

# The Political Economy of North Korea: Strategic Implications

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# Key messages

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- Transformation is better understood as an unintended response to state failure in the wake of the famine than as a top-down reform.
  - Policy has at times ratified these changes (2002), but since 2005 we are seeing “reform in reverse”
  - Nonetheless, the North Korean economy has become more open, particularly to China
  - Implications of these developments unclear
    - China more significant for any sanctions effort...
    - Economic inducements difficult unless highly targeted, which are not desirable
    - Greater incentives for proliferation and illicit activities than during periods of effective engagement
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# Outline

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- Understanding North Korean intentions
    - From marketization and reform (2002) to “reform in reverse”
  - Reconstructing North Korea’s trade and investment: the limits of economic openness
  - Conclusions for current policy
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# Sources

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- Reconstruction of the food economy
    - *Famine in North Korea: Markets, Aid and Reform* (Columbia University Press 2007)
    - “North Korea on the Brink of Famine” and “Famine Redux?” (Peterson Institute 2008)
  - Reconstruction of the balance of payments and trade relations
    - “North Korea’s Foreign Economic Relations” (Peterson Institute 2007)
  - Surveys of Chinese (and South Korean) firms operating in North Korea
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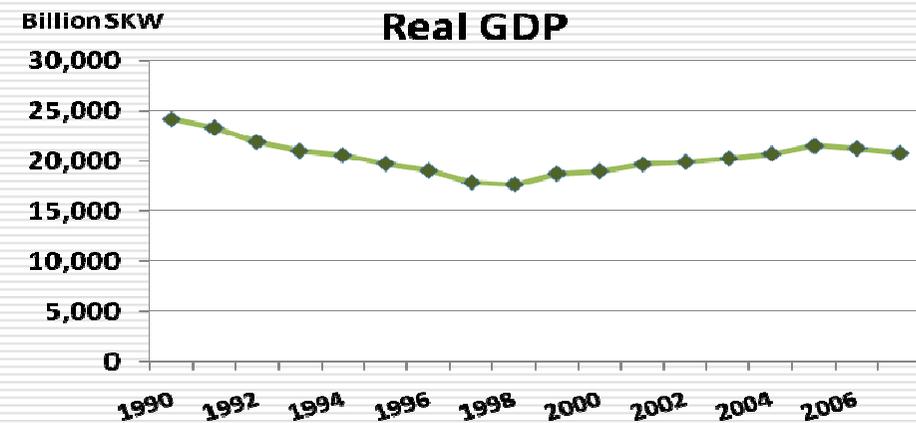
# Evidence from Refugee Surveys

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- Two surveys
    - China, 2004-05, 1,300+ respondents (Chang, Haggard and Noland)
    - South Korea, November 2008, 300 respondents, (Haggard and Noland)
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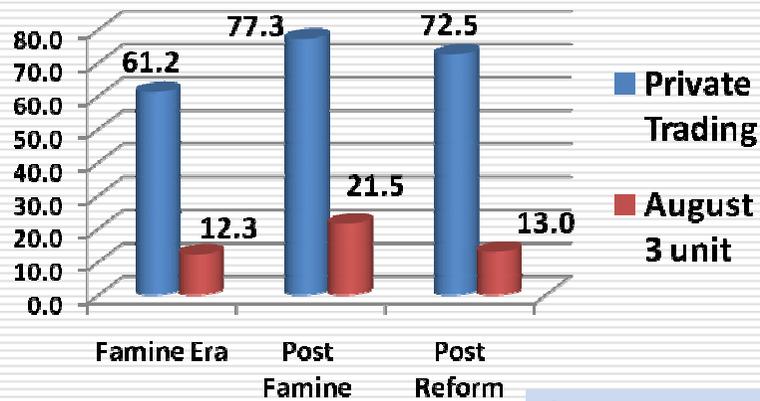
# Background: Economic decline and recovery

- ❑ Collapse: the great famine of the mid-1990s
- ❑ Recovery: unintended grassroots marketization
- ❑ Since 2005, the return of slow growth (and food distress), although 2008 may be positive due to harvest

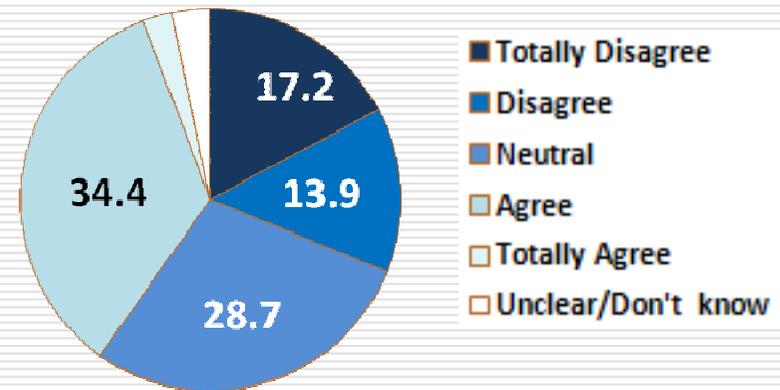


# Economy: Central Government Policies Ineffective At Grassroots

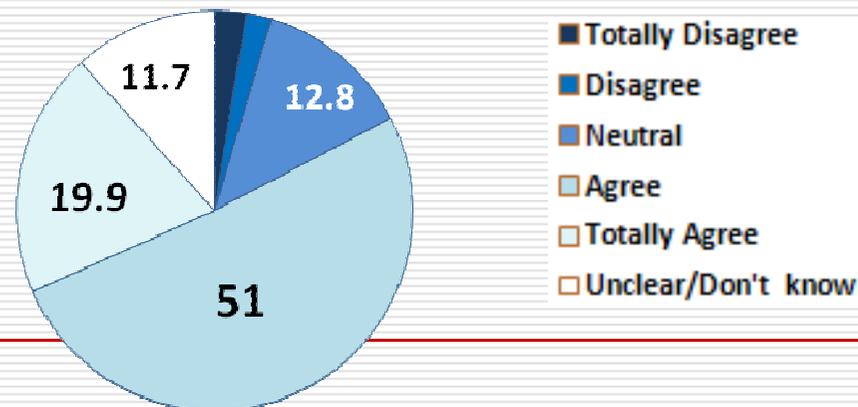
In addition to regular work duties, I engaged in the following activities...



The nature of my work changed



The Government frequently changed the rules governing market activities



# Reform in Reverse

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- The food economy
  - The response to markets
  - The management of the border trade
  - The 2009 New Year's editorial: "the 150 day campaign and *Chollima*"
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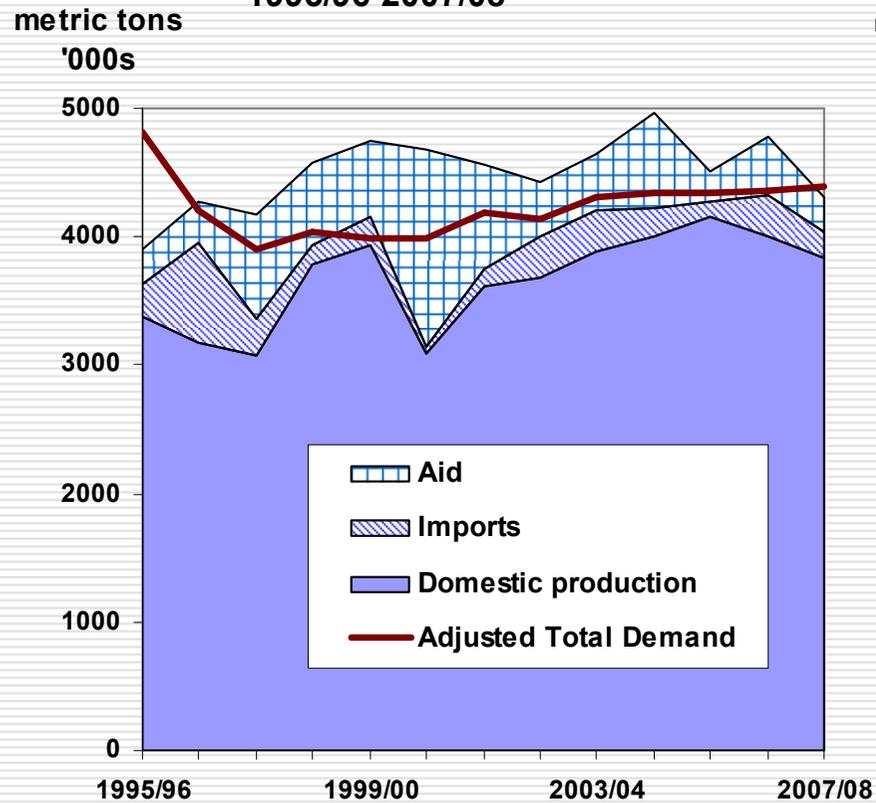
# Origins

