

The Political Economy of North Korea: Strategic Implications

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Key messages

- ❑ 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

- 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

- 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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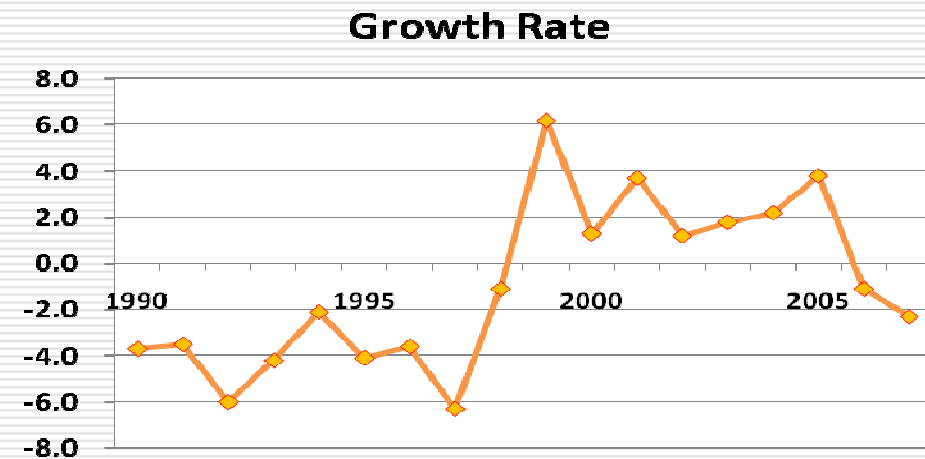
Evidence from Refugee Surveys

- Two surveys

- China, 2004-05, 1,300+ respondents (Chang, Haggard and Noland)
- South Korea, November 2008, 300 respondents, (Haggard and Noland)

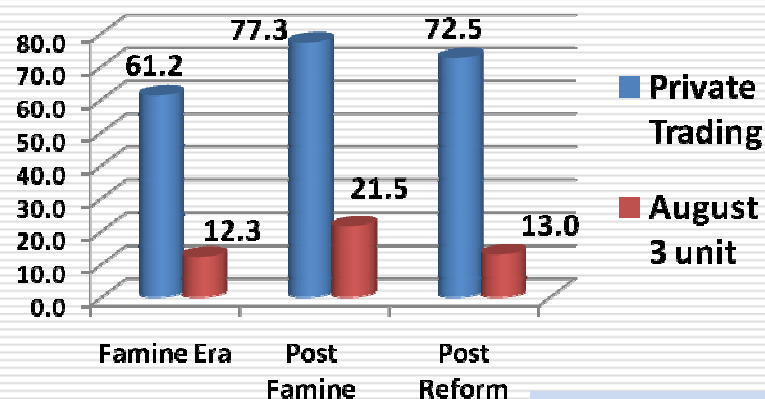
Background: Economic decline and recovery

- ❑ 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

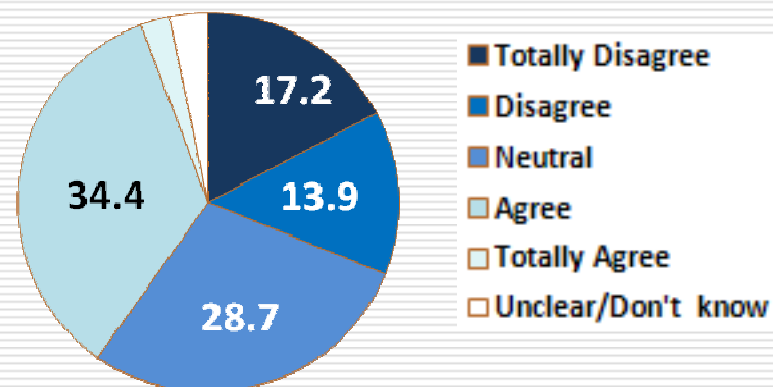


Economy: Central Government Policies Ineffective At Grassroots

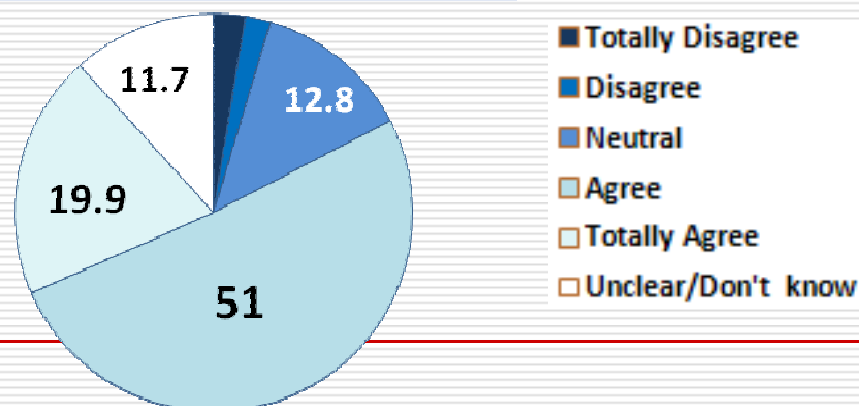
In addition to regular work duties, I engaged in the following activities...



The nature of my work changed



The Government frequently changed the rules governing market activities



Reform in Reverse

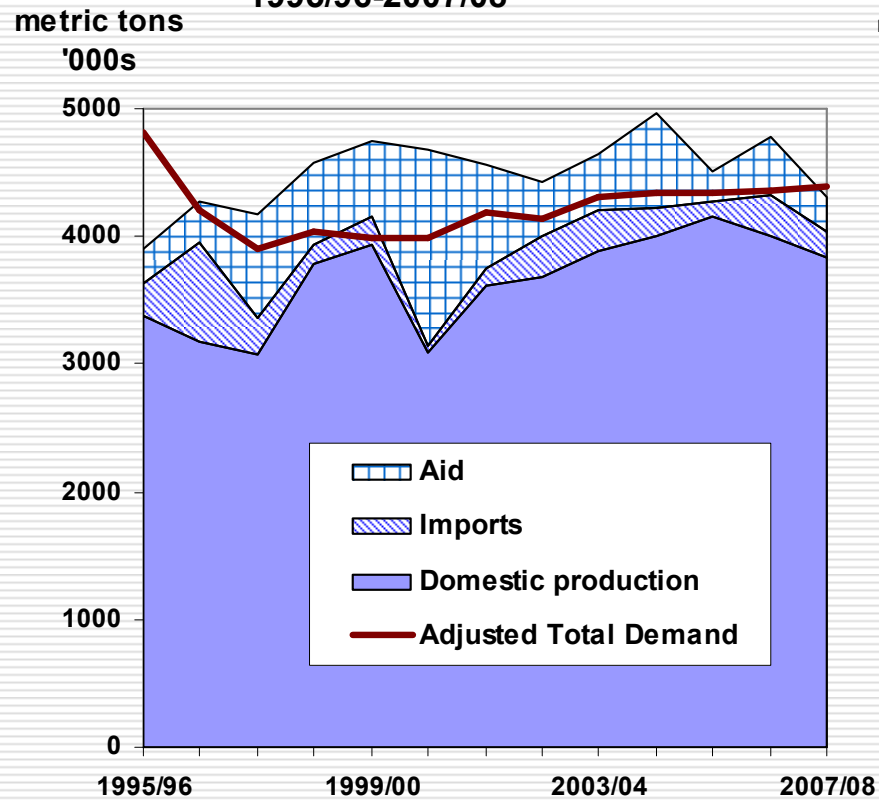
- The food economy
 - The response to markets
 - The management of the border trade
 - The 2009 New Year's editorial: "the 150 day campaign and *Chollima*"
-

