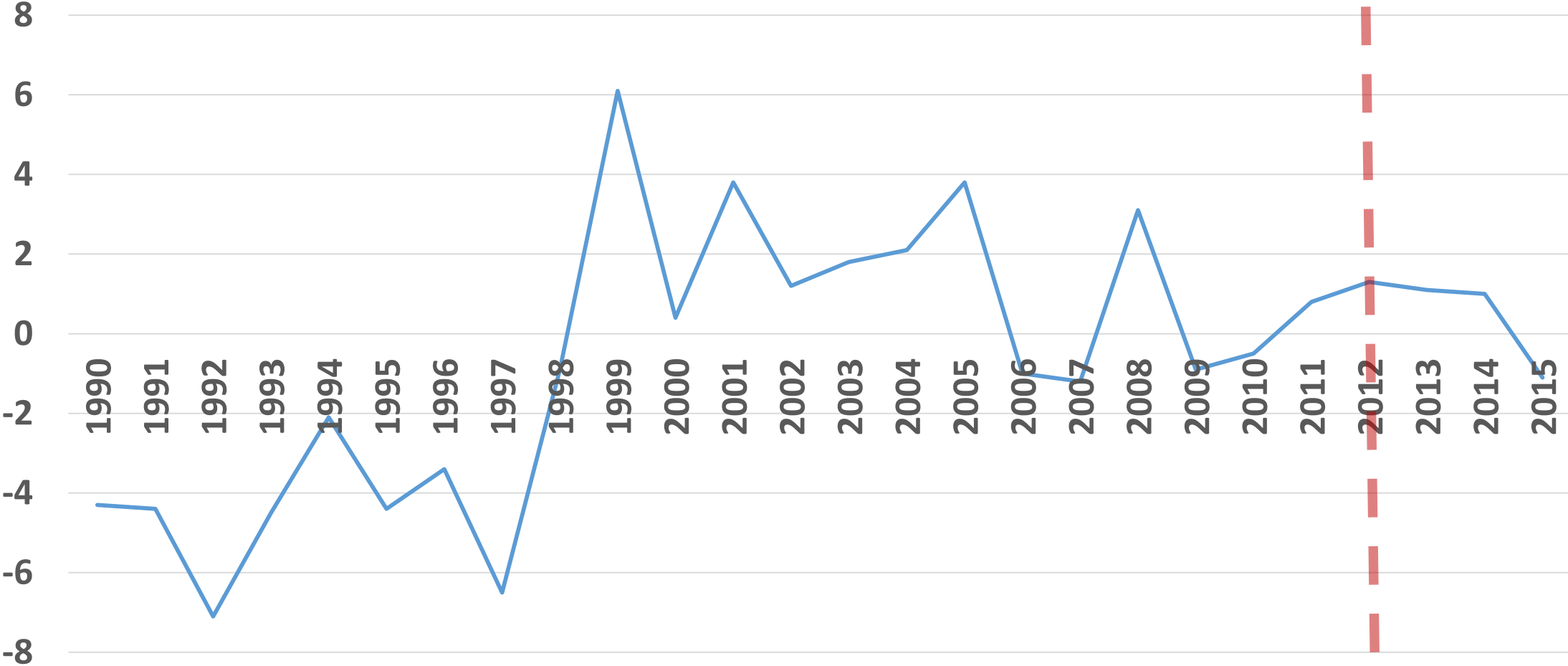
?