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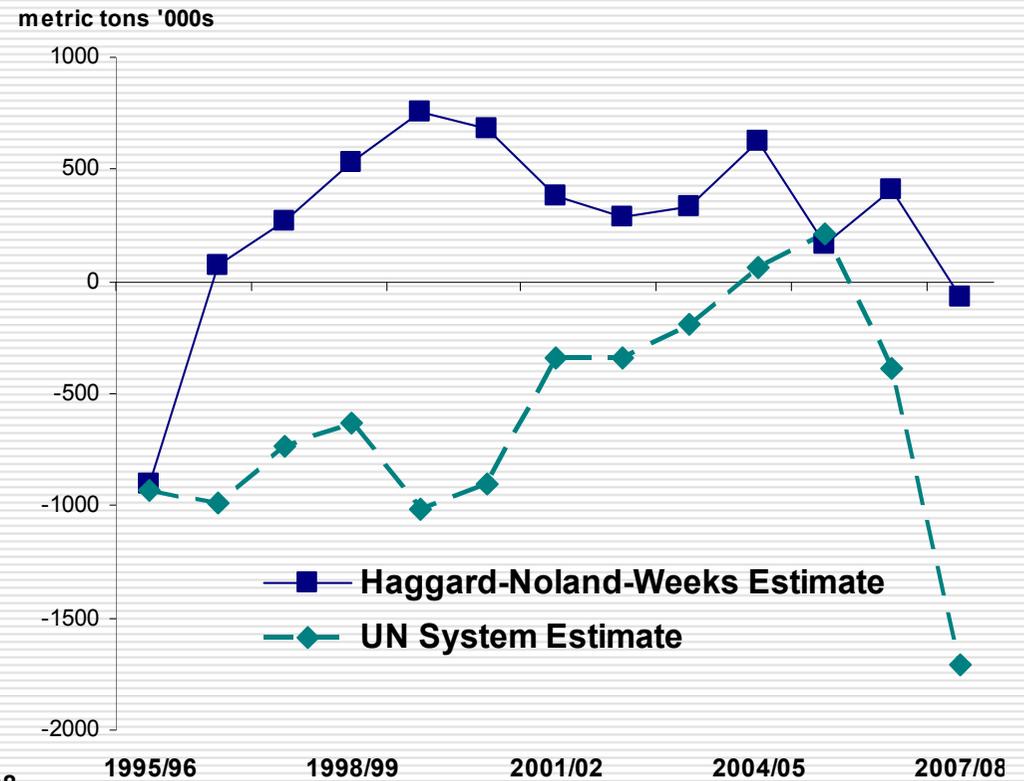
- ❑ On the back of increasing harvests, rising aid government undertook reckless actions in 2005
  - ❑ Internally
    - Banning private trade in grain
    - Seizures in rural areas
    - Shut down relief agencies in the hinterland
  - ❑ Externally: 2006 missile, nuclear tests
  - ❑ Bad weather: the floods of 2007
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# Evidence I: Quantities

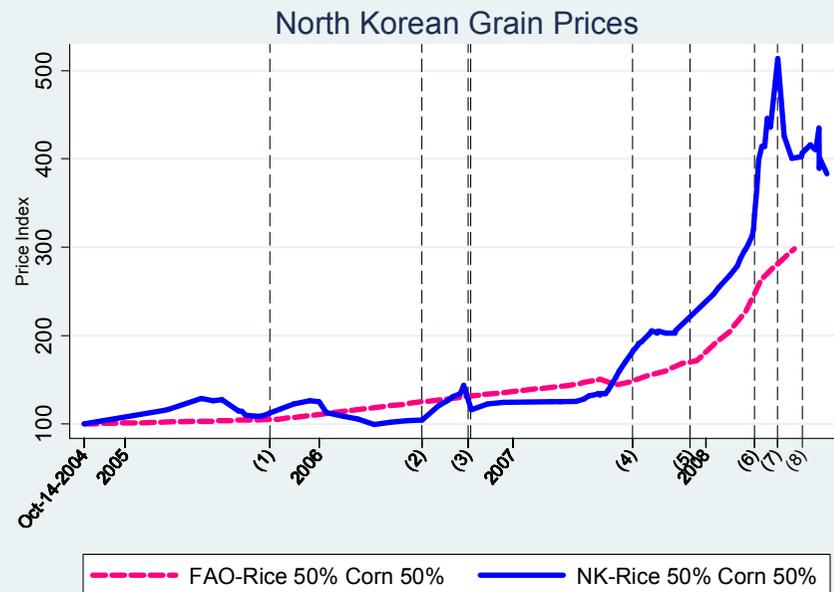
North Korea Food Balances  
1995/96-2007/08



North Korean Grain Balance



# Evidence II: Prices

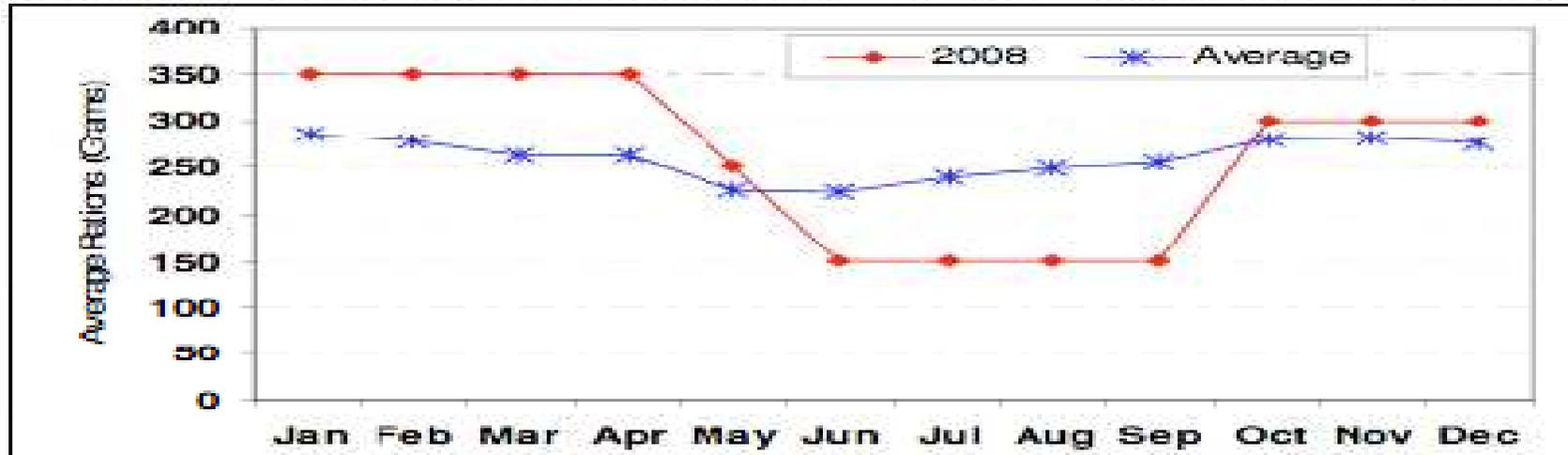


1. 10/01/2005: Ban on private trade in grain & revival of PDS
2. 07/14/2006- 07/15/2006: Flood
3. 10/09/2006: Nuclear Test & UN Sanctions
4. 08/15/2007- 08/31/2007: Flood
5. 12/01/2007: Introduction of Chinese Export controls, partial ban on trading activities
6. 04/01/2008: Tightened control on trading activities
7. 05/14/2008: Military stocks reportedly ordered released & US aid announcement on the 16<sup>th</sup>.
8. 06/30/2008: Arrival of first aid shipment

# Evidence III: Qualitative

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Figure 2: Monthly Average of Public Distribution System Rations (2008 and Average)



Source: CFSAM 2008 Analysis using PDS-rations from Government obtained by WFP and interviews (in the case of 2008).