Origins

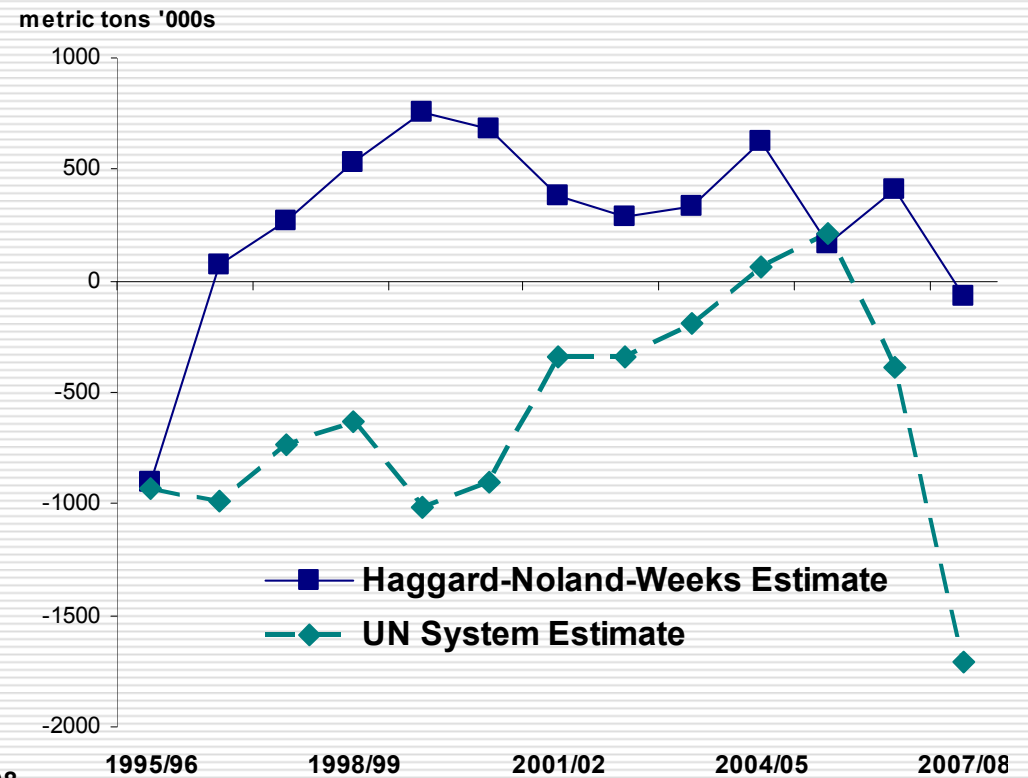
- ❑ On the back of increasing harvests, rising aid government undertook reckless actions in 2005
 - ❑ Internally
 - Banning private trade in grain
 - Seizures in rural areas
 - Shut down relief agencies in the hinterland
 - ❑ Externally: 2006 missile, nuclear tests
 - ❑ Bad weather: the floods of 2007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

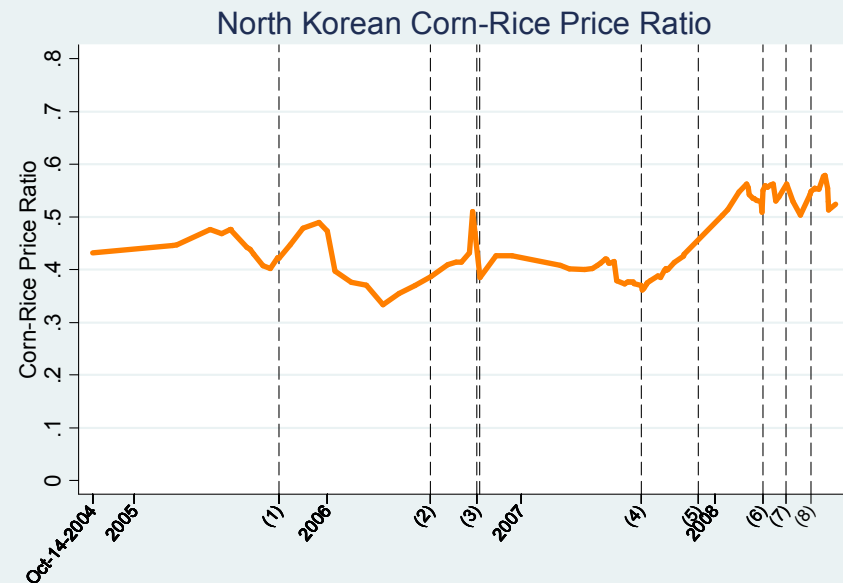
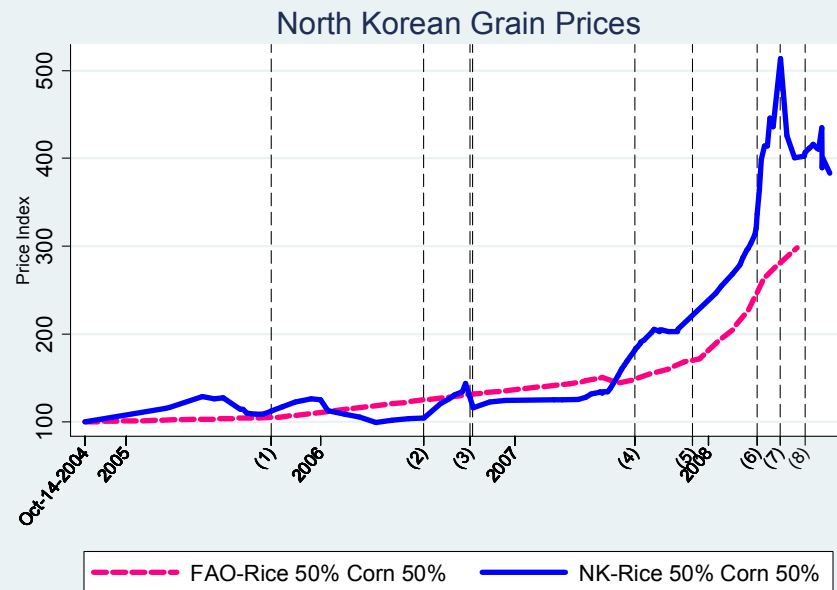
North Korea Food Balances
1995/96-2007/08



North Korean Grain Balance



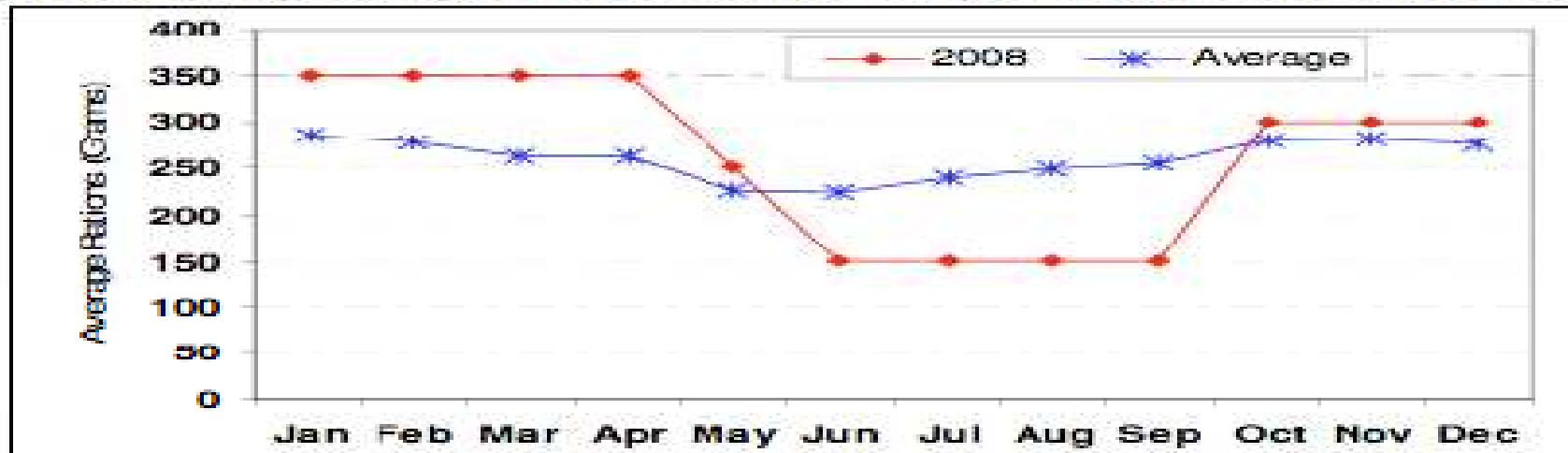
Evidence II: Prices



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 16th.
8. 06/30/2008: Arrival of first aid shipment

Evidence III: Qualitative

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).

