


Opinions

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Is North Korea's Economic Crisis Finally Over?



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Recent statistics of North Korea indicate that its economic situation is improving. In its annual GDP estimates of North Korea, the Bank of Korea estimated that North Korea's annual growth hovered around one percent on average during the past three years since 2011. Observers presume that this growth trend, although modest, has put North Korea on a sustainable growth track. In addition, the currency exchange rates in major cities of North Korea released by DailyNK show signs of stability after downward shifts, and rise prices have fallen as well. Such macro-economic indicators are making some North Korea experts to believe that the North Korean economy is finally getting out of the crisis. There are even reports that Kim Jong-un, North Korea's young leader is gaining popularity thanks to improving

economic conditions.

For an effective North Korea policy development, it is high time for the South Korean government to rightly assess whether the North Korean economy is actually improving and what the key drivers are behind the growth. Identifying what drove such an improvement in major economic indexes will help the government set the direction of North Korea policy.

The biggest driver behind the recent economic growth of North Korea is its international trade. North Korea's trade continued to grow since 2000s. In 2011, its trade volume surpassed the level in 1990 when the economy was yet hit by the crisis. In particular, North Korea's trade grew rapidly since 2011, showing a 'J-curve' growth that most economies in transition follow. The total trade volume in 2011 grew 52.5 percent on a yearly basis, followed by 7.1 percent in 2012 and 7.8 percent in 2013. Increased exports served as a catalyst for trade expansion. North Korea's exports jumped 84.3 percent year-on-year in 2011, 3.3 percent in 2012, and 11.7 percent in 2013. In line with exports growth, imports into North Korea increased as well. Shipments to North Korea were up 34 percent in 2011, followed by 10.2 percent in 2012 and 5 percent in 2013. Such a robust expansion in trade pushed the economy toward growth and increased supply of foreign currency, rice and daily necessities.

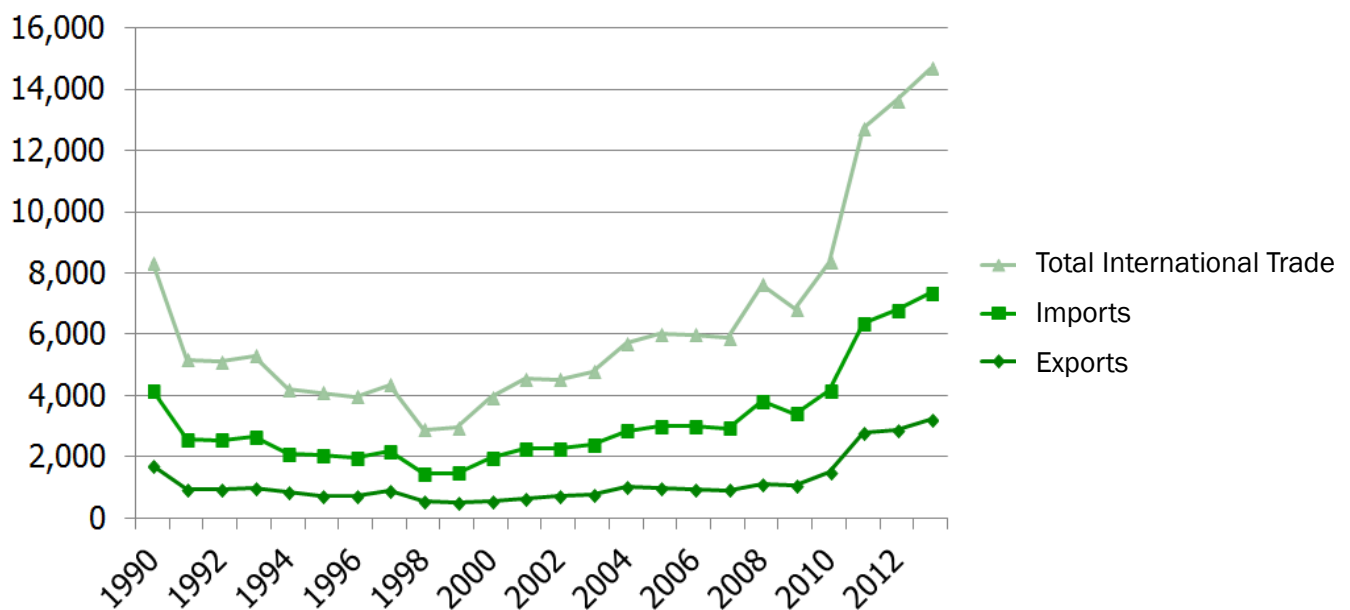
Whether North Korea's economy made a turnaround to growth can be determined by assessing whether its trade-driven growth is sustainable or not. The answer to this can be found by examining the export items of North Korea. In 2012, natural resources accounted for 57.5 percent of its total exports. This is more than double the level in 2008 when exports of natural resources made up 25 percent of its total exports. In particular, in its trade with China which takes up 90% of total trade, natural resources were North Korea's biggest export item in 2013 accounting for 63.3 percent and textiles ranked the second with 20.7 percent. This suggests that North Korea is supplying food and daily necessities to its people by expanding the export of its natural resources. Nonetheless, North Korea's trade deficit reached 930 million dollars in 2013.

Natural resources that North Korea has been increasingly exporting are gathered mostly from open-pit mines or easily accessible mines. Considering that North Korea lacks necessary energy, technology or capital to develop new mines, increasing exports of natural resources appears to be unsustainable. Securing food and daily necessities for its people in exchange for exporting what is left of natural resources is nothing but a desperate measure

to soothe its people for a couple of years. But when natural resource exports becomes difficult, the economy or the regime itself will be placed in a more difficult situation as its people's discontent increases.

The sole alternative left to North Korea is pursuing a long-term sustainable growth. To this end, it needs to expand the production base. The general path that North Korea needs to tread on is concentrating on mass production using standardized technology and then shifting its focus toward technology-intensive industries when sufficient capital and technological capabilities are secured through incremental production expansion. At this time, however, when North Korea is ill-equipped in almost every aspect, it needs to be reminded that only South Korea could offer new technology, production facilities and markets it desperately needs. Furthermore, North Korea needs to note that it was South Korea which constructed the Kaesong Industrial Complex in the North and helped North Korea manufacture goods by supplying much needed electricity. North Korea has to think about which country it should improve its relationship with if it truly aspires economic development. [KIEP](#)

Table 1. North Korea's Trade Growth



Source: BOK.