Lecture II
North Korean Economic Development: from 1950s to today

Lecture 2: North Korea's Economic Development from 1950s to present

Introduction

S. Korean Nurses in Germany

S. Korean Mineworkers in Germany

▲파독광부들의 기념촬영

S. Korean Mineworkers in Germany, 1966

President Park and his wife visited workers in Germany

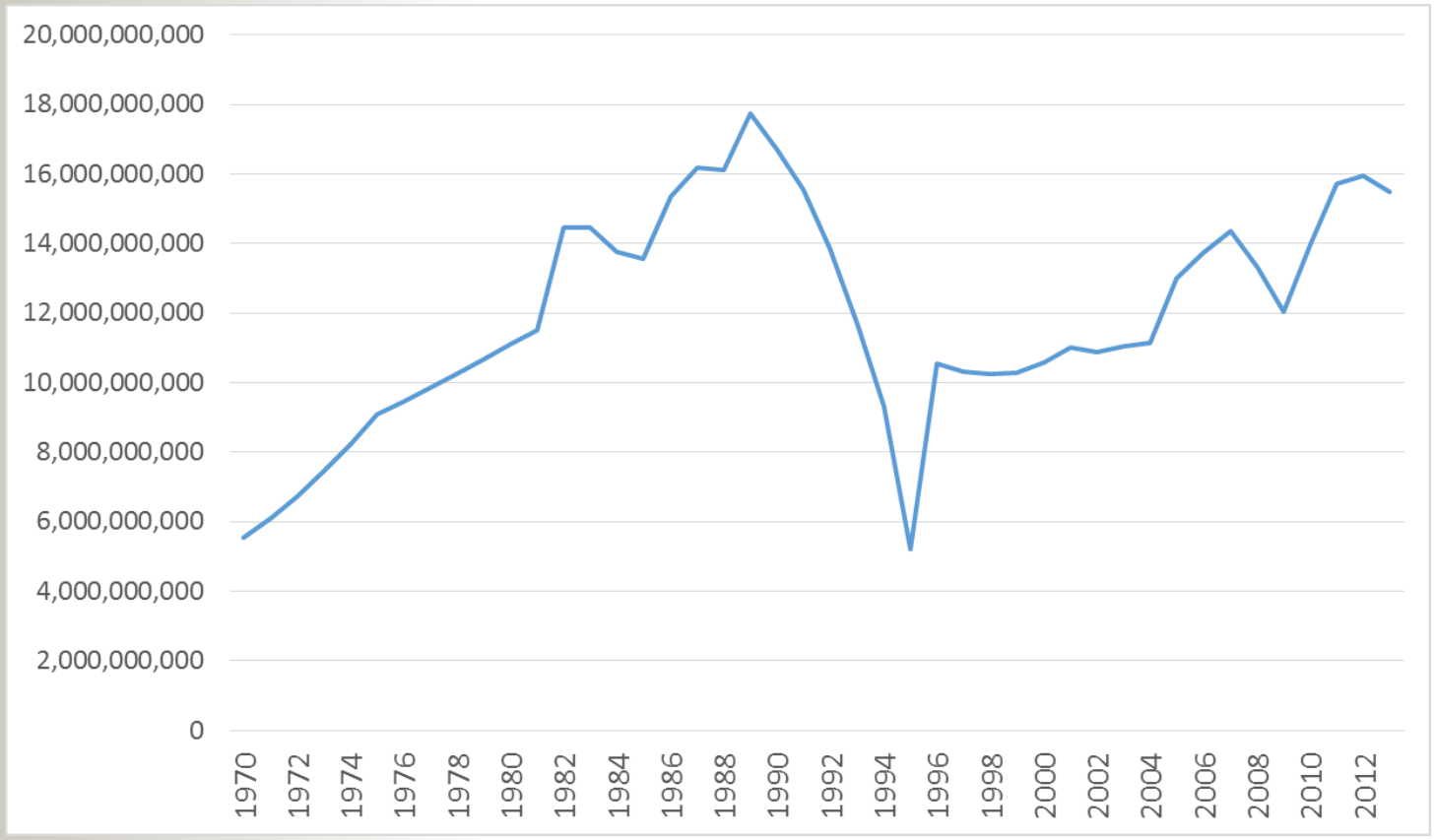
President Park and his wife visited workers in Germany