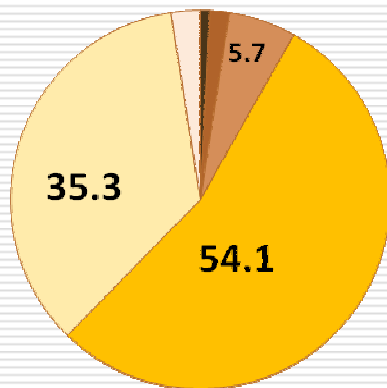
- Direct observation documents 2008 reemergence of famine-era pathologies
-

Current Conditions: Food

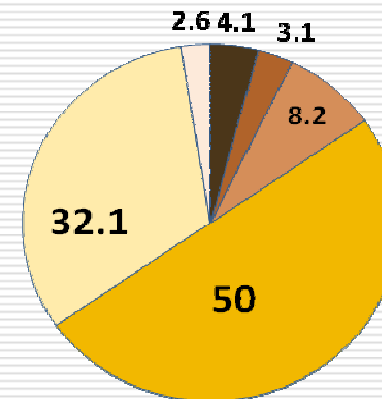
- The good news
 - 2008 harvest probably modest improvement over bad base; prices have fallen
 - Purchases of food and fertilizer in anticipation of fallout from rocket launch?
 - The bad news
 - Military restocking may limit available supply
 - Price decline may be seasonal, not secular; a chronic humanitarian 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

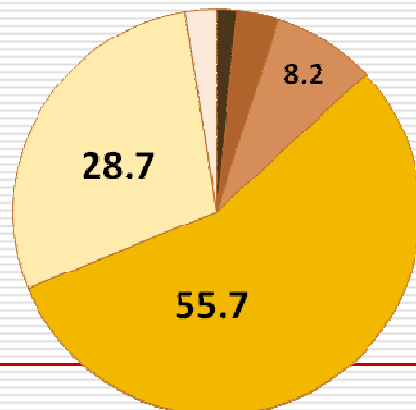
Corruption increased



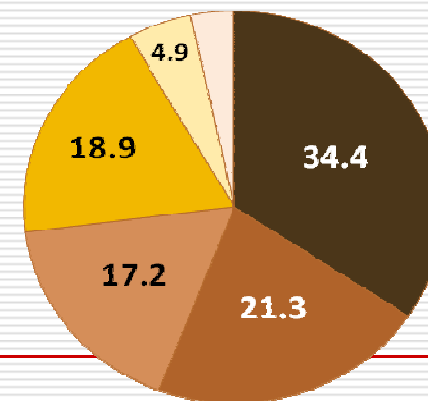
Had to pay bribes to engage in private activity



