

Three Difficulties for the North Korean Economy and Inter-Korean Cooperation



Jangho Choi

Ph.D., Research Fellow, Head of International Cooperation
for Korea Unification Team
Korea Institute for International Economic Policy

1. Three difficulties faced by the North Korean economy

Scholars studying the North Korean economy say that North Korea (NK) faces three difficulties by the end of 2020: sanctions against NK, Covid19, and flood damage. Sanctions against NK prohibit all economic cooperation with foreign, including trade and foreign investment. In order to prevent the spread of Covid19, North Korea has closed its borders and stopped all economic cooperation along bordering areas since January 2020. The sanctions and Covid19 have stopped all means of foreign currency earning, including processing trade, exports, dispatch of workers abroad, and foreign tourists visiting NK. In addition, 39,000 ha of agricultural land were damaged by two typhoons and heavy rains in August.

What are the three difficulties facing the North Korean economy? In general, food shortages, shortages of goods, and unrest of the residents can be considered. There are four ways to gauge the economic situation in North Korea: trade data, international reporting, prices, and North Korean

media. The first two indicate that North Korea's economy is poor and that serious food shortages can occur. The latter two tell us that there is an economic crisis in North Korea, but no one is dying of starvation yet.

First, in the case of imports and exports, both fell sharply due to the sanctions and COVID19, and in particular, COVID19 played a decisive role in reducing North Korea's imports. In January–August 2020, North Korea's imports from China fell 75.8% to \$468 million, compared to \$1.933 billion in January–August 2016, before sanctions on North Korea were fully implemented. North Korea's exports to China were \$42 million, down 97.4%, compared to \$1.629 billion during January–August 2016. North Korea's trade in 2020 is playing but a limited role in the economy; exports have almost ceased, and imports have only lasted about a quarter. Interestingly, 44.8% of North Korea's total imports from China are agricultural goods (in general, agriculture accounts for around 10% of total imports), meaning the North Korean market and economy are focusing on a stable supply of food.

Second, international organizations are warning that North Korea's food shortage could become serious. On September 8, 2020, Executive Director David Beasley of the United Nations World Food Program (WFP) announced that the food crisis in North Korea is more serious than ever due to Covid19. On September 10, the Group on Earth Observations Global Agricultural Monitoring (EOGLAM) announced that, given the widespread flood damage plus the impact of the novel coronavirus, North Korea's food security this year is expected to worsen compared to last year. In addition, on September 17, 2020, the FAO classified North Korea as a country with widespread lack of access, cited for reasons such as low food intake, lack of food diversity, recession and flooding. The international community is negative about the food situation in North Korea.

Third, prices show that the North Korean economy is stable. Prices that can be observed are very limited, such as rice, corn, gasoline, yuan exchange rate, and US dollar exchange rate transmitted through the media. From January to September 2020, the price of rice in North Korea was 4,420 won per kg (North Korean won), corn 1,500 won per kg, gasoline 8,000 won per kg, and the exchange rate was stable at 8,280 won per dollar and 1,170 won per yuan. There were hardly any signs of rice prices rising due to food shortages or gasoline prices rising due to shortages of oil. The stable inflation indirectly shows that prices are not rising due to shortages in the market, and that the North Korean authorities are maintaining stable market prices for necessities despite the sanctions, COVID19 and flood damage.

Fourth, the North Korean media are emphasizing that the economy is undergoing difficulties, but within an endurable level. The North Korean authorities, emphasizing self-reliance, refused external aid from international organizations several times during 2020, and are not easing border control. It is worth noting that border control is not easing. It seems that the North Korean authorities have judged that they can withstand the three difficulties to some extent, as they continue to block the import of raw and subsidiary materials, which are necessary for the North Korean economy. In addition, North Korea has started the “80 Days Battle,” a strategy to end agricultural harvest earlier and recover from flood damage as soon as possible, by encouraging North Koreans for 80 days from the 75th anniversary of the Labor Party's founding on October 10 to the end of the year.

2. Inter-Korean relations in 2020

In 2020, inter-Korean cooperation was not promoted due to the sanctions and Covid19. First of all, in the case of sanctions, the South and North Korean authorities deemed it worthwhile to review the resumption of operations at the Kaesong Industrial Complex, connection of the inter-Korean railroad, and tours of Mt. Kumgang without violating the sanctions. At the same time, however, it was difficult for the South Korean authorities to strongly promote inter-Korean cooperation as there was a need to maintain cooperation with the international community on sanctions against North Korea and to further proceed with denuclearization negotiations. In January 2020, North Korea closed the Kaesong Industrial Complex inter-Korean liaison office for health reasons. Since then, North Korea has refused all assistance from international organizations, and has not responded to South Korea's proposal for humanitarian assistance. As a result, inter-Korean cooperation in 2020 did not show any progress. With the combination of South Korea's dilemma and North Korea's Covid19 border blockade, inter-Korean cooperation has not progressed at all.

The South Korean government's pursuit of cooperation with North Korea aims at the stable management of the Korean Peninsula. What the South Korean government is most concerned about is a situation where the South Korean authorities lose all means to control a crisis unfolding on the Korean Peninsula and fall into a helpless situation. South Korea is striving to secure a means to properly control the situation on the Korean Peninsula, because it is a direct stakeholder on the Korean Peninsula and must ensure the safety of its people. One of the effective ways to stably manage the Korean Peninsula is to continue dialogue between the two Koreas, locked in a crisis situation on the Peninsula.

It can be assumed that the communication channels between the two Koreas are cut off, negotiations for denuclearization between North Korea and the United States are in trouble, and North Korea has issued military provocations against the United States to secure the upper hand in negotiations. The role that the South Korean government can play against North Korea includes little more than strengthening its military security posture. Even in small disputes, the crisis situation on the Korean Peninsula can cause serious economic and human damage. If the two Koreas maintain a communication channel, the South Korean authorities could directly ask the North Korean authorities to find a solution, or demand the reason for North Korea's military provocation or the possibility of recurrence. Continued dialogue and cooperation between the two Koreas is a means to quickly stabilize the crisis situation on the Korean Peninsula.

In addition, it can be assumed that a large-scale food shortage, economic crisis, and health crisis could occur in North Korea, resulting in a large-scale refugee situation or infectious disease spreading to neighboring countries. If the two Koreas continue their dialogue and economic cooperation, the occurrence of such a crisis in North Korea can be prevented in advance, and it will be possible to rectify it early, even if such a situation breaks out.

However, in 2020 inter-Korean dialogue and cooperation were hardly promoted at all. Dialogue between the two Koreas also halted as North Korea closed its borders over fear of the spread of the coronavirus. There is growing uncertainty about the situation on the Korean Peninsula.

North Korea's economic hardship is expected to play a major role in inter-Korean cooperation in 2021. The North Korean economy, faced with sanctions, Covid19, and flood damage, is unlikely to overcome the economic difficulties on its own. Even if North Korea somehow survives the economic crisis, it will not be able to achieve economic growth. What North Korea needs is not the power to withstand sanctions, that is, self-reliance, but to pursue economic stability and prosperity through growth. The South Korean authorities want to establish trans-border peace on the Korean Peninsula, and they want that peace to lead to economic prosperity. To this end, the South Korean government is proposing inter-Korean dialogue, humanitarian food aid, and economic cooperation within the boundaries of the sanctions. The North Korean authorities should consider a change in attitude as well. [KIEP](#)