- Direct observation documents 2008 reemergence of famine-era pathologies
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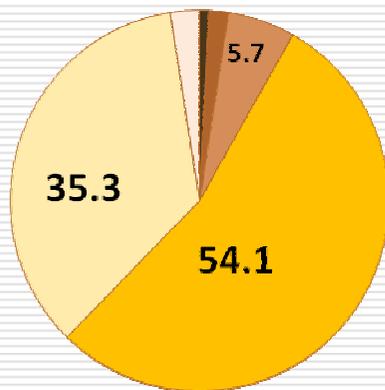
# Current Conditions: Food

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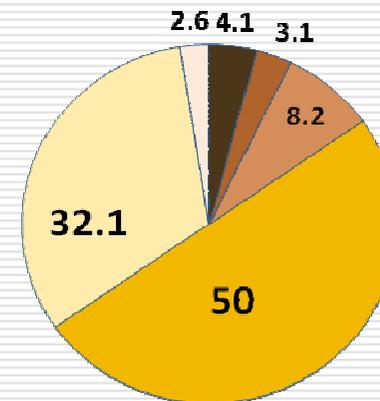
- The good news
    - 2008 harvest probably modest improvement over bad base; prices have fallen
    - Purchases of food and fertilizer in anticipation of fallout from rocket launch?
  - The bad news
    - Military restocking may limit available supply
    - Price decline may be seasonal, not secular; a chronic humanitarian emergency
  - Government policy remains control-oriented
    - Limits on markets
    - Border crack-downs
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# “Partial” Reforms Associated with an Increase in Corruption, Inequality and Disaffection

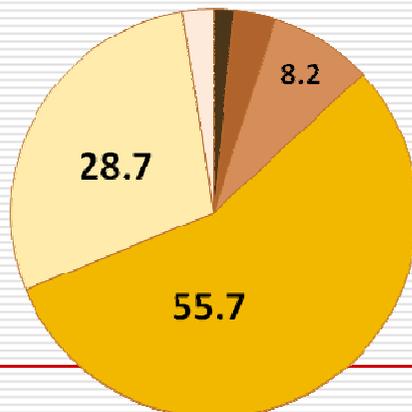
Corruption increased



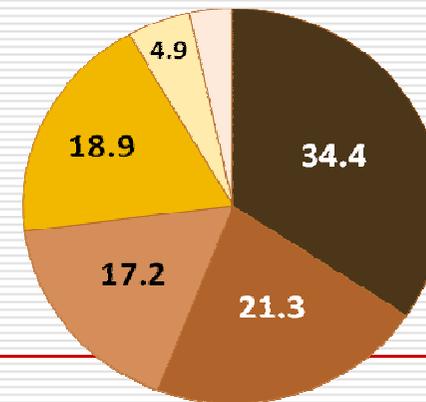
Had to pay bribes to engage in private activity



Society became more unequal

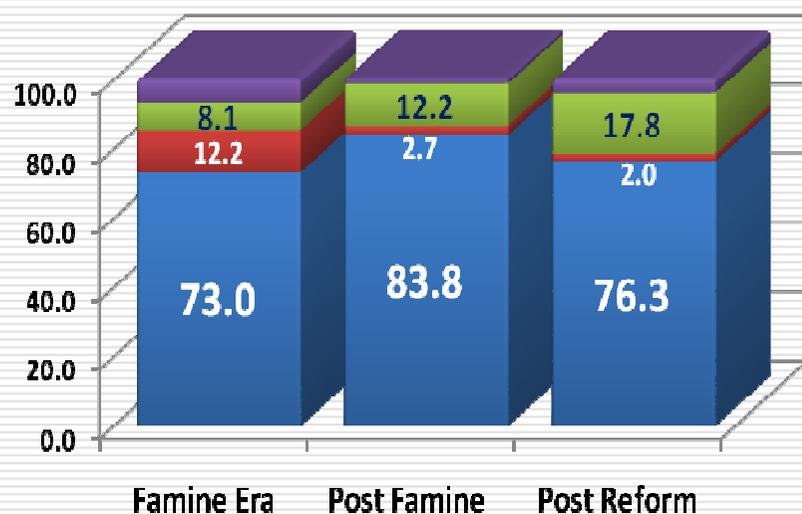


I was better off



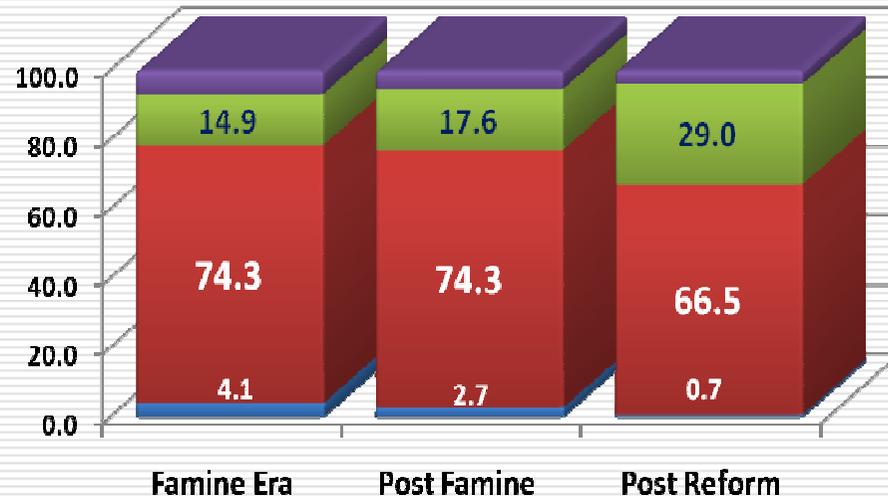
# Changing Pathways to Advancement

The best way to get ahead in North Korea is...



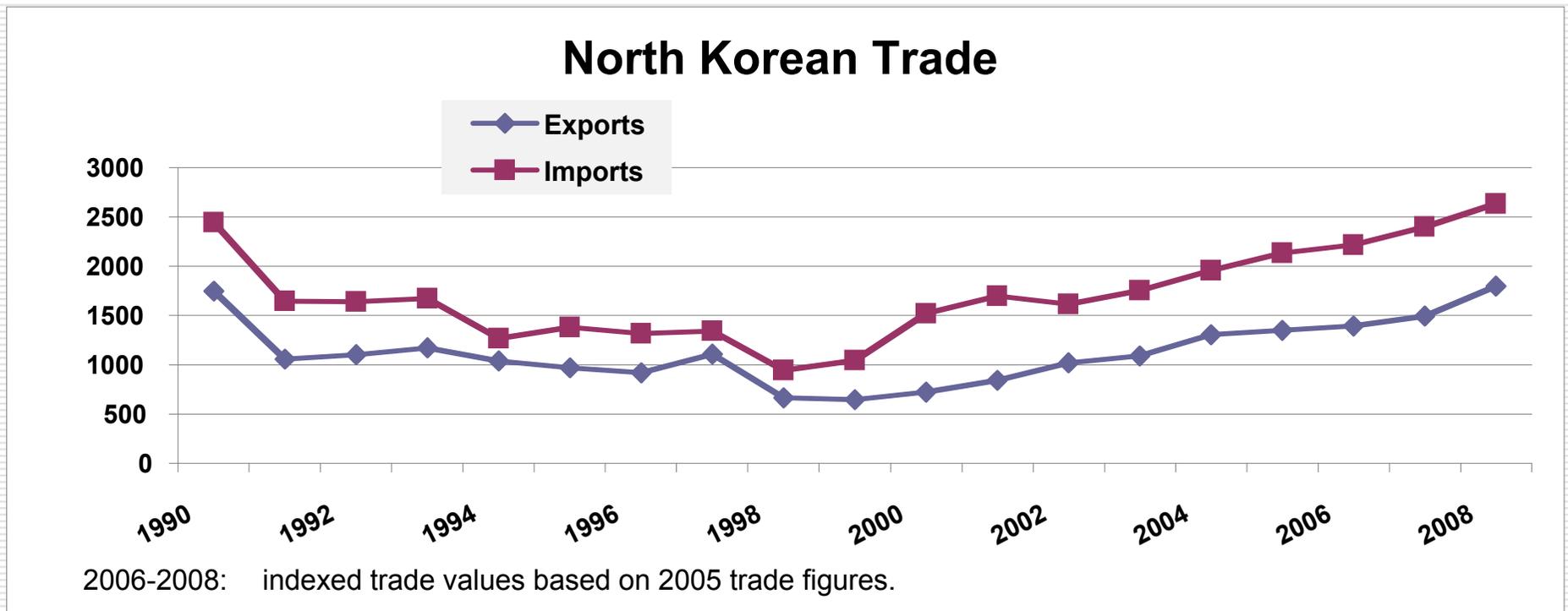
- Become a government or party official
- Join the army
- Engage in business
- None of the above

The easiest way to make money in North Korea is...