Society became more unequal

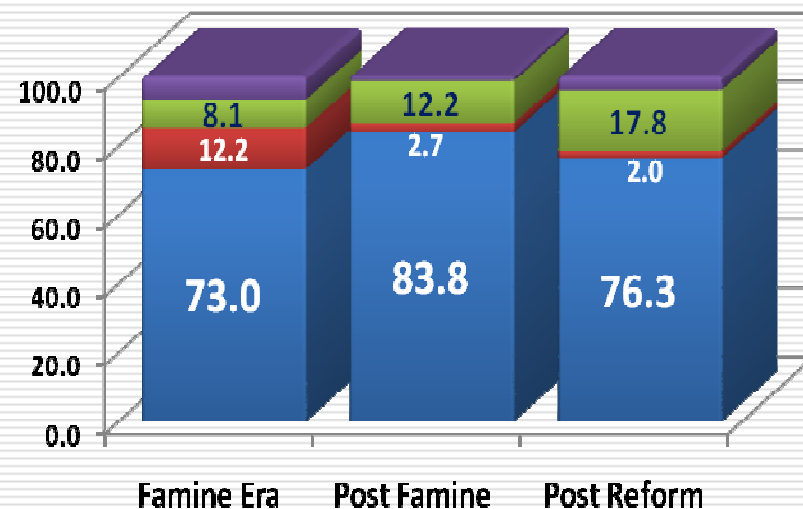


I was better off



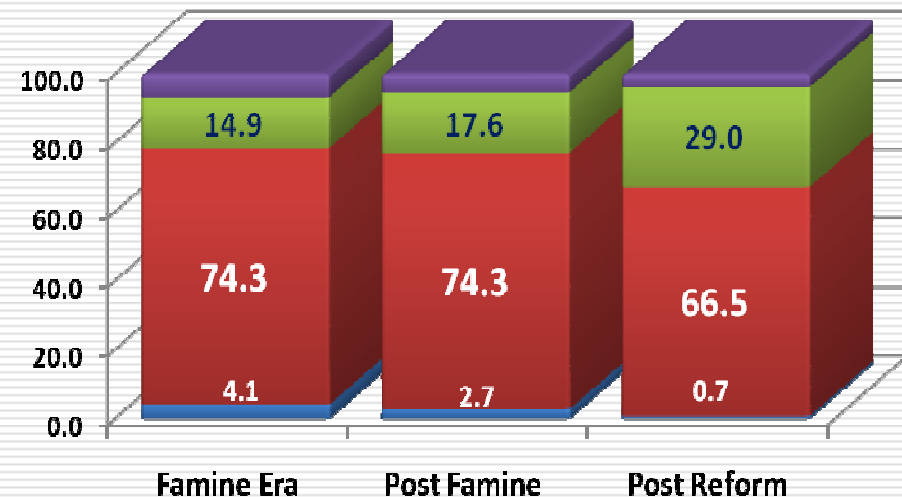
Changing Pathways to Advancement

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



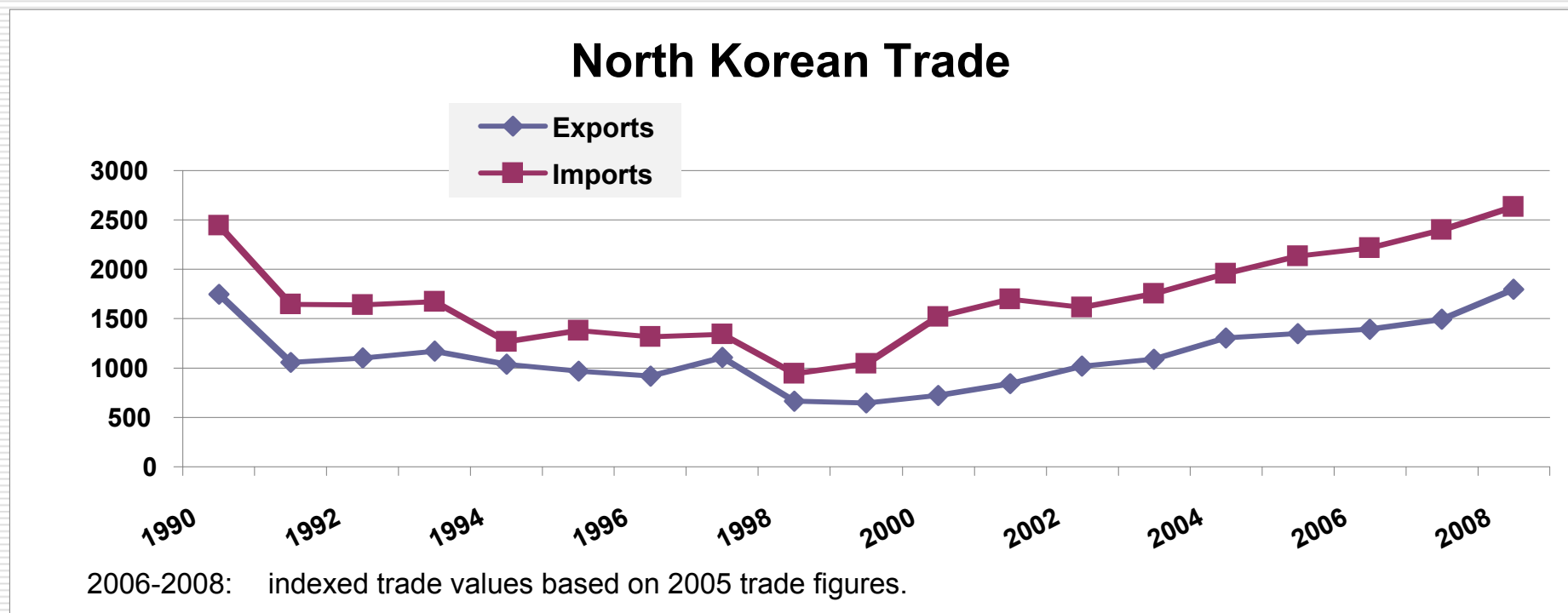
- Become a government or party official
- Join the army
- Engage in business
- None of the above

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



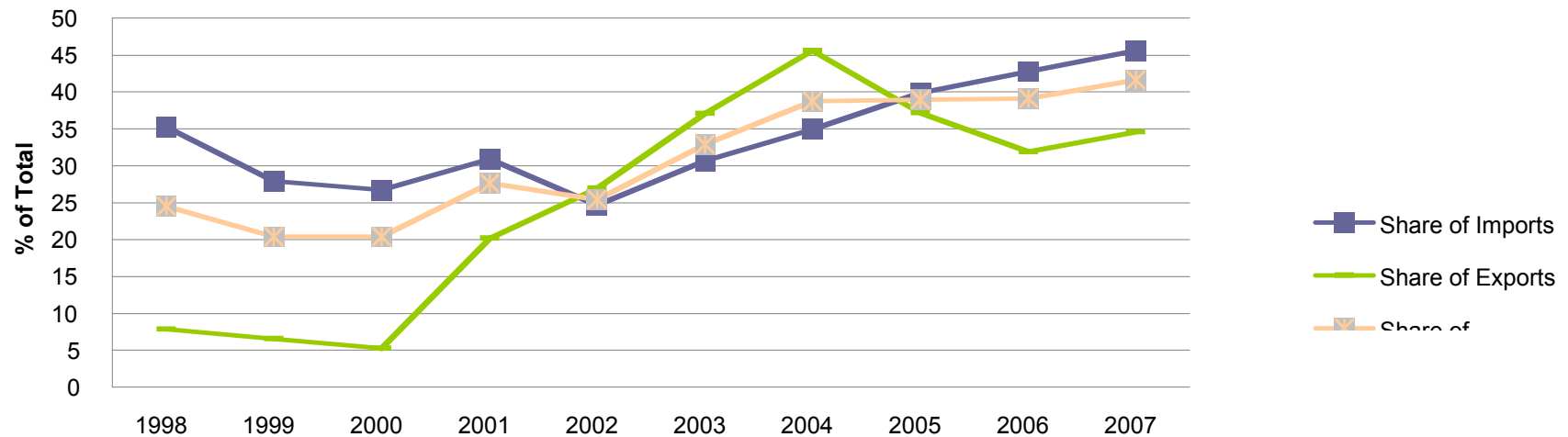
- Work hard at assigned job
- Engage in market activities
- Engage in corrupt or criminal activities
- None of the above

