

Why North Korea Chooses Self-Sufficiency: Changes in the North Korean Economy in the First Quarter of 2021



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Economic difficulties are intensifying in North Korea due to three major difficulties: COVID-19, sanctions, and flood damage. As North Korea closed its borders to prevent spread of the coronavirus and stopped imports and exports, imports of raw and subsidiary materials necessary for production were also blocked, and this caused a shortage of goods for which the country relies on imports. Food production was not sufficient in 2020 due to flood damage. In 2021, with frequent spring rains, it has not been possible to plant rice in a timely manner. As the three difficulties have disrupted imports and food production, the difficulties of the North Korean economy are also intensifying.

In March 2021, North Korea abruptly resumed trade with China. North Korea had closed its borders and gradually reduced its imports to prevent the influx of coronavirus during the import process. Eventually, from mid-September 2020 to March 2021, imports and exports were completely suspended, showing how caution levels to COVID-19 had reached a peak.

Then, in March 2021, North Korea's imports to China were suddenly resumed. It is not known yet whether the resumption of imports from China was decided to overcome the economic crisis or for other purposes.

In response to the economic crisis, North Korea's economic strategies and policies are also changing. In 2013, North Korea announced a "parallel strategy of economy and nuclear power," to develop both nuclear and economic power at the same time. In 2018, as North Korea completed the development of nuclear weapons, it announced it would "concentrate all efforts of the whole party and country on the socialist economic construction," declaring a new focus on economic construction. But coming into 2021, North Korea no longer mentions these two strategies. Now, North Korea emphasizes "self-rehabilitation" and "self-sufficiency" and is demanding that North Koreans respond to sanctions and the coronavirus.

Aiming to discuss the changes in North Korea's economic strategies and policies, and the reasons why North Korea suddenly resumed trade with China in March 2021, this article is largely composed of two parts. The second section introduces the debate between South Korean economists about North Korea's economic strategy and policy changes. The last section attempts to analyze the reasons why North Korea has suddenly resumed imports.

- Changes in other North Korean economic strategies and policies in the face of economic difficulties

The COVID-19 pandemic and recent sanctions against North Korea are causing rapid changes in the North Korean economy. In the academic community studying the North Korean economy in South Korea, various topics are being discussed about these changes in the North Korean economy.

The first topic is how the North Korean economy is seeing rapid changes in its economic strategy. As previously introduced, North Korea announced its focus on "socialist economic construction" in 2018, and since then, much effort has been made to implement this strategy throughout the industry. However, as the situation in the North Korean economy has grown worse due to the three difficulties described above, North Korea has emphasized "self-rehabilitation" and "self-sufficiency," and recently began using the term "communism," which has not been used for the past eight years. Considering that communism is a highly developed form of socialism, using the term communism does not seem adequate in the current situation. Is it appropriate to view this as a temporary change attempted by North Korea in response to

the economic crisis? Or is it correct to see it as a fundamental change for socialist economic development? If this is a temporary change, it can be assumed that the main point of the North Korean economy is to survive. This leads to the question of whether the North Korean economy is strong enough to overcome the current difficulties. If this is a fundamental change, it can be judged that the North Korean economy has stopped trying to improve laws and institutions and is returning to the past. Such a movement would further isolate North Korea's already closed economy.

The prevalent view in South Korean academia studying the North Korean economy is that these changes in North Korea's economic strategy are temporary measures taken in response to economic difficulties. In a situation where imports have been suspended due to COVID-19 and sanctions against North Korea, the only real solution to overcome economic difficulties is to emphasize self-sufficiency and self-reliance.

The second topic is why North Korea's economic management system is showing horizontal centralization. In general, the North Korean economy is known to have a three-tiered structure, with the first economy managed by the cabinet, a second economy managed by the military, and a third economy that manages demand for other special purposes. In the days of Chairman Kim Jong-il, as economic difficulties became more pronounced, the second economy managed by the military grew while soldiers were empowered to stabilize the system and manage the economy. As a result, as the first and second economies grew simultaneously, the governing body of the North Korean economy became more diverse. This is called the horizontal division of North Korean economic management.

However, in the recent period under Chairman Kim Jong-un, the opposite is happening to that under Chairman Kim Jong-il, his father. Policy is being promoted to further reduce the role of the second economy and focus the authority to manage the economy on the cabinet, that is, the first economy. While North Korea is strengthening its control over society as a whole, it is also concentrating its economic management authority to the cabinet. This can be explained as the horizontal centralization of the economic management system.

The issue of contention in academia concerning North Korea's economy is whether the horizontal centralization of the economic management system centered on the cabinet was made in the course of socialist economic development, or is temporarily being promoted to overcome economic difficulties. In the former case, the North Korean economy can be seen as returning to the past system where planning and control of policy authorities is emphasized, rather than moving toward a liberalized and decentralized system which partially accepts market-oriented

economic management. Conversely, if the latter is the case, the North Korean economy can be expected to change rapidly by introducing economic-related legal systems once the three economic difficulties are resolved.