North and South Korean Territory

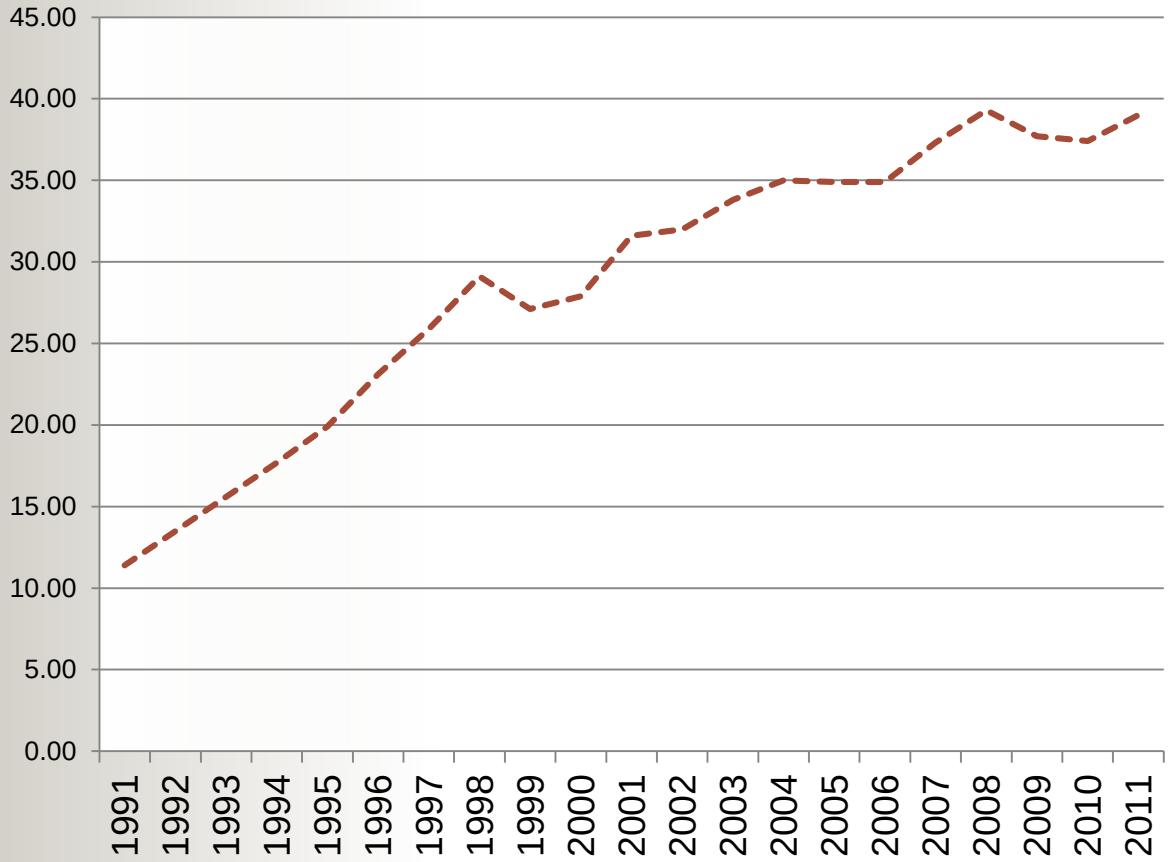
The Korean War over 1950 to 1953

The Korean War over 1950 to 1953

North Korean GDP (billion K Won)



South Korean GDP/North Korean GDP



Introduction

- North Korea, one of the world's most centrally directed and least open economies, faces chronic economic problems.

- **Industrial capital stock** is nearly **beyond repair** as a result of years of underinvestment, shortages of spare parts, and poor maintenance.

Introduction

- **Large-scale military spending** draws off resources needed for investment and civilian consumption.

- **Industrial and power output** have stagnated for years at a fraction of pre-1990 levels.

Introduction

- Frequent weather-related crop failures aggravated **chronic food shortages** caused by **on-going systemic problems**, including a lack of arable land, collective farming practices, poor soil quality, insufficient fertilization, and persistent shortages of tractors and fuel.