# NK Economic Growth

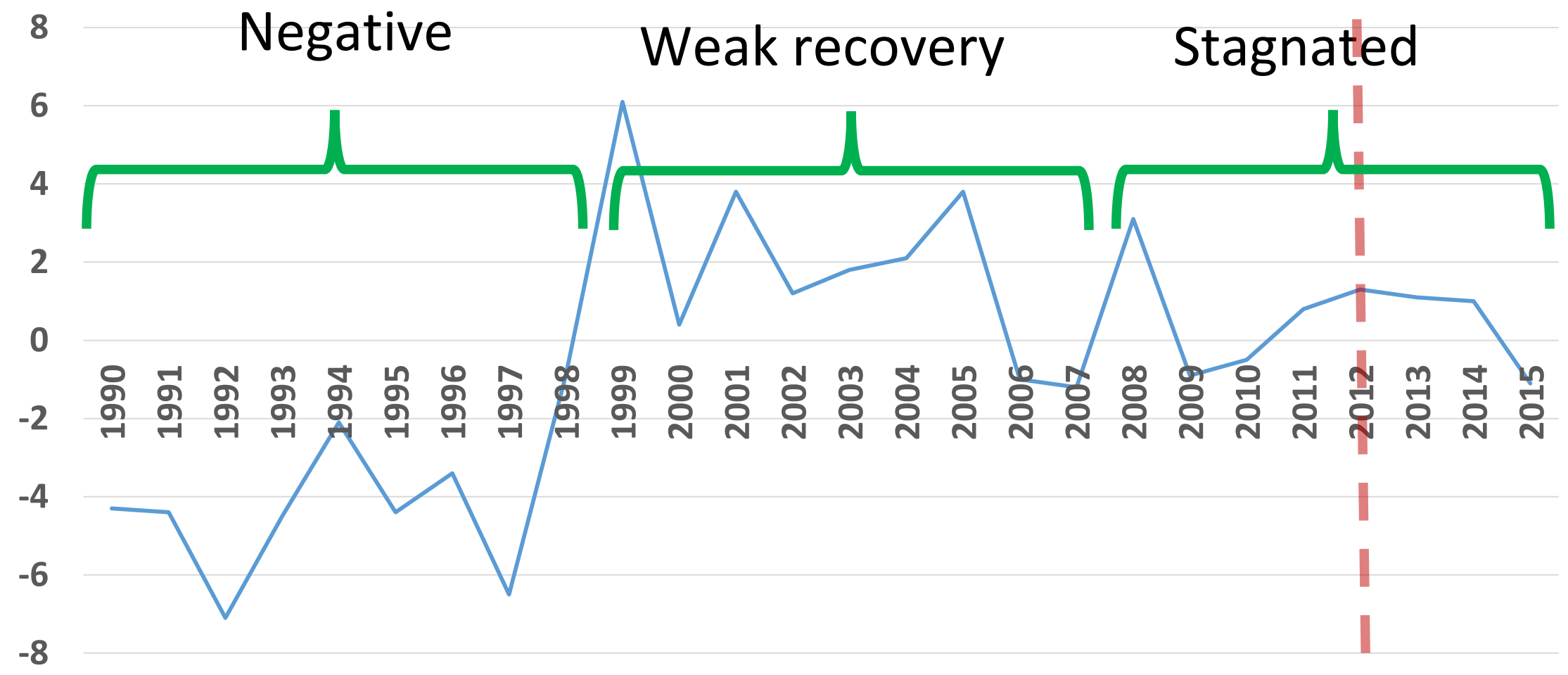
## 1990-2015

Source: Bank of Korea



# NK Economic Growth 1990-2015

Source: Bank of Korea





# Night scene of Korean Peninsula from Satellite (2014)





# Introduction

- Almost 25 years has been passed after Economic Crisis of North Korea in 1990s.
- Former socialist economic system is broken but new economic system is not fully developed yet.
- A kind of **Intermediate system** between socialist and capitalism systems continues for a long time.
- It is true that the **market economy** is spreading out quickly in all parts of North Korean economy.

# Dual Economy or Block Economy?

- **Socialist economy** (Government leading) and **Private market Economy** (People leading)
- **Won economy** and US **Dollar Economy**
- **The power group** (Ruling worker's party and Military) economy and **common group** (government and general people) economy
- Separated economic and regional groups are pursuing their own economic benefit under nationwide coordination between people and corporations are broken.