Developments in the External Sector

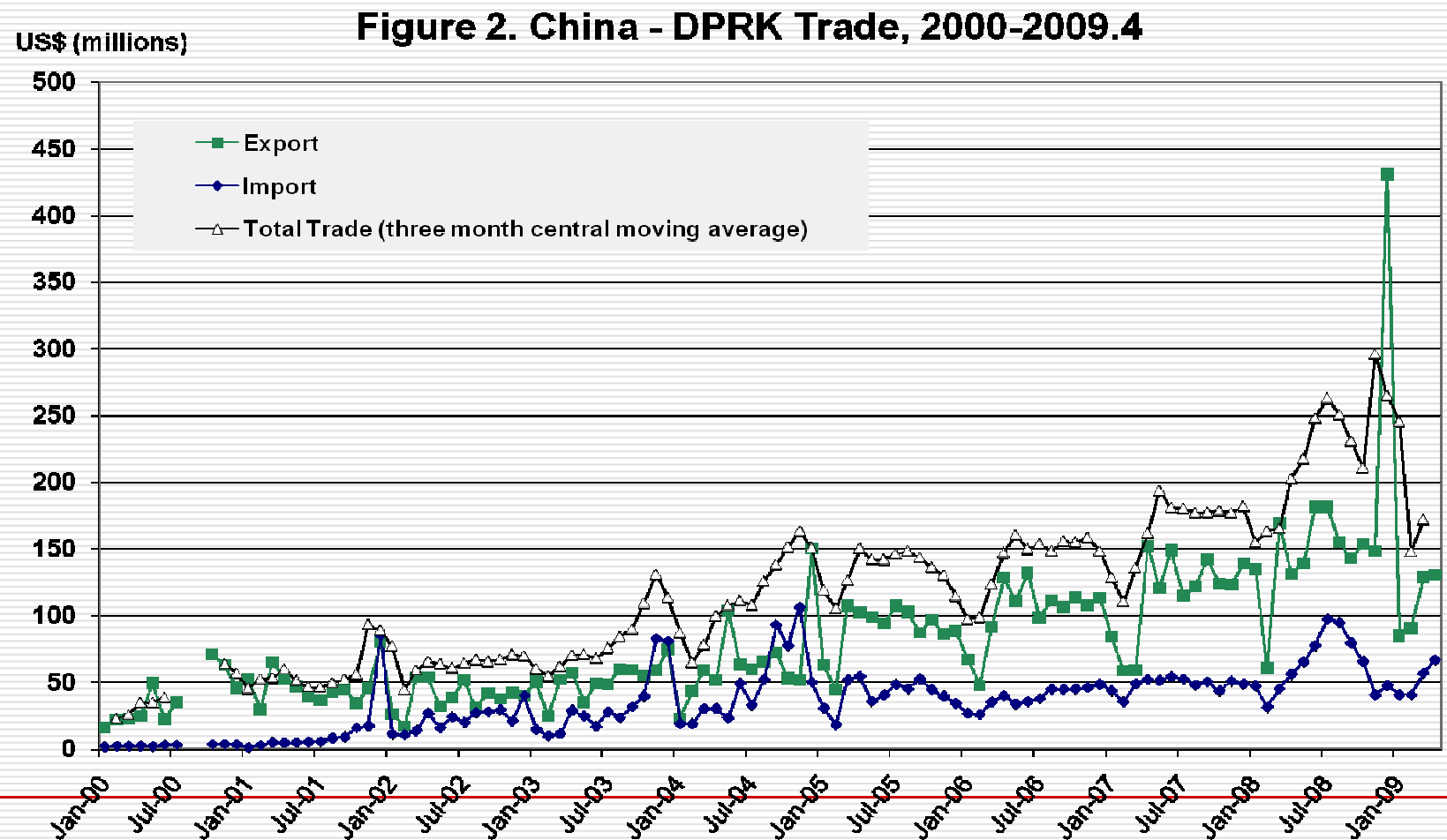


China's Growing Share

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



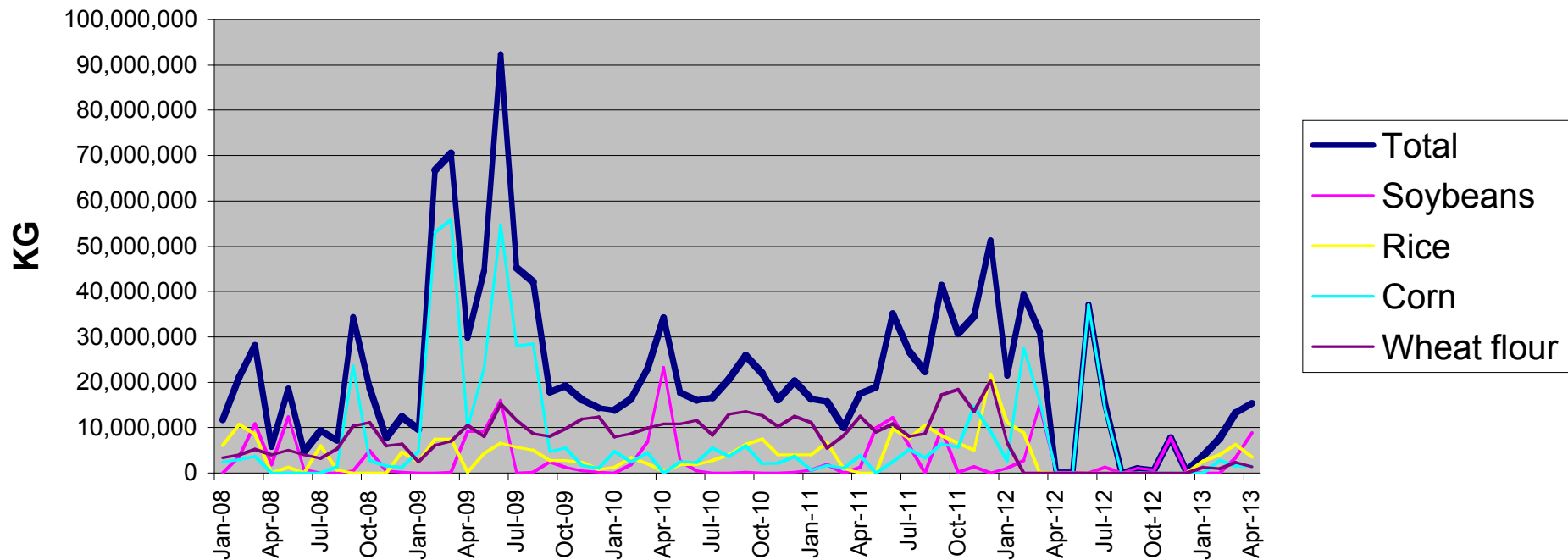
China-DPRK Trade



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

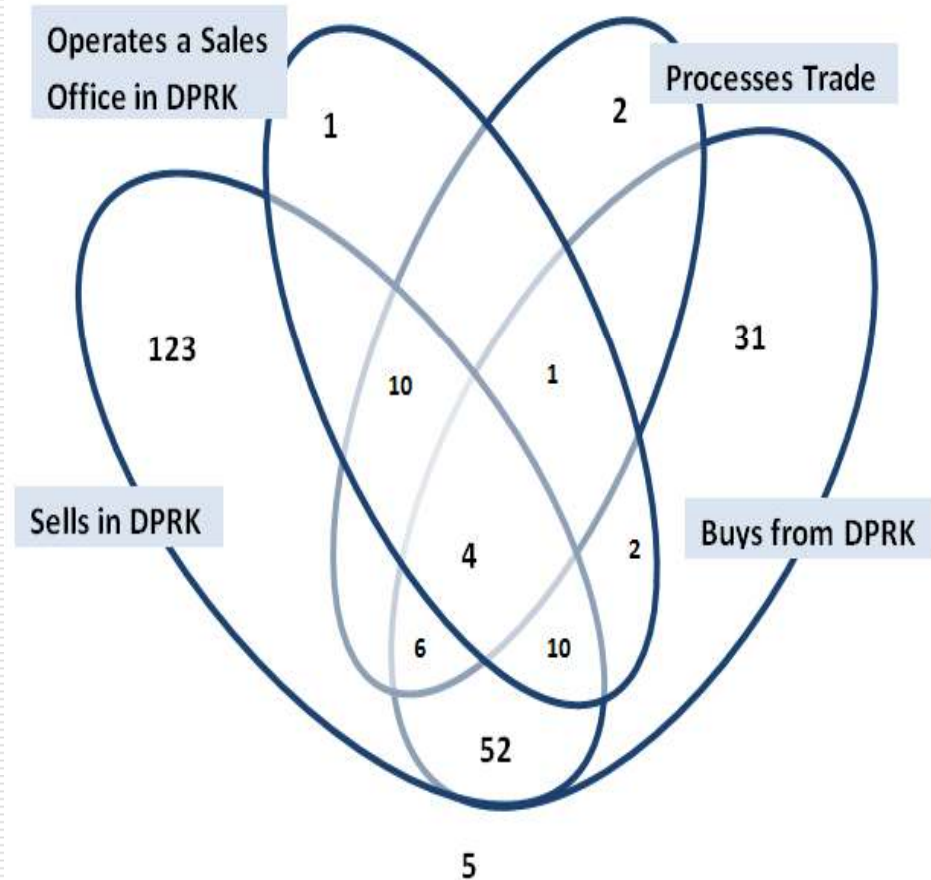
China Food Exports to DPRK

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



Current Conditions: Chinese firm survey

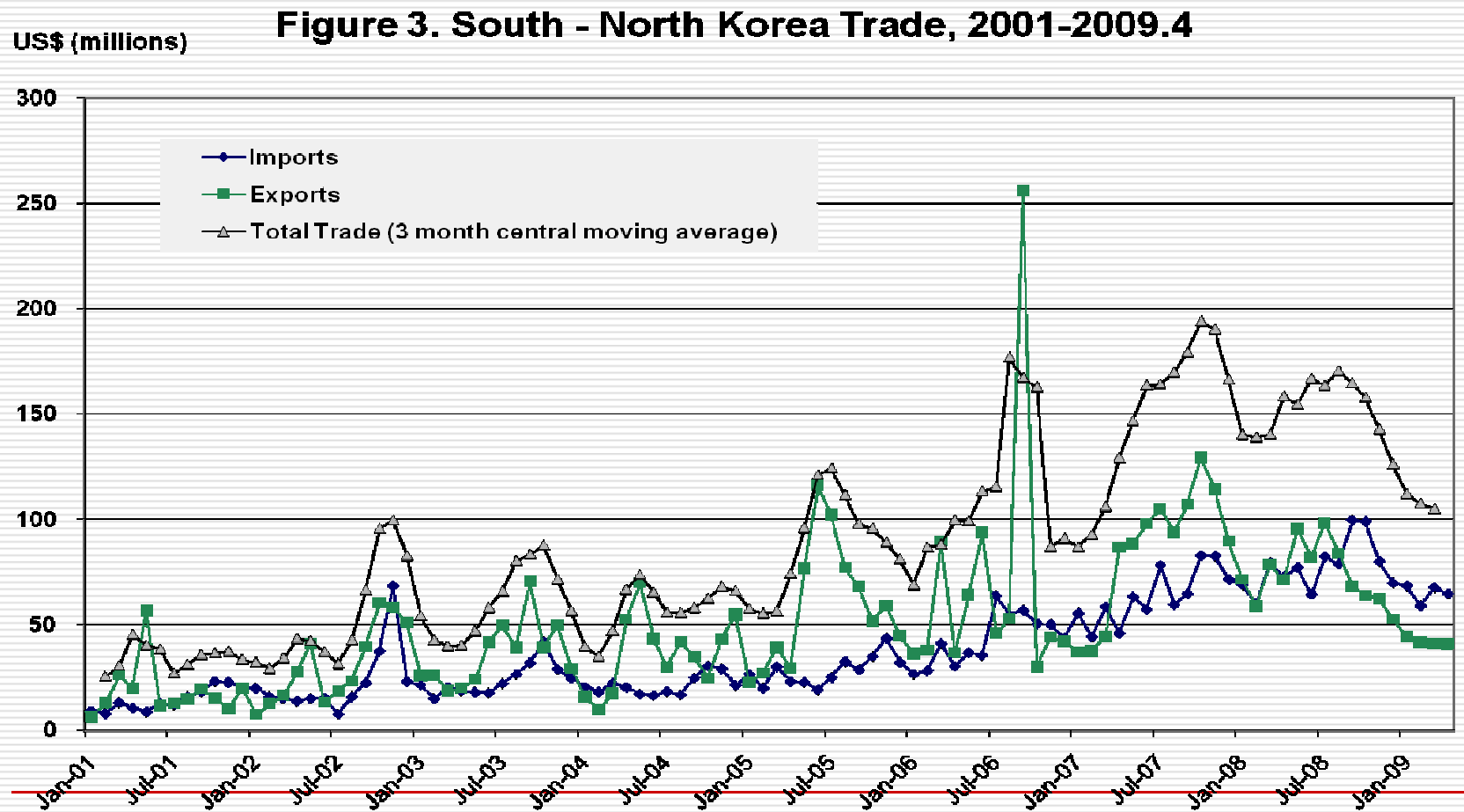
- ❑ Mix of activities, sectors
- ❑ Differing types:
 - Some large SOEs, most small private
 - Most began with DPRK 2002 or later
 - Most from bordering provinces
- ❑ (South Korean survey in train)