Introduction

- **Large-scale international food aid deliveries** as well as **aid from China** has allowed the people of North Korea to escape widespread starvation since famine threatened in 1995, but the population continues to suffer from **prolonged malnutrition** and **poor living conditions**.

Introduction

- Since 2002, the government has allowed **private "farmers' markets"** to begin selling a wider range of goods.

- It also permitted some **private farming** - on an experimental basis - in an effort to boost agricultural output.

Introduction

- In December 2009, North Korea carried out a redenomination of its currency, capping the amount of North Korean won that could be **exchanged for the new notes**, and limiting the exchange to a one-week window.

Introduction

- A concurrent crackdown on markets and foreign currency use yielded severe **shortages and inflation**, forcing Pyongyang to ease the restrictions by February 2010.

- In response to the sinking of the South Korean destroyer Cheonan and the shelling of Yeonpyeong Island, **South Korea's government cut off most aid, trade, and bilateral cooperation activities**, with the exception of operations at the Kaesong Industrial Complex.

Introduction

- In 2012, KIM Jong Un's first year of leadership, the North displayed increased focus on the economy by renewing its commitment to **special economic zones** with China, negotiating **a new payment structure** to settle its $11 billion Soviet-era debt to Russia, and purportedly **proposing new agricultural and industrial policies** to boost domestic production.

Introduction

- The North Korean government often highlights its goal of becoming a "strong and prosperous" nation and attracting foreign investment, a key factor for improving the overall standard of living. Nevertheless, **firm political control** remains the government's overriding concern, which likely will **inhibit fundamental reforms** of North Korea's current economic system.

Lecture 2: North Korea's Economic Development from 1950s to present

Economic Development Strategy

North Korea's Economic Development Strategy

- After gaining independence from 50 years' Japan's ruling 1945, North Korea's economic structure was focused on **Fisheries, Mining**, and **a little bit manufacturing**.

- Japan developed N Korea as a logistic center in conducting WW II in Asia
  ← a little bit transportation, communication network, and power production facilities (up to 88%)

North Korea's Economic Development Strategy

- The relationship between North and South Korean economy
  ← A complementary relationship

North Korea's Economic Development Strategy

- Socialist state based **economic development plan from 1954**

- In 1950s, **rapid growth in heavy industry** by 20%/year

North Korea's Economic Development Strategy

- 1950s and 1960s' important characteristics in economics development plan is summarized by

1) *heavy industry centered*

2) *parallel national defense and economic development policy*

3) *internal oriental policy*

North Korea's Economic Development Strategy

1 Heavy Industry Centered

- The heavy industry centered economic development plan is **affected by former Soviet Union's economic development plans**

- Former Soviet Union believed that heavy industry centered economic development plan would be appropriate for achieving fast economic growth

North Korea's Economic Development Strategy

2 Parallel N. Defense and Econ. Development

- Combined economic development plan and munitions industry development plan

- Aiming for superiority in military power compared to S. Korea and countries around N. Korea

North Korea's Economic Development Strategy

2 Parallel N. Defense and Econ. Development

- Therefore developing munitions industry first was natural policy priority under cold war period

- The parallel national defense and economic development plan is official accepted at 1966's congress meeting which is the most fundamental policy of N. Korean until today

North Korea's Economic Development Strategy

3 Internal Oriental Policy

- Former Soviet Union and other socialist countries all take **internal oriental policy** for building up **self-supporting economy**

- They all involved in passive international trades **only between socialist countries**

North Korea's Economic Development Strategy

3 Internal Oriental Policy

- N. Korean took the same economic development strategy

- However it implies that there will be **problems in importing technologies and machines** which is necessary for developing heavy industry

North Korea's Economic Development Strategy

3 Internal Oriental Policy

- Even for the purpose of importing important technologies and machines from Western economies, they need to export raw materials: This was the only reason for export!

- Huge differences in economic development plan between South and North.

Comparison between N. and S. Korean Economic Development Plans

- Huge differences in economic development plan between N and S Korea!