# NK' Dual Economy

## Domestic Dollar Economy

- PyongYang
- Asset Mkt (real estate and exporting item)
- Luxury consumer G&S mkt
- Officially traded

## Domestic Won Economy

- Non-PyongYang
- Labor mkt and other input factor mkts
- Non-Officially traded

# Different Views on NK's Economic Growth

- Some argue that NK's economy is getting better under Kim JungEun's leadership
  - 1) BOK's NK GDP does not include private mkt activities
  - 2) NK's economic growth is 1-2% higher than BOK's estimates
- But some others argue that NK's economy is still under depression
  - 1) The private sector is growing but private sector's economic activities should be reflected in BOK's NK GDP measures
  - 2) Private sector's contribution to total NK GDP is not large
  - 3) Not enough data to investigate the size of private sector



# North Korea's Private Markets





# North Korea's Private Markets





# North Korea's Private Markets





# North Korea's Private Markets







# North Korea's Private Markets





# North Korea's Private Markets



# NK's Living Standard Changes

- For the last 5 years, NK people's **living standard is continuously improving and private market is quickly spreading**. → But it also means NK government's **uncontrolled part** is quickly increasing.
- Conflict with China is worsening and other foreign countries' sanctions are intensifying.
- Along with UN's sanction, other foreign countries' sanction do not much affect NK economy directly. But these will give serious economic effect in the long run.

# NK's Living Standard Changes

- NK government still **officially maintains socialist economic system** like collective farming. But it is clear that they are adopting private market system.
- High rising buildings in Pyongyang, more restaurants, consumer goods production increases, and so on → NK peoples' living quality is improving
- **Weak investment on SOC** like electric power production, railroad system, and highway system except Pyongyang airport.
- Income polarization is increasing quickly.



# New PyongYang Airportnt



# NK's Living Standard Changes

- For NK's economic full scale development, it is necessary to invite large size foreign investment → more difficult foreign countries' economic sanctions

# NK Government's Economic Development Plan of 2016

- Kim JungEun's official economic development plan is announced at labor party's general meeting in 2016.
- Aiming for 'Building Strong Economy'.
- But **numerical targets** are not released.
- 3-theme of the plan
  1. 5-year Economic Development Plan
  2. Activating economic special zones
  3. Independent self-control economic policy

# NK Government's Economic Development Plan of 2016

- **5-year Economic Development Plan** (2016-2020) provides fundamental basis of all future economic policies. Kim particularly emphasizes electric power production increases
- Foreign trade policy and economic special zone developments are also highlighted. 21 economic special zones. 8 are concentrated around Aproz river and Duman river.
- Kim guarantees foreign investor favorable environments and development of tourism industry.





# NK's Major Special Economic Zones



# NK Government's Economic Development Plan of 2016

- Independent self-control economic policy has a special implication
  - 1) Kim legalizes all previous illegal market activities in private markets.
  - 2) Also he also promotes economic incentives in production and freedom of management

# Introduction

- Almost **70 years'** continuous and accumulated economic sanctions to North Korea
  - From US 1950 embargo to North Korea to recent UN Security Council Resolutions
  - After 2006's nuclear bomb test, 6 times' multilateral (including UN) sanctions
- But North Korea's nuclear weapon and long range missile tests continue
- Increased suspicions on the effect of economic sanction to North Korea

# Economic Sanction on Trade

- **Japan's embargo** (2006) decreased trade \$ 200 million
  - North and South Korea trade increased by 110%
  - North Korea and China trade increased by 95%
- **Korea's embargo** (2010) decreased trade \$ 400 million
  - North Korea and China trade increased by 200%
- North Korea's trade is more focused on China

# Economic Sanction on Trade

- Due to a series of economic sanctions to North Korea, the size of roundabout trade through China
  - North's products are exported to Japan and South Korea through China's bonded area.
  - Textile (70%), Minerals (anthracite and iron ore), and so on
  - North Korea's industrial structure change from mining to textile
- North Korea's **roundabout export** to Japan and South Korea increased steadily every year.

# Economic Sanction on Trade

- Economic sanctions to North Korea changed portfolio of export items and location of trade.
- But North Korea's **foreign trade is not much affected** by economic sanctions until recently. Instead North Korea's labor export is increasing.
- US' new stage of economic sanction through financial sanctions and restricting export of textile, anthracite, and labor needs China's cooperation.