The academia in South Korea has not been able to draw sufficient conclusions on this. As theories or logics supporting horizontal centralization have not been published inside North Korea, sufficient data to interpret them have not yet been secured.

The last topic is why North Korea does not resume imports to China despite increasing economic difficulties. There are some items in North Korea that will exacerbate economic difficulties if they are not imported. For example, if flour, cooking oil, and sugar are not imported, not only will the performance of North Koreans be greatly reduced, but also the localization of food products such as sweets and bread, which has been regarded as an achievement of Chairman Kim Jong-un, will suffer. Despite these problems, the North continued to reduce its imports from China throughout the year in 2020. North Korea's concern is that the coronavirus may enter during the import process. However, considering the fact that the virus can only survive in cargo for up to one week, it would be possible to sustain importation by leaving the cargo at the border for more than a week. Nevertheless, North Korea chose to stop importing altogether. What motivated this decision?

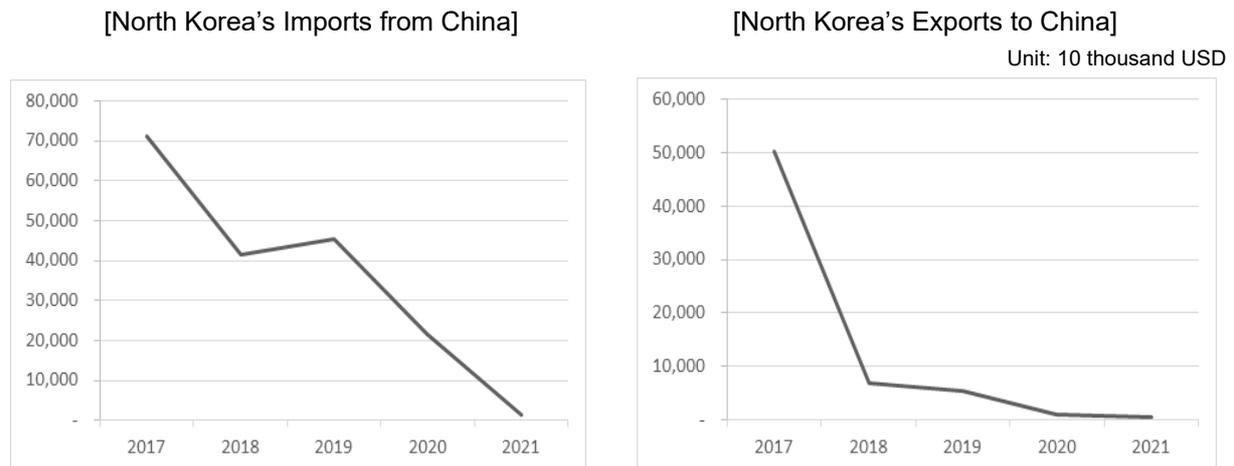
The academia in South Korea believes that North Korea entirely stopped importing from China over fears of COVID-19 spreading through mass rallies. Under normal conditions, North Korea's policy authorities should have held large-scale events that gathered large numbers of people around the end of 2020 and early 2021 in order to inform North Koreans about changes in their economic strategy. Such events would include the 75th anniversary of the founding of the Labor Party of Korea (October 2020), the "80-day battle" productivity campaign (October 10, 2020 – December 30, 2020), New Year celebrations (January 2021), Labor Party plenary meeting (February 2021), the year's first training sessions for local party secretaries (March 2021) and the first Party Cell Secretary Conference (April 2021).

- Why North Korea suddenly resumed trade with China in March 2021

North Korea resumed trade with China on a small scale in March 2021. Trade has reportedly been resumed, but exports have been negligible and only a small amount of goods have been imported. Imports were completely suspended for six months from mid-September 2020 to mid-March 2021, and then imports were abruptly resumed in March 2021. Imports from China

totaled \$12.98 million, and exports to China totaled \$4.55 million from January to March. The imports conducted in March were non-commercial in nature and led by the authorities.