South Korea	North Korea
Based on Market economy	Socialist economy
External oriented	Internal Oriental policy
Labor intensive light industry	Heavy and munitions industry

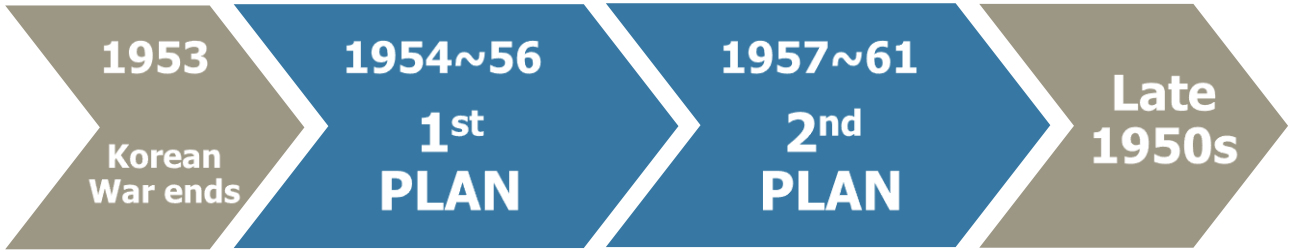
Lecture 2: North Korea's Economic Development from 1950s to present

Economic Development Plans 1

North Korea's Economic Development Plans

1 1950s

- From gaining independence from Japan's ruling, N. Korea had 9 separate economic development plans



- 1st Plan: to recover economy from totally destroyed economic state
- 2nd Plan: to establish basic foundation of socialist country and solving starvation ← *fully supported by former Soviet Union and China and successfully*

North Korea's Economic Development Plans

1 1950s

- **Late 1950s:**

✓ Former Soviet Union provided technologies, plants, automobile, machineries and N. Korea paid with natural resources (mineral deposits)

✓ In the late 1950s, former Soviet Union and China covered 77% and 13% respectively of N. Korean foreign trade.

✓ No particular foreign trade policy because international trading is not a main policy goal.

North Korea's Economic Development Plans

2 1960s

- External Changes

- ✓ Former Soviet Union and China's **conflict for China-India border** dispute
- ✓ **China decreased economic aid** to N. Korea for China's internal problems, failure of the 'Great Leap Forward'
- ✓ **Former Soviet Union also decreased economic aid** since N. Korea started to pursue 'Self-Independence' policy

The above external changes made N. Korea to more focus on economic development plans

North Korea's Economic Development Plans

2 1960s

- From **1961**, the 1st 7-year economic development plan started - focusing on developing **heavy industry** (power and machineries) → consumer production was limited
- For decreased aids from former Soviet Union and China, N. Korea **increased trade with non-socialist countries** in South Asian and Middle-East Asian countries

In early 1970s, N. Korea's trade with non-socialist countries increased up to **32%** with **over 20 non-socialist countries**

North Korea's Economic Development Plans

3 1970s

- The completion of 1st 7-year economic development plan was **extended 3 more years** and **ended in 1970.**

- Another 6-year economic development plan started in **1971** for achieving 1) modernization of industry, 2) modernization of technology, and 3) intensifying foundation of economy

North Korea’s Economic Development Plans

3 1970s

- **Expanding trade** with **western economies** for importing technology, plants, and capital

- In early 1970s, Japan: $ 280 million, France: $ 170 million, West Germany: $ 89 million, Finland: $ 35 million, U.K.: $ 33 million

North Korea's Economic Development Plans

3 1970s

- As a result, former Soviet Union: 24%, China: 22%, and western countries: 50%
- However, **the oil shock (1970s)** increased machineries price and mineral deposits' price decreased

N. Korea faced a series trade deficit and foreign debt problem

- ✓ Trade deficit: $ 83 million (1969), $ 551 million (1975)
- ✓ Foreign debt: $ 1.7 billion (1975), $ 3 billion (1977)

North Korea's Economic Development Plans

3 1970s

- In addition to foreign debt problem, N. Korea had problems of 1) **poor infrastructure** (energy and transportation) and 2) **shortage of labor in 1970s**

- The 2nd 7-year economic development plan started in **1977**

North Korea’s Power Shortages

North Korea's Economic Development Plans

3 1970s

- Aim of Plan: Expanding economic aids from former Soviet Union and China, utilization of labor, Foreign Investment Guarantee Act

- The **debt problem with western countries** → go back to former friends

North Korea's Economic Development Plans

3 1970s

- Former Soviet Union: plants and China: plants and stable supply of crude oil

- **Export oriented economic development policy**: improving quality of exporting products and diversifying trading partners