Some snapshot results

- 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
-

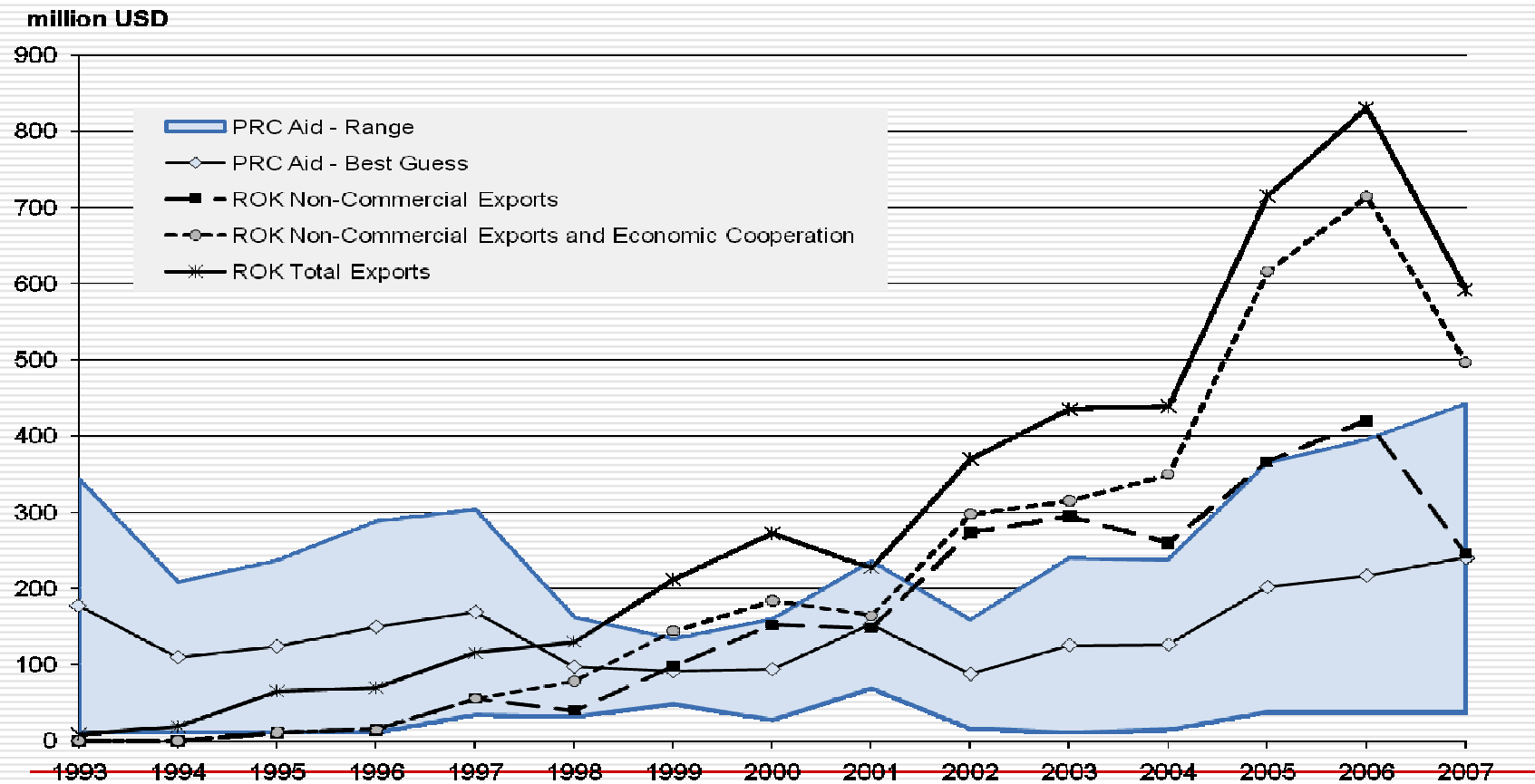
North-South Trade



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

□ 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
-

The New Geography of North Korean Trade

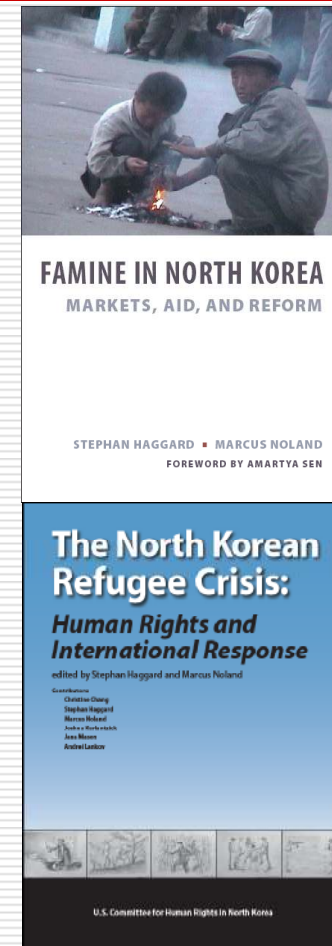
- ❑ Beyond China, the growth of ties with Middle East (ongoing project)
 - ❑ With new incentives to proliferate
 - Nuclear cooperation with Syria and Iran
 - Missiles: even during moratorium on test, working with Iran
 - Small arms to Burma, perhaps even Hezbollah and Hamas
 - ❑ Other illicit activities: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