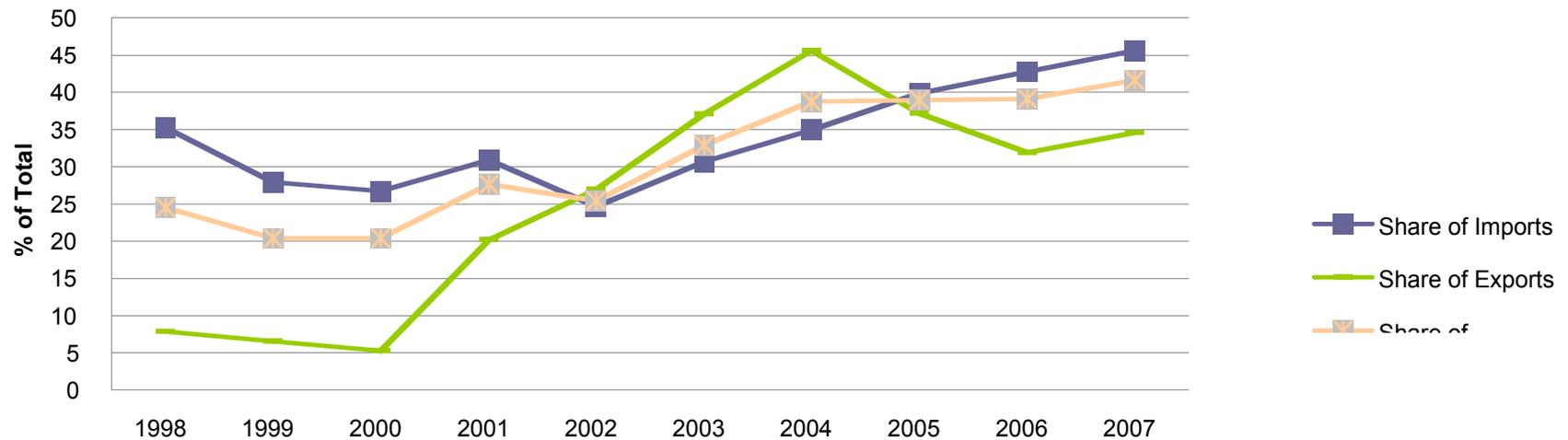
- Work hard at assigned job
- Engage in market activities
- Engage in corrupt or criminal activities
- None of the above