Figure 1. Trade between North Korea and China

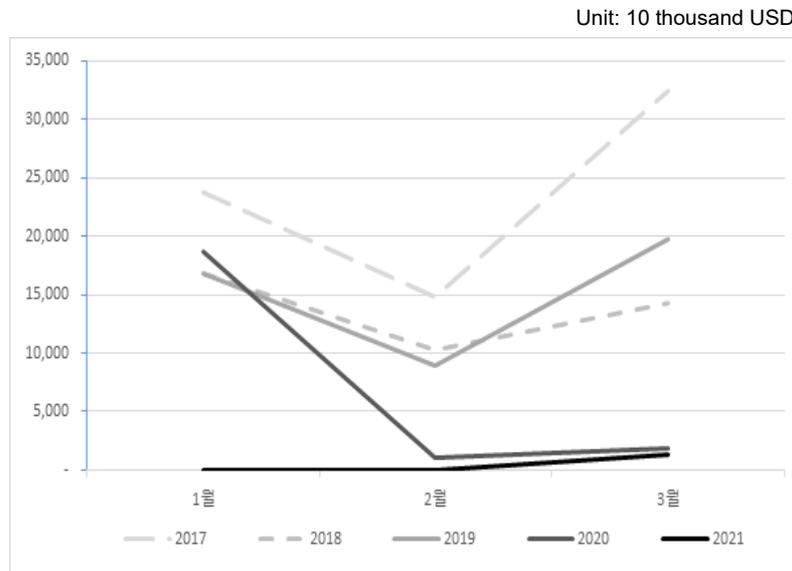


Note: Figures for first quarter of each year.

Source: Prepared by author based on China Customs data.

Most of the imports came from the necessities required for industrial production, especially in the agricultural sector. Agricultural materials, that is, fertilizer raw materials (urea, ammonium phosphate, organic sulfur compounds – 71.0%), agricultural vinyl (8.2%), pesticides (insecticides, herbicides – 5.4%), etc. were mainly imported. Other imported goods included newspapers and printing paper (8.3%), detergent raw materials (sodium hydroxide – 2.7%), and low flash point fuel for steel production.

The provinces from which imports were made vary from Shandong (\$655 million), Liaoning (\$4.55 million), and Zhejiang (\$1.71 million), and imports were mainly made by sea rather than land. Some predicted that imports to China would be fully normalized after the resumption of trade in March, but when considering that imports from China in March remained very small in scale, and most of them were intermediate goods for agriculture, not consumer goods, this view cannot be substantiated. In the first quarter of 2021, imports amounted to 6.0% of the same period in the previous year, and only 2.1% of 2016, when trade was conducted normally. It can be evaluated that imports from China were made on a pilot basis. In the future, it is expected that North Korea will gradually increase its imports from China while remaining vigilant against COVID-19.

Figure 2. North Korea's Monthly Imports from China

Note: Figures for first quarter of each year.

Source: Prepared by author based on China Customs data.

Table 1. Major Imported Items

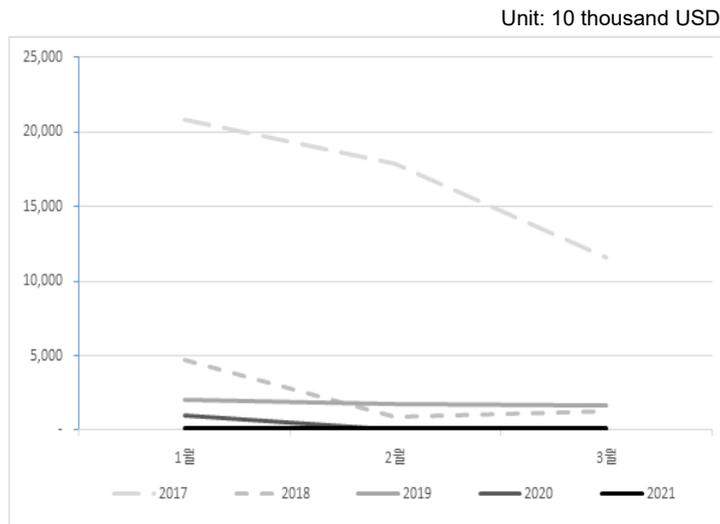
HS	Items	Value (10 thousand USD)	Volume (ton)	Purpose
3102	Nitrogen fertilizer	504	14,000	Agriculture
3105	Chemical fertilizer	418	7,700	Agriculture
3920	Agricultural plastic film	107	1,000	Agriculture
4801	Newspaper pulp	72	1,091	Printing
3808	Insecticide, herbicide	70	191	Agriculture
4802	Printing paper	36	495	Printing
2815	Sodium hydroxide	35	1,600	Soap
2710	Low flash point fuel	26	587	Metal
4016	Vulcanized rubber	18	94	-

Source: Prepared by author based on China Customs data.

99.9% of North Korea's exports to China were electric power. This electricity was produced at the Supung Dam on the Yalu River jointly operated by North Korea and China, and is independent of the industrial situation in North Korea. Interestingly, about 10 items were exported

to Guangdong, Shandong, and Henan provinces, including North Korean clothing (presumably for sample use) and women's cosmetics, albeit at a small amount of less than 100 dollars. The fact that North Korean products were exported to these regions difficult to reach by land, while North Korea has never sent ships or aircraft to those ports in China, is an issue to ponder. **KIEP**

Figure 3. North Korea's Monthly Exports to China



Note: Figures for first quarter of each year.

Source: Prepared by author based on China Customs data.