The Political Economy of North Korea

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(work joint with Marcus Noland, Peterson Institute and the East-West Center)

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Yŏngbyŏn Nuclear Research Center

Yongbyon Nuclear Complex (Pun'gang-chigu)

- Physics College
- Yongbyon Nuclear Research Center
  - Atomic Energy Research Institute
  - Radiochemistry Research Institute
  - Isotope Production Laboratory
  - Nuclear Electronics Research Institute
  - Radiation Protection Research Institute
  - Nuclear Physics Research Institute

- Kuryong River
- Yongbyon High-Explosive Test Site
- IRT 2000 Research Reactor
- 5MW(e) Experimental Reactor
- Spent Fuel Temporary Storage Site
- 50MW(e) Nuclear Power Plant
- Undeclared Waste Storage Facility
- Declared Waste Storage Facility
- Building 500
- Radiochemistry Laboratory
- Fuel Fabrication Complex
  - Yongbyon Fuel Fabrication Plant

KEY:
- Fuel Fabrication
- Reactor
- Reprocessing
- Research & Development
- Waste
- Weaponization
Kwangmyŏngsŏng-1 Trajectory
Proliferation Concerns (Hwasŏng or KN-01)
The Political Economy of North Korea

- But also major changes in North Korean political economy over last two decades
- 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, most notably with reforms of 2002
- But since 2005 (until 2009?) we have been witnessing “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...
- Greater incentives for proliferation and illicit activities than during periods of effective engagement
- Inducements are clearly part of current opening, but how to design them to maximize transformative effects? (Asia Society task force)
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 and *International Relations of the Asia-Pacific*)
  - “Sanctioning North Korea” (Peterson Institute 2009)

- Surveys of Chinese (and South Korean) firms operating in North Korea
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
Declining Food Production

Production

Metric tons (millions)

USDA

South Korean Ministry of Unification

1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002

0
1
2
3
4
5
6

Declining Food Production
Declining Reliance on the PDS

Daily PDS rations

Maximum (Max), Average, Minimum (Min) and Farmers' rations over the years from Nov. 1995 to Oct. 2005. The minimum human need is indicated at 457 grams per day.
### Household Response to Famine


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<td>56</td>
<td>50</td>
<td>651</td>
<td>756</td>
<td>760</td>
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<td>Buy</td>
<td>479</td>
<td>696</td>
<td>754</td>
<td>679</td>
<td>18.0</td>
<td>26.1</td>
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<td>Barter</td>
<td>339</td>
<td>416</td>
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<td>397</td>
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<td>Forage</td>
<td>34</td>
<td>39</td>
<td>37</td>
<td>45</td>
<td>1.3</td>
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<td>Gift</td>
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<td>Grow</td>
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<td>2,667</td>
<td>2,663</td>
<td>2,657</td>
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<td>Total</td>
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* *Total does not sum to 100 because of rounding.

Source: Robinson et al., 2001
The economy marketized in response to state failure...

- Food and other products in the market
- The external dimension
  - The border during the famine
  - [A (temporary) intensification of illicit activities: missiles, drugs and counterfeiting; Chestnut]
- Partially ratified in reforms of 2002
Economy: Central Government Policies Ineffective At Grassroots

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

- Private Trading
- August 3 unit

The nature of my work changed:

- Totally Disagree
- Disagree
- Neutral
- Agree
- Totally Agree
- Unclear/Don't know

The Government frequently changed the rules governing market activities:

- Totally Disagree
- Disagree
- Neutral
- Agree
- Totally Agree
- Unclear/Don't know
“Partial” Reforms Associated with an Increase in Corruption, Inequality and Disaffection

- Corruption increased: 54.1% agree, 35.3% disagree, 8.2% neutral.
- Had to pay bribes to engage in private activity: 50% agree, 2.6% disagree, 8.2% neutral, 4.1% totally disagree, 3.1% unclear.
- Society became more unequal: 55.7% agree, 28.7% disagree, 8.2% neutral.
- I was better off: 34.4% agree, 18.9% disagree, 21.3% neutral, 17.2% totally disagree.
Changing Pathways to Advancement