# Developments in the External Sector

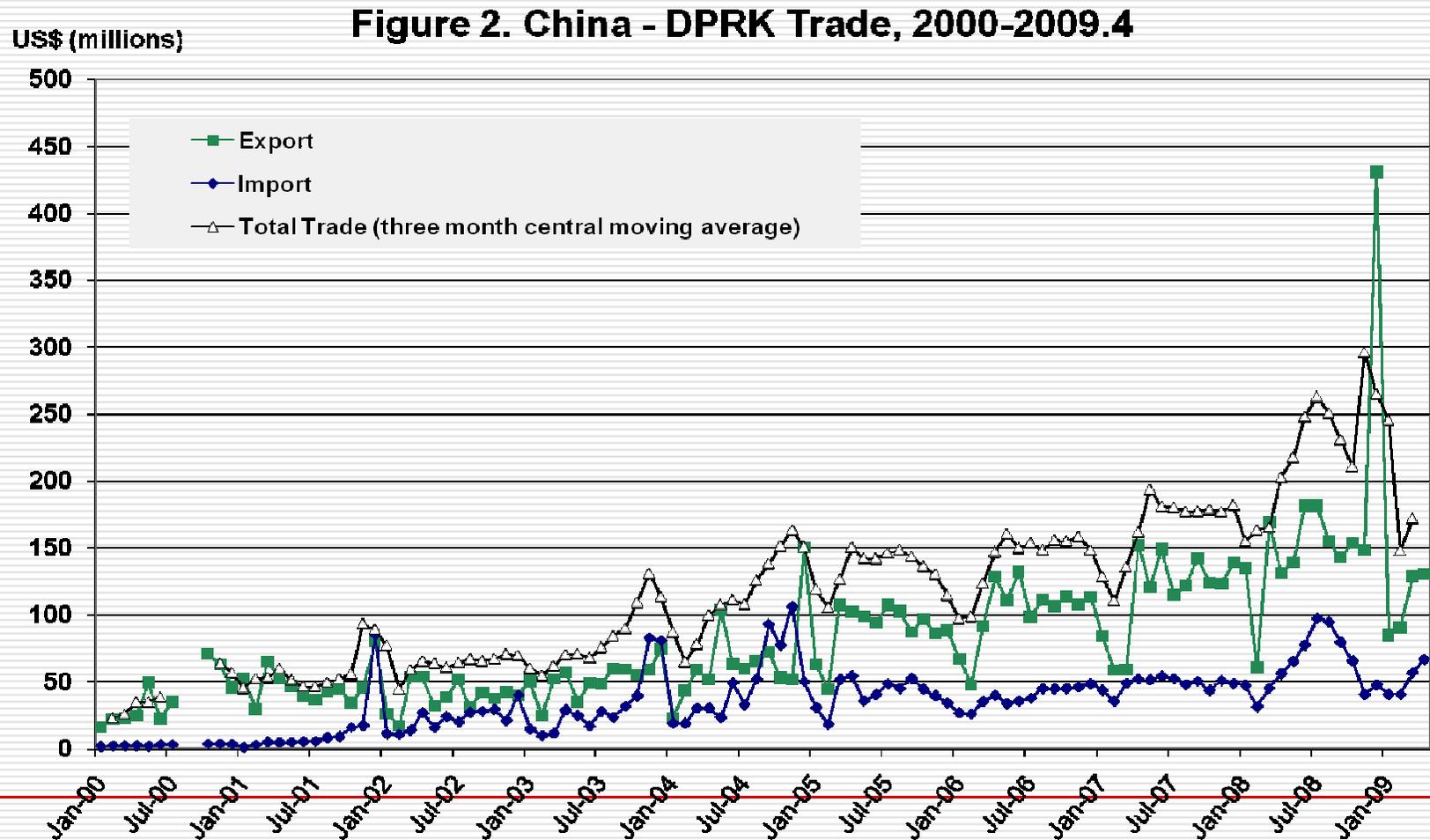


# China's Growing Share

## China's Share of North Korea's Imports and Exports



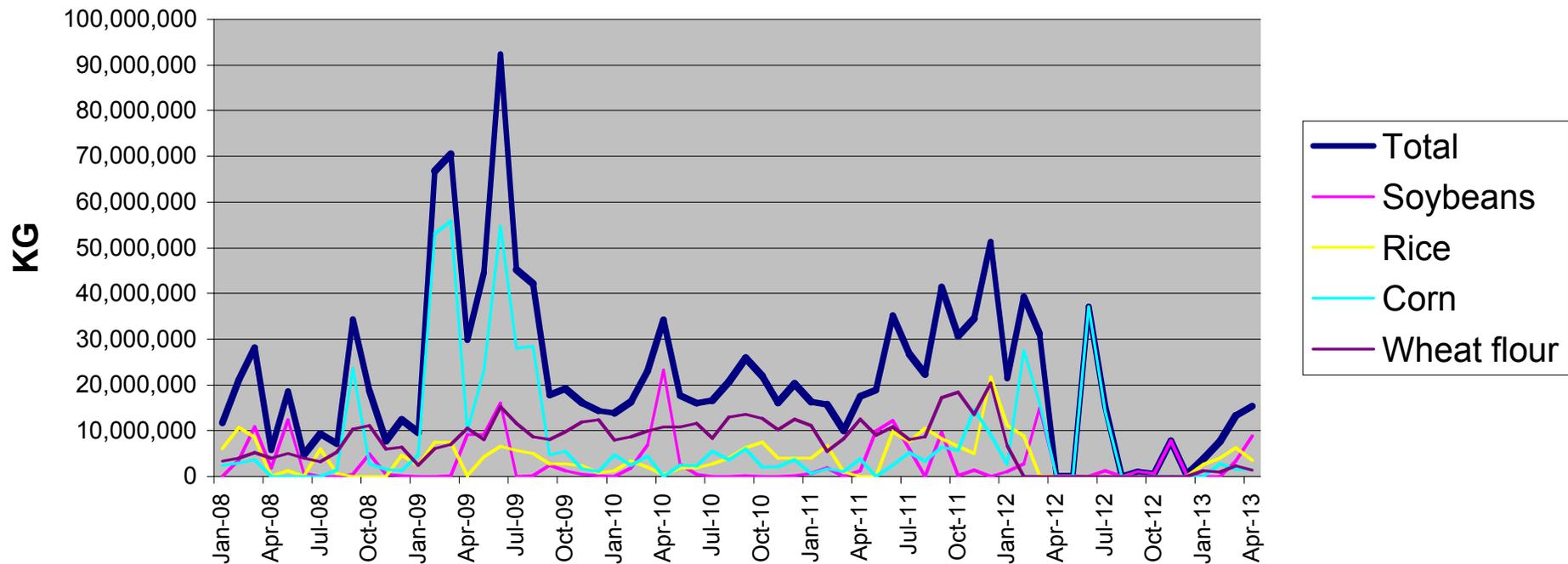
# China-DPRK Trade



Source: Ministry of Commerce of the People's Republic of China 2007 & KITA (Korea International Trade Association)

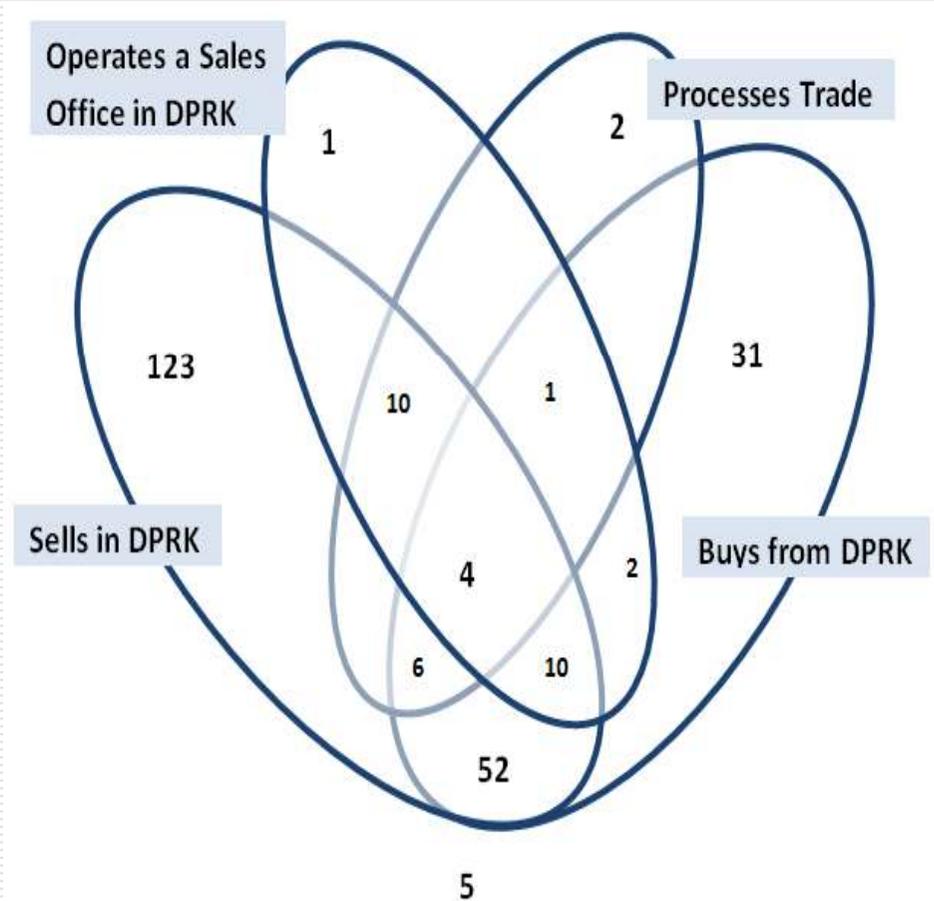
# China Food Exports to DPRK

China exports of grains to North Korea, monthly 2004-09



# Current Conditions: Chinese firm survey

- Mix of activities, sectors
- Differing types:
  - Some large SOEs, most small private
  - Most began with DPRK 2002 or later
  - Most from bordering provinces
- (South Korean survey in train)