Some Conclusions

- ❑ 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

Additional material
available on
www.iie.com

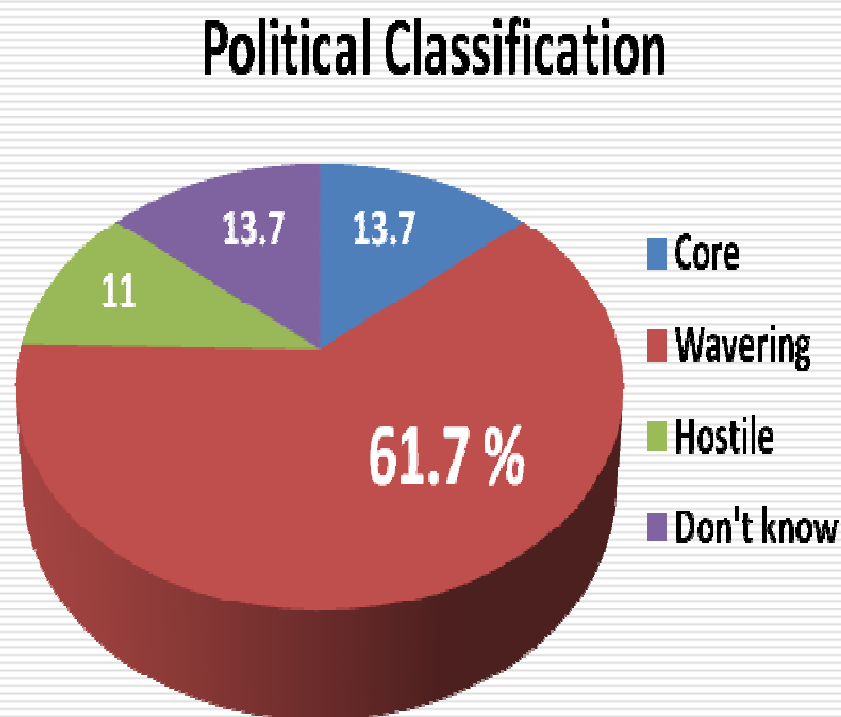


Who are the refugees?, I

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



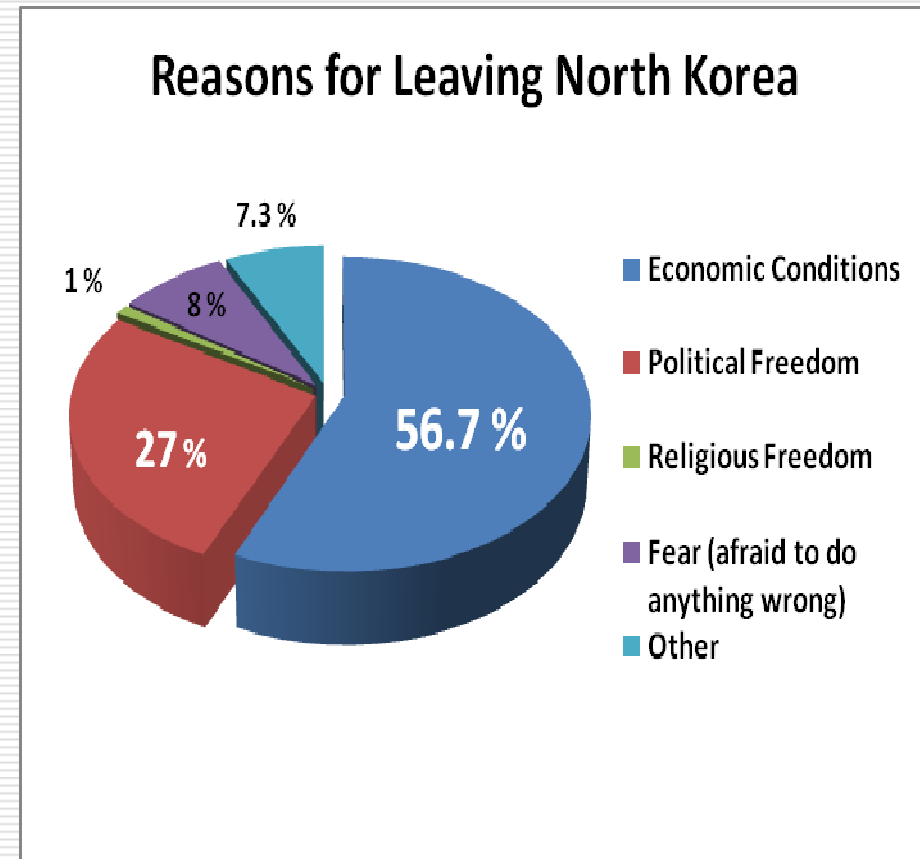
Who are the refugees?, II



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

Why do they leave?

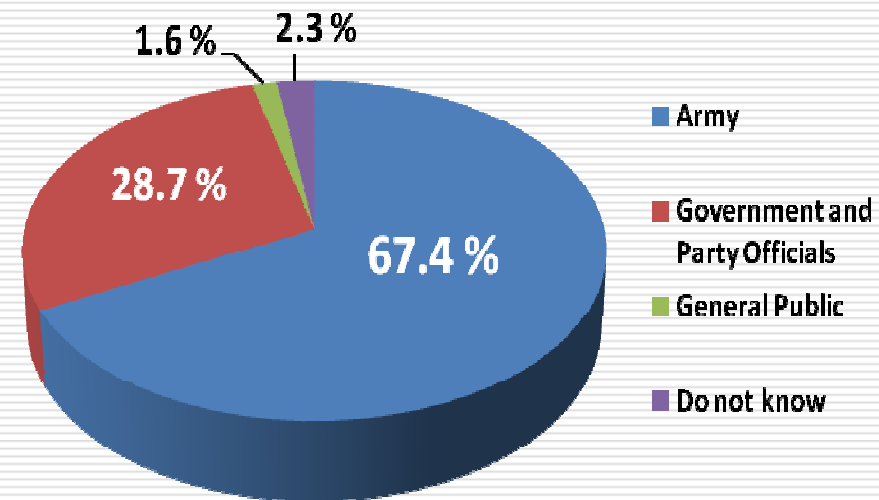
- ❑ Mostly “economic motivations” bound up in regime practices
- ❑ North Korea criminalizes exit-refugees sur place
- ❑ Considerable anxiety about repatriation



Life in North Korea: Hunger

- ❑ 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

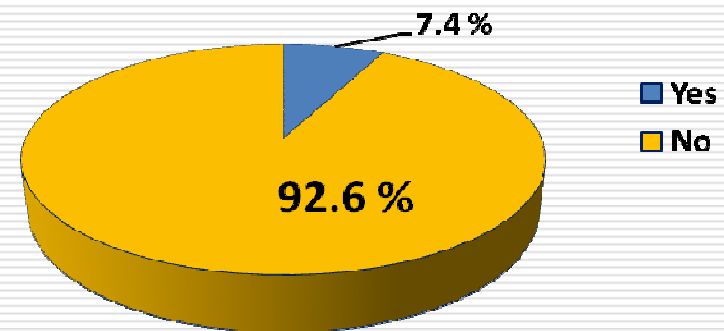
Who Receives Most of the Food Aid



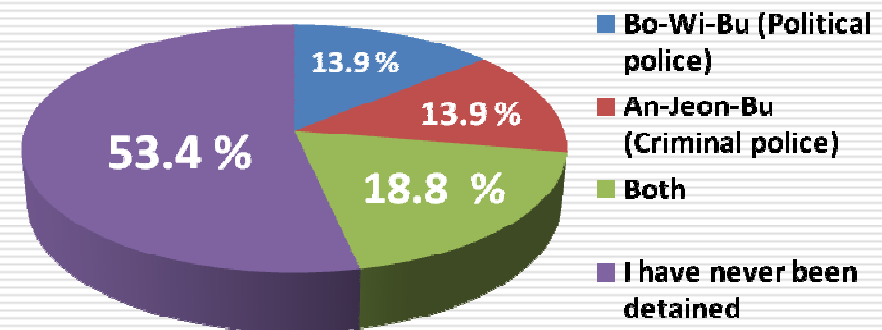
Life in North Korea: Crimes and punishments, I

- ☐ 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?