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

- Famine Era: Become a government or party official (8.1%), Join the army (12.2%), Engage in business (2.7%), None of the above (17.8%)
- Post Famine: Become a government or party official (73.0%), Join the army (8.3%), Engage in business (2.0%), None of the above (17.8%)
- Post Reform: Become a government or party official (76.3%), Join the army (74.3%), Engage in business (4.1%), None of the above (14.9%)

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

- Famine Era: Work hard at assigned job (14.9%), Engage in market activities (17.6%), Engage in corrupt or criminal activities (29.0%), None of the above (29.0%)
- Post Famine: Work hard at assigned job (74.3%), Engage in market activities (74.3%), Engage in corrupt or criminal activities (2.7%), None of the above (0.7%)
- Post Reform: Work hard at assigned job (66.5%), Engage in market activities (4.1%), Engage in corrupt or criminal activities (2.7%), None of the above (29.0%)
Reform in Reverse: 2005-2009

- 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 seeks to re-assert control
- Internally
  - Banning private trade in grain
  - Seizures in rural areas
  - Shut down relief agencies in the hinterland
- Externally: 2006 missile and nuclear tests disrupt assistance from South
- Bad weather: the floods of 2007
Evidence I: Quantities

North Korea Food Balances
1995/96-2007/08

Aid
Imports
Domestic production
Adjusted Total Demand

North Korean Grain Balance

Haggard-Noland-Weeks Estimate
UN System Estimate

metric tons '000s

metric tons '000s


1995/96 1999/00 2003/04 2007/08
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

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
Developments in the External Sector

North Korean Trade

2006-2008: indexed trade values based on 2005 trade figures.
China’s Growing Share

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

% of Total


Share of Imports
Share of Exports
Share of Imports
China-DPRK Trade

Figure 2. China - DPRK Trade, 2000-2009.4

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

KG

Total
Soybeans
Rice
Corn
Wheat flour
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

Figure 3. South - North Korea Trade, 2001-2009.4

US$ (millions)

Source: Ministry of Unification. Monthly North-South Trade
Forms of Engagement

Figure 4. China and South Korea Aid and Exports to North Korea

million USD

- PRC Aid - Range
- PRC Aid - Best Guess
- ROK Non-Commercial Exports
- ROK Non-Commercial Exports and Economic Cooperation
- ROK Total Exports

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 hostage until release...
  - But holding entire Kaesong project hostage
  - Recent evidence of backing off by reducing land rent and wage demands
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 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”
Conclusions II

- The Obama administration
  - Immediately tested by missile and nuclear tests
  - Orchestrated UNSCR 1874 which went beyond UNSCR 1718 in both scope and means of enforcement
  - Renewed interest in financial sanctions a la BDA
- But was it a return to Bush 1?
  - Sanctions, but what inducements?
  - The Perry approach: offer a choice, but provide a channel
- The current debate post Clinton trip: the pending bilateral, how to reset and what role for inducements?
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
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?

- Yes: 7.4%
- No: 92.6%

Have you ever been detained by...

- Bo-Wi-Bu (Political police): 53.4%
- An-Jeon-Bu (Criminal police): 13.9%
- Both: 13.9%
- I have never been detained: 18.8%
Life in North Korea, Crimes and punishments, II

- 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.
- Average incarceration between one week and one month
Life in North Korea, Crimes and Punishments, III

- Forcible Starvation
  - China: 90%
  - South Korea: 71%

- Executions
  - China: 27%
  - South Korea: 51%

- Death from Torture/Beating
  - China: 60%
  - South Korea: 27%

- Killing Newborns
  - China: 5%
  - South Korea: 7%

- Medical Experimentation*
  - China: 55%
  - South Korea: 0%
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"

- Strongly disagree: 3.9%
- Disagree: 29.0%
- Neutral: 41.4%
- Agree: 12.9%
- Strongly Agree: 12.9%
Life Beyond North Korea

- Preferences for permanent resettlement
  - US attracts younger, better educated respondents
  - More might prefer China if policies changed
- Most want unification