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North Korea's Troubled Economy: The Real Challenges

By Ryo Hinata-Yamaguchi and Yeongseob Lee

Synopsis

For the first time since 1980, North Korea recently held the Seventh Workers' Party Congress, further bolstering Kim Jong-un's rule, and claiming its status as a "responsible nuclear power". Yet another important take-away from the congress was the Five-Year Economic Development Strategy aiming to remedy and develop the troubled economy.

Commentary

NORTH KOREA'S recent track record of economic plans have been far from effective nor consistent. Pyongyang's Third Seven-Year Plan from 1987 failed to remedy the ailing economy, and the plan itself virtually disappeared during the so-called "arduous march" of the mid-1990s. Moreover, in 2011, Pyongyang announced the "Ten-Year State Strategy Plan for Economic Development", but there was very little follow-up from the regime on the progress.

The new Five-Year Economic Development Strategy announced at the recent Workers' Party of Korea (WPK) Congress is therefore an attempt by the Kim Jong-un regime to politically reinvigorate the government's *uri-sik* (our style) economic development strategy focusing on the energy and food crisis. While little details were disclosed, given the myriad constraints in capacity and resources, the prospects of genuine revival and development are questionable.

Blaming Others for the Collapsing Economy

For its economic failures North Korea blames the containment by the US and its allies, the collapse of the Soviet bloc, and natural disasters. Yet North Korea's

economic troubles are self-inflicted, railroaded by the regime's principles of centralisation, politicisation, and inheritance to ensure the leadership's survival during dire economic circumstances and sanctions.

Despite Pyongyang's failed economic policies, some incremental developments are taking place in recent years. Cities like Pyongyang have gone through some refurbishment, albeit largely symbolic. Instead, the most substantial change is the emergence of private capitalism epitomising the populace's bottom-up response vis-a-vis the long-standing economic privations. Private markets have proliferated throughout the country, and the range of goods have also diversified from daily goods to even transport services.

Critical Problems in the Non-Urban Areas

While the bottom-up emergence of capitalism has led to some change, socio-economic problems remain dire particularly in the non-urbanised areas that accommodate over 85% of the North Korean population, but remains to be the most underdeveloped due to political neglect and incompetent management. In such areas, citizens have little or no access to critical infrastructure, and even those available either operate infrequently or are obsolete.

The state of critical infrastructure in the non-urban areas are dire, exacerbating the socio-economic problems. In particular, the energy shortages are severe in the less industrialised and urbanised areas. According to Kim Kyung-sul at the Korea Energy Economics Institute, only 37% of residents in urban areas are using electricity, while in the rural areas it's a mere 10%, forcing residents to overcome the energy shortages by acquiring firewood, briquettes, and LPG from private markets or self-supply.

In transportation and logistics, North Korea has an extensive railway and road network, as well as airports and ports to strategically connect the key industrial and urban regions. The networks also facilitate trade by serving as corridors into China, Russia, and to some extent South Korea. However, the quality of the transport and logistics infrastructures are either obsolete or poorly maintained. Moreover, the intermittent supply of energy significantly slows transport and logistics operations consequently slowing production.

The non-urban areas are also the hardest hit in human security terms, particularly with the famines exacerbated by natural disasters and the suspension of the Public Distribution System in the mid-1990s. Desperate self-supply by citizens and poor industrial management caused extensive environmental degradation that consequently affects the health and welfare of the populace. Hence even though human resources are plentiful in the non-urban areas, the dire state of welfare undermine such potential.

Looking Ahead: Limited Remedies

The prescriptions to the problems in the non-urban areas are obvious – Pyongyang needs to ameliorate the various economic divides. Yet such measures require some

sort of political reform, a no-go for a government that has only been innovative in bolstering the totalitarian rule rather than socio-economic improvement.

Pyongyang also fears failure. Learning lessons from the 2009 currency revaluation that caused widespread chaos, Pyongyang is reluctant for any bold measures that involve drastic revisions or “big bang” transitions. Thus the combination of fear and the path-dependent nature of the regime denies prospects for innovative adjustment and development.

Indeed, the North Korean economy has some potential waiting to be tapped. North Korea is estimated to have large deposits of minerals such as iron ore, magnesite, uranium, and rare earth metals – attractive to states seeking such resources to feed their industries. According to the Korea Chamber of Commerce and Industry, mineral resources are present across 80% of North Korean territory, valued at around ₩2.287 quadrillion (approximately S\$2.67 trillion). Yet due to lack of energy, mining, and logistic infrastructure, and poor political and industrial management, Pyongyang struggles to take advantage of the minerals available.

Domestic and Regional Ramifications

Without genuine development and maintenance of the industries, farms, and infrastructures in the non-urban regions that holds significant potential, Pyongyang’s economic capacity will be limited. Thus the reconstruction and rehabilitation of the non-urbanised areas would make-or-break the development of the North Korean economy, but also the post-unification developments in a unified Korea.

While estimates vary, experts claim that approximately 40% of unification costs will be on infrastructure. Yet the actual costs are likely to increase unless genuine reconstruction and rehabilitation of the non-urbanised areas take place.

The regional ramifications of North Korea’s economic failures are limited given its partial significance and deficit-ridden, non-export-driven status. For China, Russia, and to some extent South Korea, it would harm their investment and trade projects, although the actual economic damage would be minor. The implications on ASEAN states are significantly smaller.

After all, investment and trade with North Korea have largely been about taking advantage of the potential developments and resources available, but with little expectations for significant returns as long as Pyongyang maintains its current regime-centric, isolationist policies. In the end, the North Korean government is only harming itself.

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