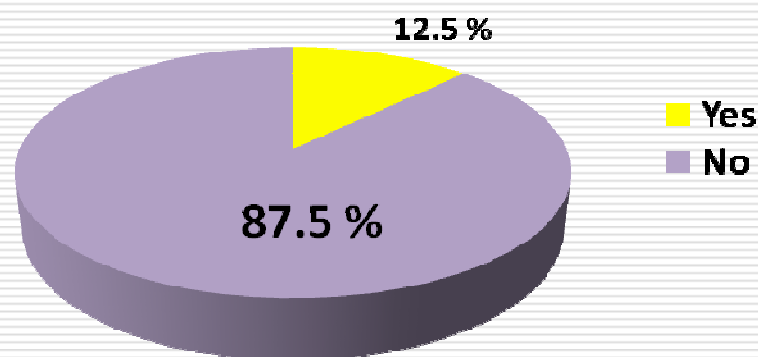


Have you ever been detained by...



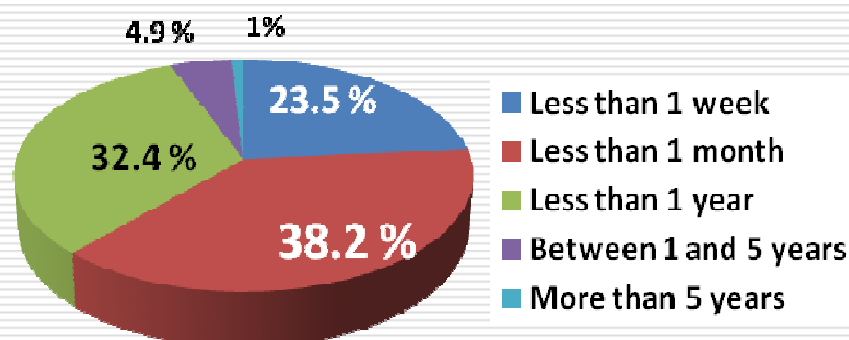
Life in North Korea, Crimes and punishments, II

First had Trial and Conviction



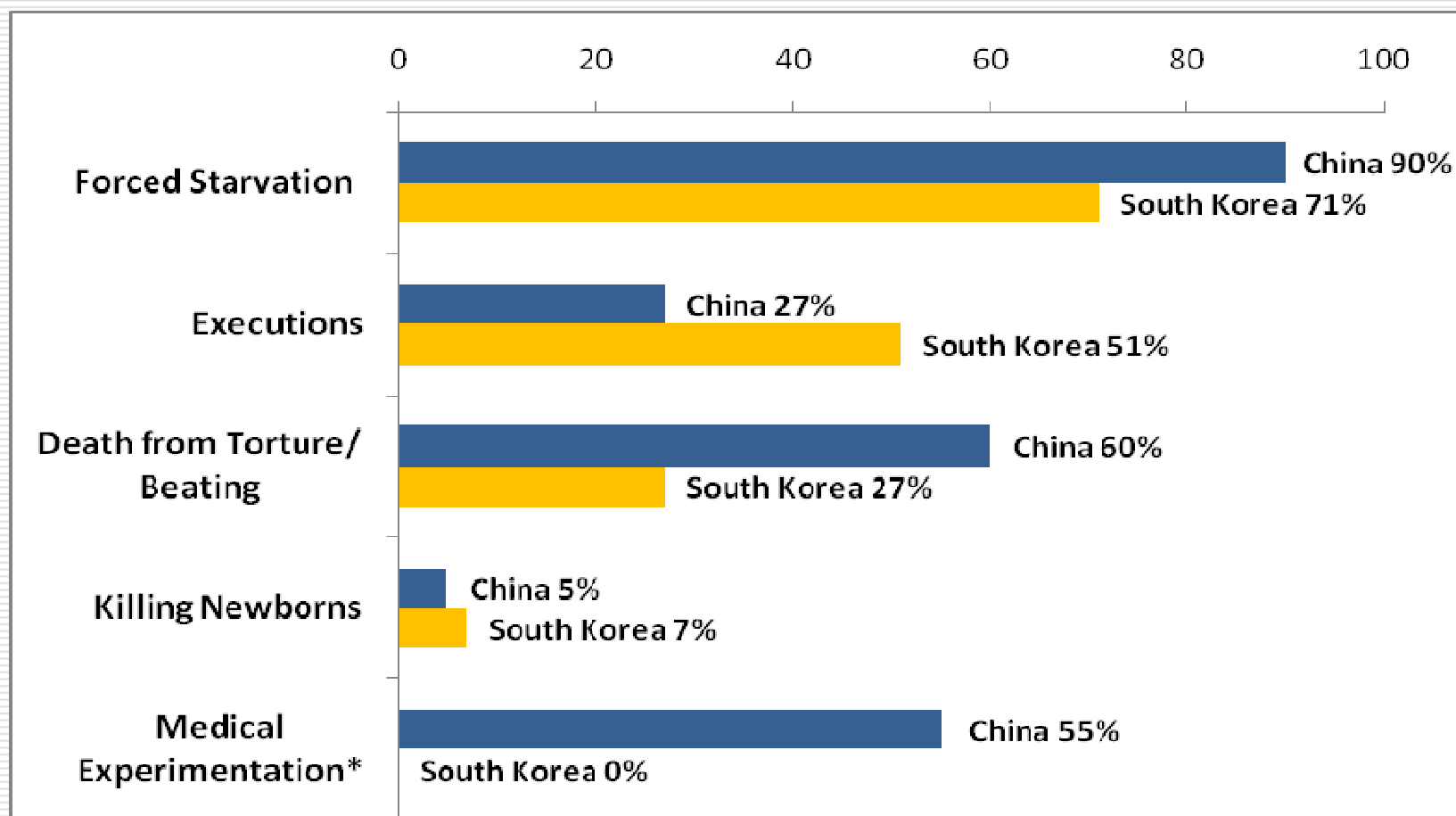
- ☐ Most incarcerated without trial
- ☐ Most in jip-kyul-so (misdemeanor facility) or no-dong-dan-ryeon-dae (labor training camp), some in kyo-wha-so (felony facility) or kwan-li-so.

Length of Imprisonment



- ☐ Average incarceration between one week and one month
-

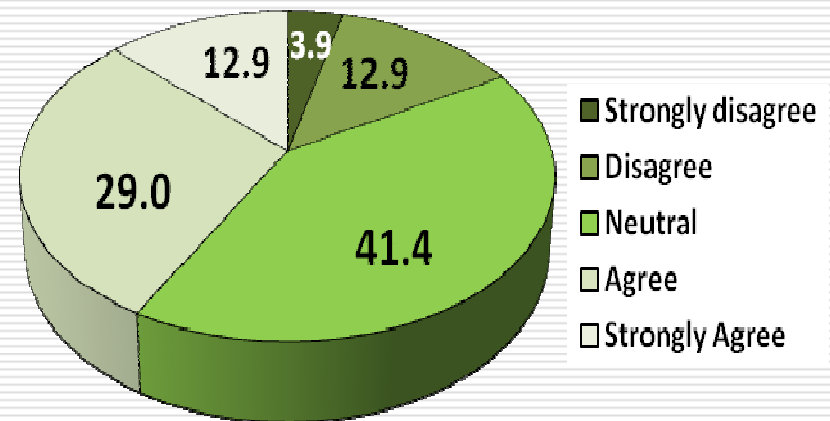
Life in North Korea, Crimes and Punishments, III



Psychological dimensions

- ❑ 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