North Korea's Economic Development Plans

3 1970s

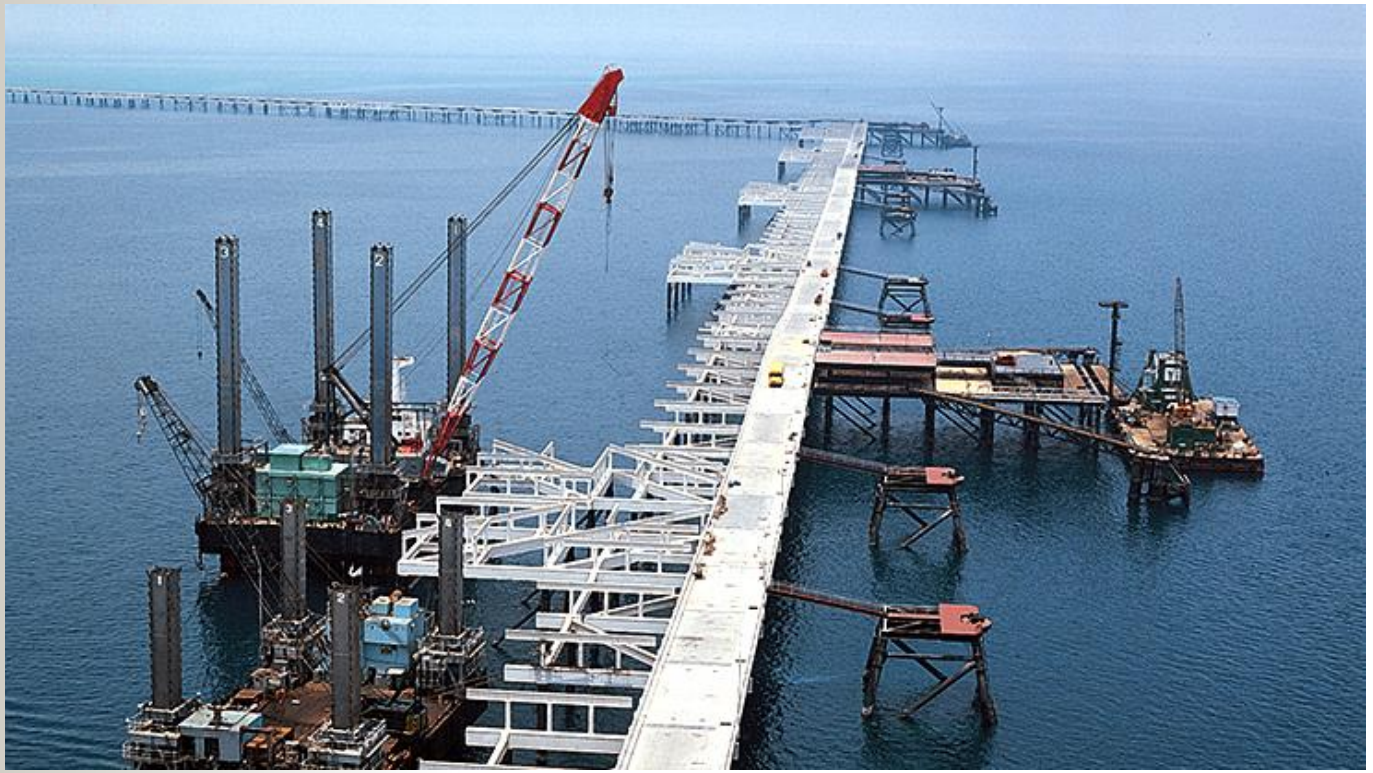
- However, increased imports from western countries and 2nd oil shock in the late 1970s **increased foreign debt even more**