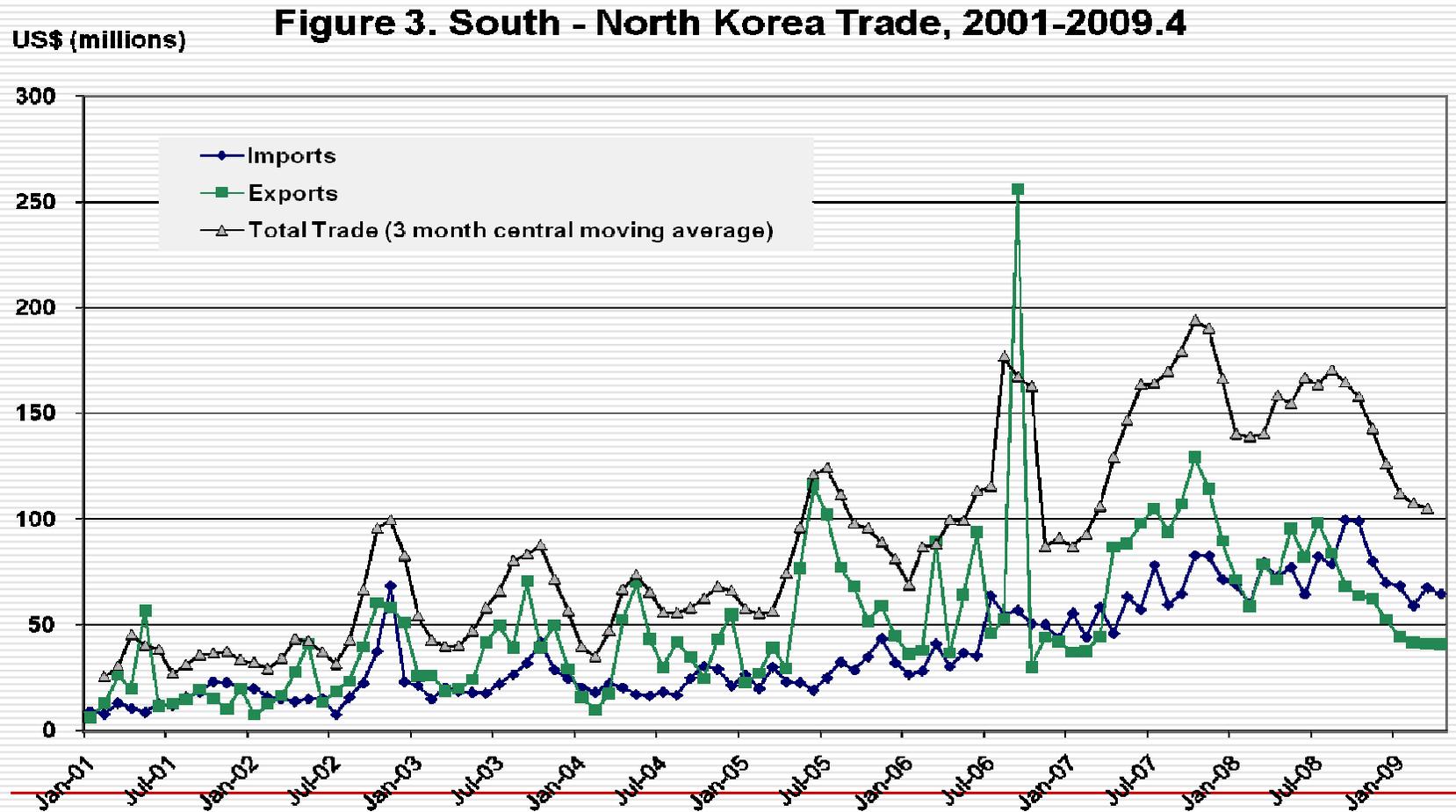


# Some snapshot results

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- Business environment:
    - Cell phone ban 87
    - Infrastructure 79
    - Changing rules 79
    - Regulations 70
  - DPRK reputation deters involvement
  - Expropriation risk deters investment
  - Unhappiness with dispute settlement
  - Lack of trust-- financing tight, most settlement in dollar or yuan
  - Most counterparts are SOEs—relevant for engagement arguments
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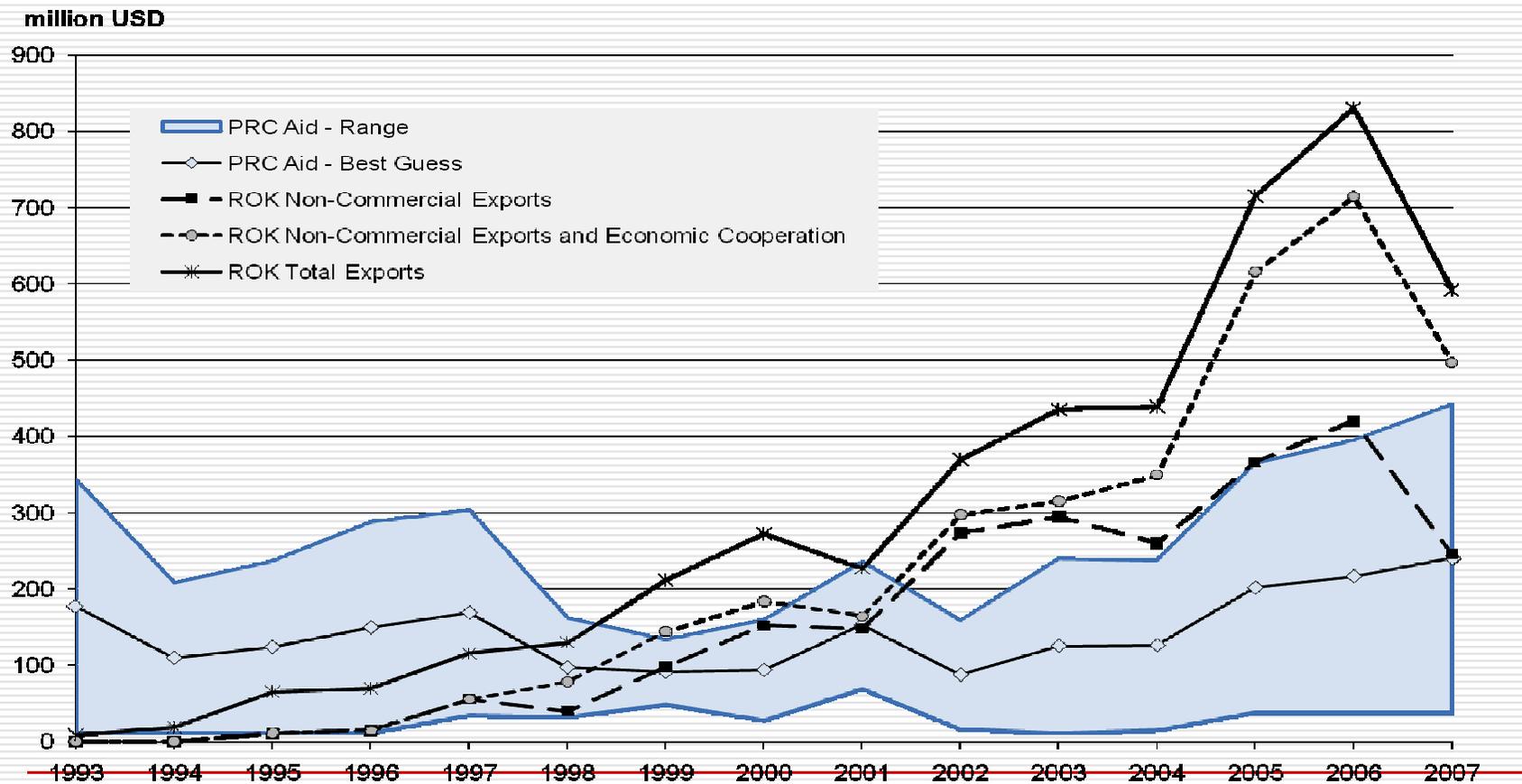
# North-South Trade



Source: Ministry of Unification, Monthly North-South Trade

# Forms of Engagement

**Figure 4. China and South Korea Aid and Exports to North Korea**



# The Kaesong Problem

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## □ The model

- An inducement in broader North-South relations
- Engagement to socialize and transform

## □ The outcome: leverage in reverse

- North Korea not only holding Yoo hostage...
  - But holding entire Kaesong project hostage
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# The New Geography of North Korean Trade

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- Beyond China, the growth of ties with Middle East (ongoing project)
  - With new incentives to proliferate
    - Nuclear cooperation with Syria and Iran
    - Missiles: even during moratorium on test, working with Iran
    - Small arms to Burma, perhaps even Hezbollah and Hamas
  - Other illicit activities: the “soprano state”
  - US concerns: not simply sanctions in context of 6PT, but defensive concerns and link to Middle East
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# Some Conclusions

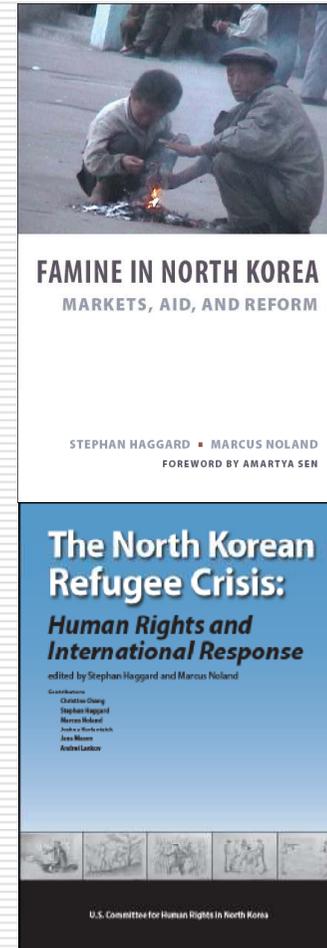
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- Since 2005, regime insecure with respect to domestic political implications of reform and economic change
    - External stresses and succession likely to exacerbate these trends.
  - DPRK more open (e.g. Orascom, China trade), but...
    - Seeking non-demanding partners in China, developing countries and Middle East
      - Alternative means of sanctioning: “son of BDA,” PSI
    - Incentives to proliferation
    - Benefits captured by state and corruption: limits on “engagement as transformation”
  - The Obama administration: back to Bush 1?
  - The Perry approach: offer a choice, but provide a channel
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# Thank you for your attention

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Additional material  
available on  
[www.iie.com](http://www.iie.com)



# Who are the refugees?, I

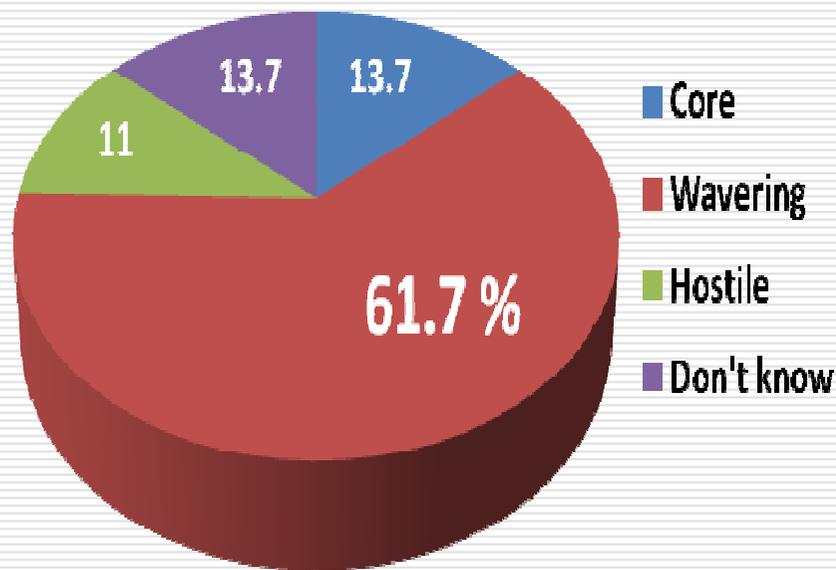
- ❑ Mostly prime age adults
- ❑ More women than men
- ❑ Mostly from the Northeast provinces