# UN Security Councils' 4 Resolutions after 2016



# Economic Sanctions after 2016

- Intensified economic sanctions to North Korean **after 2016** and Europe, China, and Russia's participation on sanctions, it is true that North Korea is much more suffering from the sanctions.
- Diversity of export items decreased and more difficult to get foreign currencies.
- From 2016, North Korea's export is staying almost at the same level but import is increasing quickly.



# Economic Sanctions after 2016

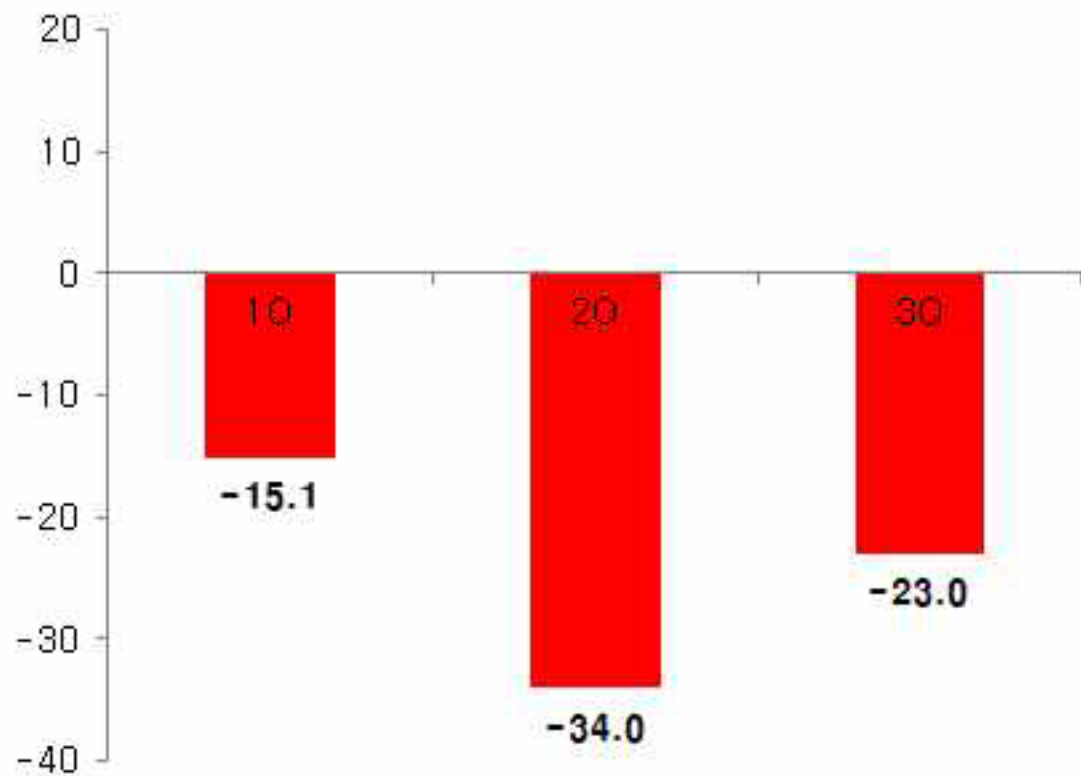
- Unexpected results from the sanctions are
  - 1) North Korea became more dependent on China up to (90%)
  - 2) South Korean corporations' business with North Korea is rapidly substituted by Chinese corporations → On contrary, the business is increasing.
- Diversity of export items decreased and more difficult to get foreign currencies.