- How was S. Korea during the oil shocks? → $ 13.7 in 1981

Korean Constructional Workers in Middle East Countries in 1970s

S. Korea’s Solution over oil shocks

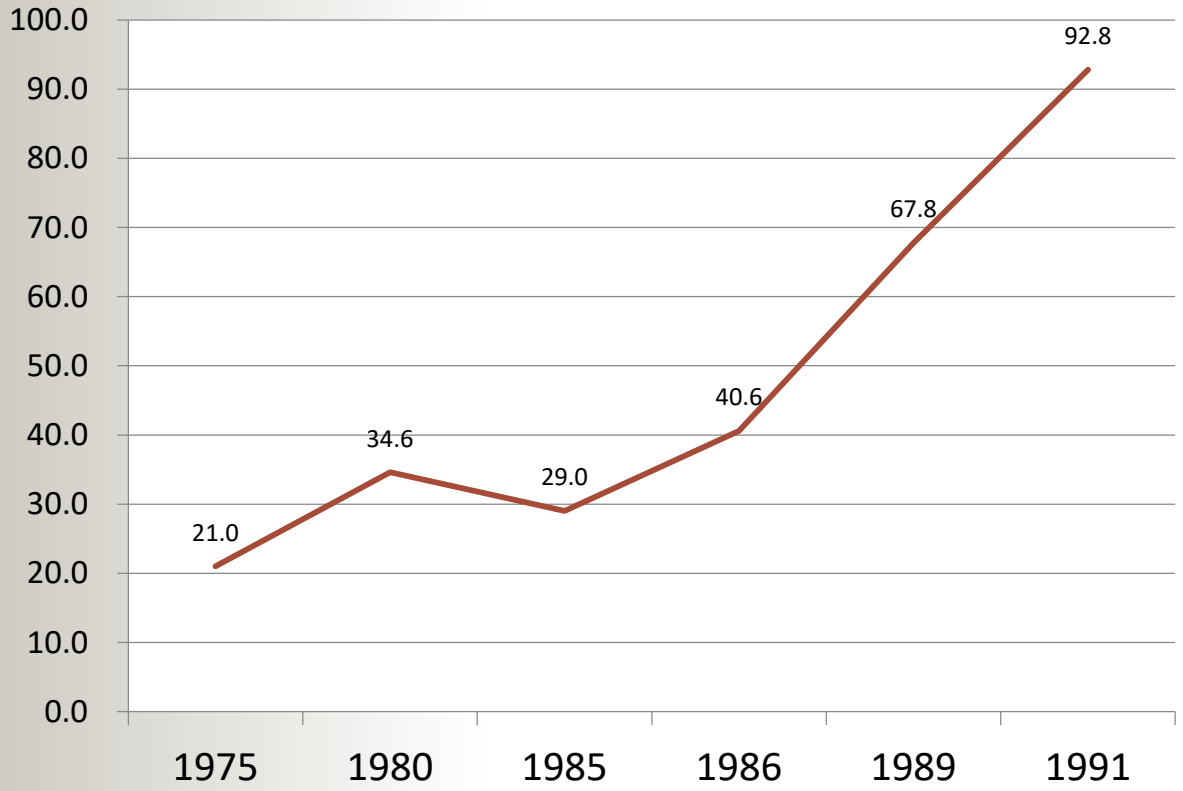
S. Korea’s Solution over oil shocks



S. Korean construction companies in the Middle East: Burj Khalifa (Dubai, UAE)

S. Korean construction companies in the Middle East: Abu Dhabi,UAE

North Korea's Foreign Debt



source: KOTRA, $ billion

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Economic Development Plans 2

North Korea's Economic Development Plans

4 1980s

- The **3rd 7-year economic development plan** was supposed to start in **1985** but actually started in 1987.

- The goal of 3rd 7-year economic development plan: **self-independence, modernization, and improvements in technology**

North Korea's Economic Development Plans

4 1980s

- One thing particular compared to previous economic development plans was that **target numbers were downward revised**.

- Emphasized **importance of international trade** and **international cooperation**

North Korea's Economic Development Plans

2 1990s

- A series of external shocks
  - ✓ Collapse of former Soviet Union along with eastern European socialist states
  - ✓ Unification of West and East Germany
  - ✓ South Korea-China diplomatic relationship South Korea-Former Soviet Union diplomatic relationship

North Korea's Economic Development Plans

2 1980s

- N. Korea's **isolation in international relations**

- N. Korea formally acknowledged the ***failure*** **of the 3rd 7-year economic development plan**

North Korea's Economic Development Plans

5 1990s

- From early 1990s, **die out of hunger starvation**: 3 million, 200 thousand lost, 400 thousand North Korean defectors
- In 2000s?

End