# Who are the refugees?, II

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Political Classification

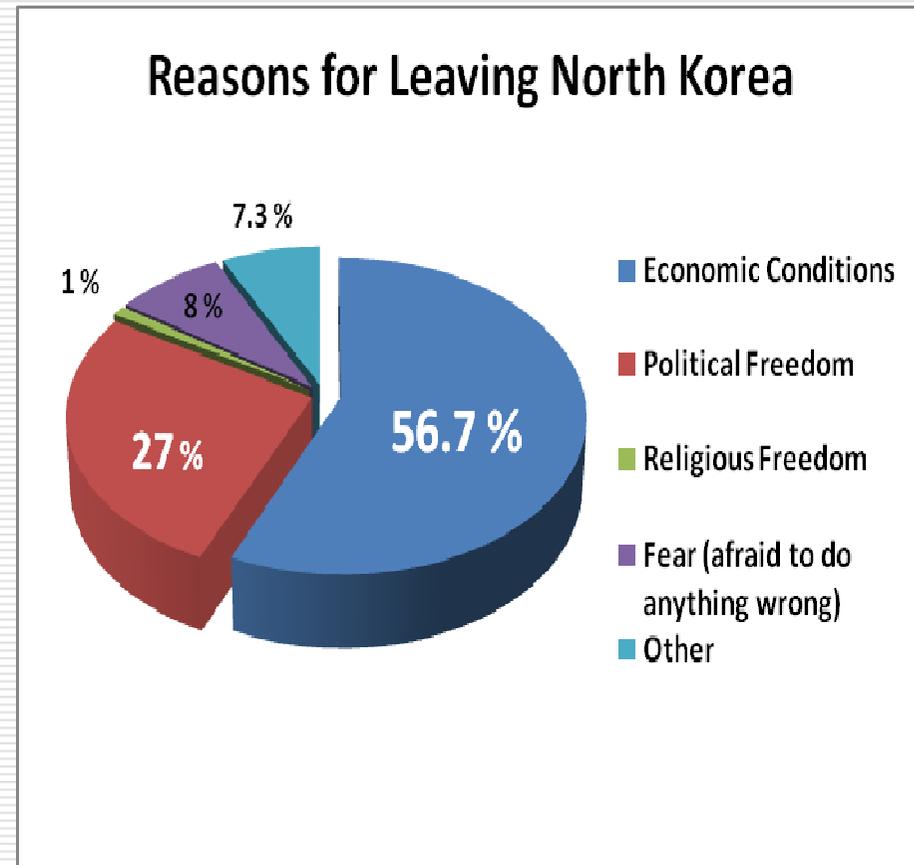


- Typically high school educated worker— responses contradict regime educational attainment claims
  - Most from “wavering” class
  - Parental backgrounds suggest little socio-economic mobility
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# Why do they leave?

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- ❑ Mostly “economic motivations” bound up in regime practices
- ❑ North Korea criminalizes exit-refugees sur place
- ❑ Considerable anxiety about repatriation

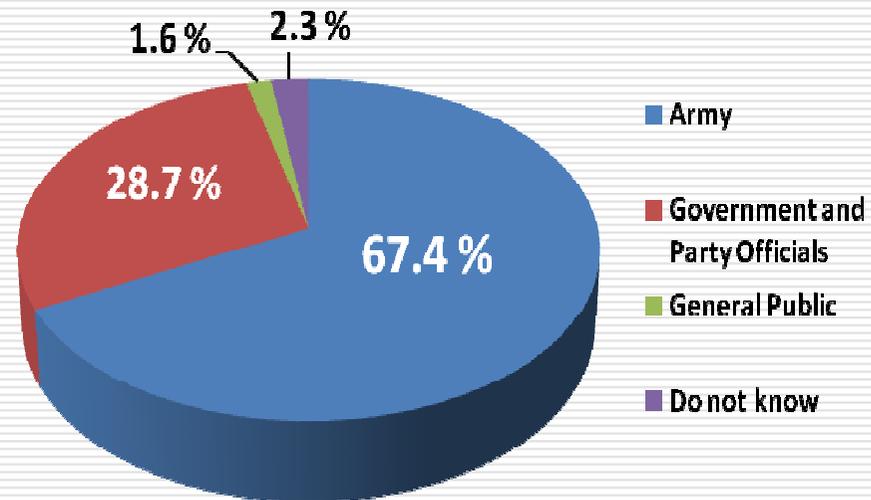


# Life in North Korea: Hunger

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- ❑ 30 percent (China) and 33 percent (South Korea) report death of family member during famine
- ❑ Many unaware of aid program (43 percent China, 56 percent South Korea)
- ❑ Minority believe receive aid (4 percent China, 33 percent South Korea)
- ❑ Most believe aid went to army, party, government officials

**Who Receives Most of the Food Aid**

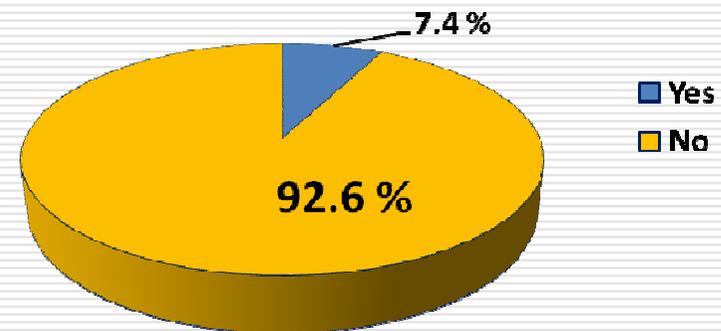


# Life in North Korea: Crimes and punishments, I

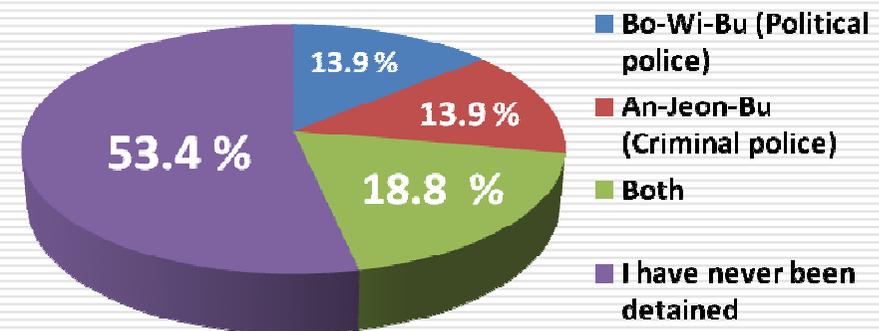
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- ❑ Most know of kwan-li-so (political prison/slave labor camp)
- ❑ Most believe incarceration unjust
- ❑ Almost half had been detained by criminal or political police

Do you think they were sent rightly?



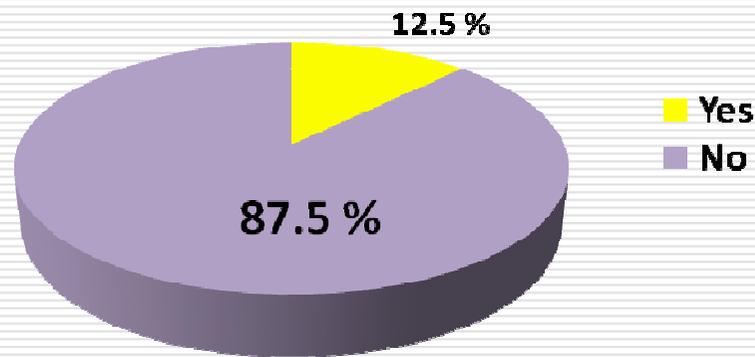
Have you ever been detained by...