# Economic Sanctions after 2016

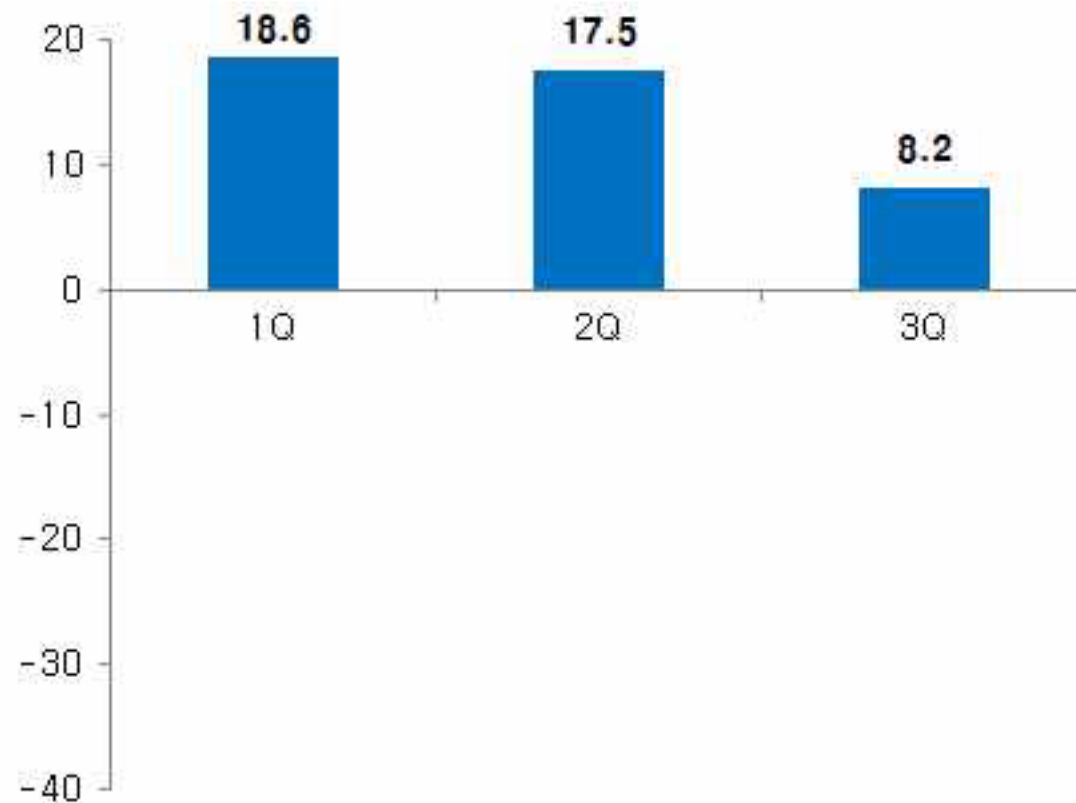
- UN Security council resolution 2270 of March 2016
  - 1) embargo on coal, iron ore, rare earth, and so on
  - 2) allowed exceptions related to public welfare
- UN Security council resolution 2321 of November 2016
  - 1) limit on coal export (7.5 million ton or \$ 400 million)
  - 2) imposing the limit without exceptions on public welfare purposes

# Impact of UN resolution 2321 (2017, yearly growth, %)

Export



Import



# Economic Sanctions after 2016

- UN Security council resolution 2371 of August 2017
  - 1) strict embargo on coal, iron ore, rare earth, and so on
  - 2) embargo on almost all export items without exceptions on public welfare purposes
- UN Security council resolution 2375 of September 2017
  - 1) embargo on textile and imposing limit on refined oil import
  - 2) all official foreign currency inflow closed

# Economic Sanctions after 2016

- Irreversible, dynamic, and unavoidable sanctions
- Seriously intensified recent sanctions will give fundamental impact on North Korean economy
- Rumors on unofficial trade between Russia and North Korea (refined oil)

# Economic Sanctions after 2016

- UN Security Council Resolution 2375 of 2017 will be an **important pilot test** for the effectiveness of economic sanction
- **Special attention** on three things in 2018
  - 1) North Korea's coal export in 2018
  - 2) Effect on economic growth
  - 3) Effect on economic structure

# Economic Sanctions after 2016

- North Korean government (Lee, Cheol-Sang) officially **acknowledged UN Sanctions** caused problems in earning foreign currency, gas supply, and machineries imports.
- North Korean labor party economic affairs executives meeting (April 2018)



# Economic Sanctions after 2016

- Effective economic sanctions and Kim Jungeun's desire to develop economy have made a big deal with South Korean and US.
- **Practically no other way** to maintain North Korea except to give up nuclear bomb and receive big economic support from neighbor countries.