# Life in North Korea, Crimes and punishments, II

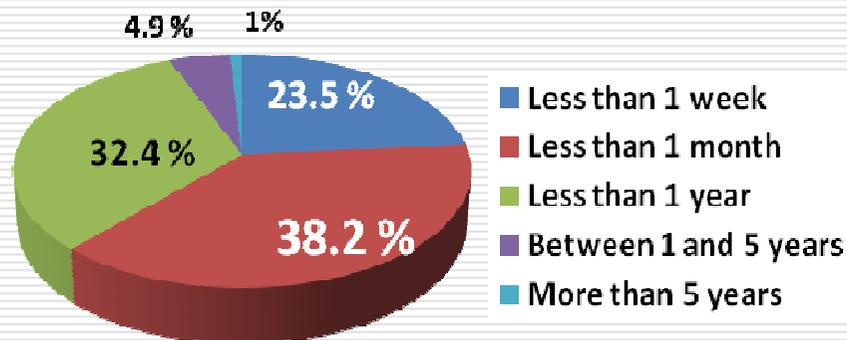
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First had Trial and Conviction



- Most incarcerated without trial
- Most in jip-kyul-so (misdemeanor facility) or no-dong-dan-ryeonda (labor training camp), some in kyo-wha-so (felony facility) or kwan-li-so.

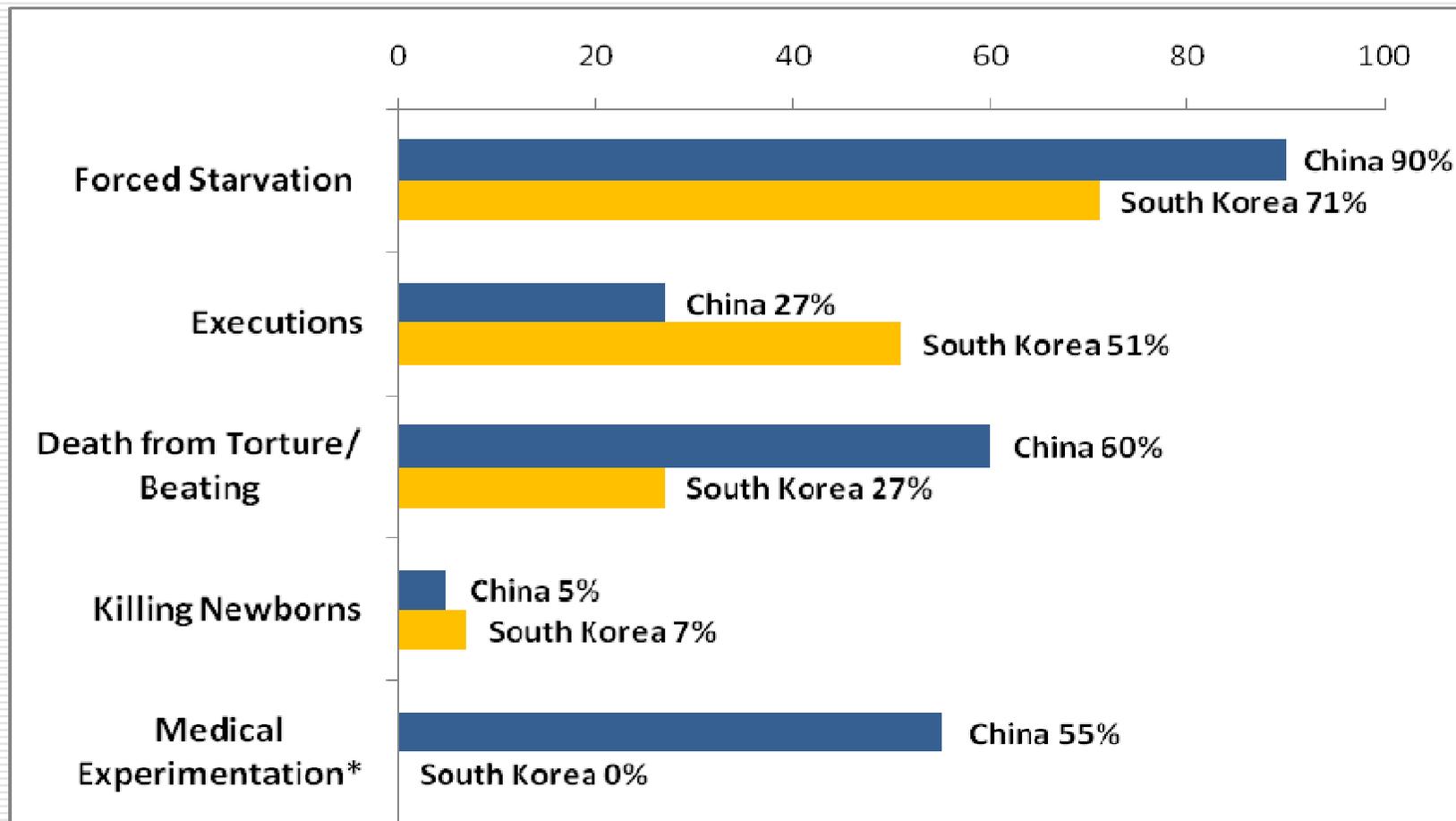
Length of Imprisonment



- Average incarceration between one week and one month
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# Life in North Korea, Crimes and Punishments, III

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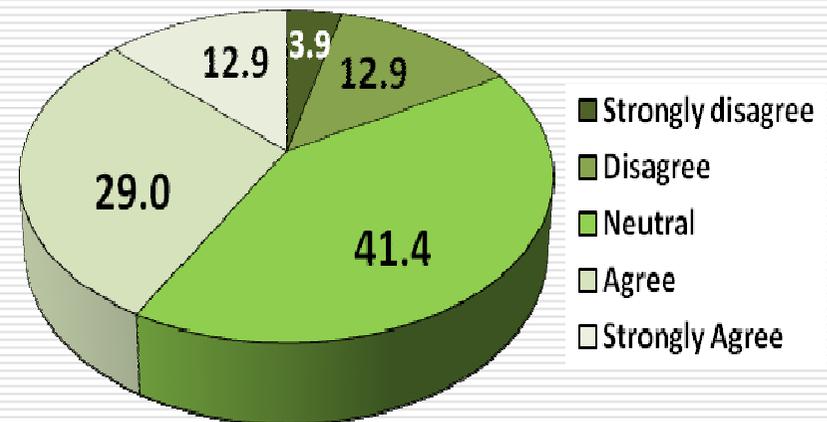


# Psychological dimensions

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- ❑ Most would be diagnosed with PTSD in clinical setting
- ❑ Experiences in North Korea highly correlated with current psychological state, particularly
  - Denial of aid
  - Famine experiences
  - Incarceration
- ❑ Demographic correlates
  - Age, gender
  - But not regional origin--reassuring

**"Current Situation is Hopeless"**

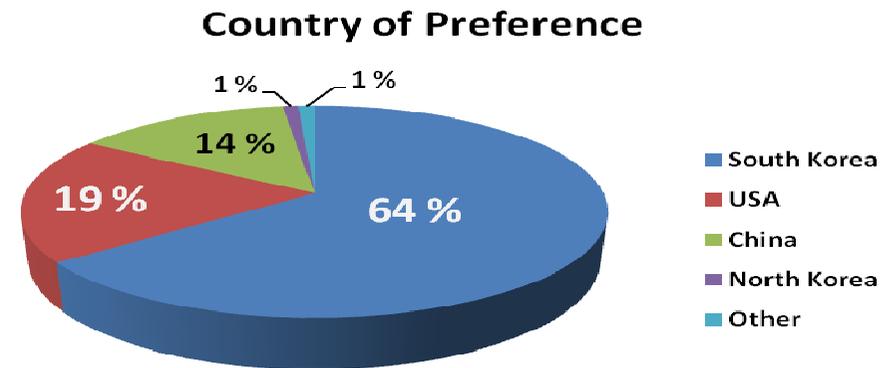


# Life Beyond North Korea

## □ Preferences for permanent resettlement

- US attracts younger, better educated respondents
- More might prefer China if policies changed

## □ Most want unification



## Which statement most accurately represents your view today?

