

Current Status of the Economy in the Democratic People's Republic of Korea (Abstract)

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Regarding the current status of the economy in the Democratic People's Republic of Korea (henceforth referred to as the DPRK), owing to the absence of detailed statistical reports from the country itself, the situation is one of scarcity even for the basic economic indicators such as GDP and production totals by industry. Therefore data from the Republic of Korea (henceforth referred to as the ROK)

including the Bank of Korea's estimates for the GDP of the DPRK are often quoted, yet within that data are many "constructed values" and it is not possible to use those values as absolutes.

The Last Ten Years for the DPRK Economy as Personally Seen by the Author.

The author's first visit to the DPRK was in the summer of 1996. For my first time in Pyongyang I had the impression "It's dark." Wherever I went within Pyongyang, the food served was the same. As will be mentioned later, 1996 was the time the DPRK's economy was struggling through its worst hardship.

In September 2002, when I visited the DPRK two days after Prime Minister Koizumi's visit there, I had the opportunity to have a look at the contents of the packed lunches of Pyongyang residents who were enjoying the Mid-Autumn Festival in the city. Compared to the latter half of the 1990s, I sensed that the economy had got better.

Subsequently, I visited Rason in autumn 2003, and Pyongyang in summer 2004. At the time, I looked round the local markets (free market) in Rason, which abuts the Chinese and Russian borders, and in the capital Pyongyang, and I was surprised by the thriving scenes there and the great number of Chinese goods.

In September 2005, I went from the airport into Pyongyang after ten in the evening, and lights were shining from the windows of apartments which had hitherto been dark. In March 2006, here and there non-state owned eateries had been established. In September of that same year I visited the Kaesong Industrial District (Kaesong Industrial Park) for the first time. Although the site was still being prepared, I was taken aback by the refined demeanor and the pronunciation approaching that of Seoul of the staff from the DPRK-side working in the Kaesong Industrial District Management Committee.

When I visited the DPRK in March this year (2007), I noticed the cars that were swarming provincial cities and farming villages. There were many used Japanese cars, with "Miyata" and "Bridgestone" being popular, and the going rate for one was 50 US dollars. With ordinary workers' monthly salary at a supposed 1-2 dollars in real terms, that a great volume of cars are circulating on the streets is a curious sight. This was also the same scene in Wonsan, which I visited at the end of July.

The author has visited the DPRK 11 times in the last

11 years, and through that process has been in step with the unfolding process of the DPRK's economic recovery and of its economic reforms.

The Difficulties Stemming from the Collapse of the former-Soviet Union and Eastern Europe, and the "March of Hardship"

After the Korean War, the DPRK industrialized through its own efforts. At the same time it became heavily dependent on trade with and assistance from the socialist camp centered on the former-Soviet Union and Eastern Europe. The socialist market came to an end and the economy was pitched into crisis. In addition, in 1995 and 1997 there was widespread disastrous flooding, and drought in 1996.

In the midst of an unprecedented economic crisis, the DPRK drastically reviewed its management of the economy in other words it embarked on economic reform. At that time, in the principles for economic management which appeared in joint editorials in the Korean Workers' Party Organ newspaper and in its theoretical journal, "practical gain" in economic enterprises was stressed along with self-reliance. The restructuring of state-owned enterprises was pursued from 1999 to 2001, and in 1999 a national budget was issued for the first time in five years. In 1997 the DPRK economy found bottom, and from 1998 has been on the road to economic recovery. The scale of national government finances also found bottom in 1997 and has increased. Total trade too, with the strengthening of economic ties with China and the ROK, was at its lowest in 1998 at 1.66 billion dollars, and recovered to 2.67 billion dollars in 2001.

DPRK-style Economic Reform and Economic Recovery

As mentioned earlier, the DPRK's economic reforms began in earnest in 1998. In October 2001 Kim Jong-il gave a discourse on the improvement and strengthening of socialist economic management. That discourse touched on in order to raise the incentive to work not only positive incentives for highly-productive workers, but also the introduction of the negative incentive "If you don't work, you don't eat."

A large-scale adjustment of wages and prices took place on 1 July 2002, and in June 2003 the "Farmers' Markets", which up to that point had allowed farmers to sell crops they produced themselves (these had actually turned to black-market trading, however, and manufactured goods were also on sale), were reorganized as "General Markets" (recently called "Local Markets") dealing in all kinds of consumer goods, and commercial transactions by individuals were permitted within the market. Although classed as economic subsidies from the state, price

formation via the relationship of supply and demand was given the green light. At the same time there has arisen change which could be called a “market economy from below” and an increase in the gap in incomes.

Current Economic Policies

The current DPRK economic policies are characterized by altering economic management to something which accords with reality, under the basic premise of upholding socialism, and trying to create material gain. On the subject of management of state-owned enterprises, within a framework of the planned economy, and under the nation’s unified leadership, changes have been undertaken such as; expanding within a definite range the powers for the management of factories and businesses; a system for factories and businesses to mutually circulate the means of production at market prices; and establishing financial management systems focused on income.

What is held as necessary for the DPRK to effect economic recovery is an emphasis on science and technology, including information technology, nanotechnology and biotechnology, and its practical use for production. In the last few years, computers have been introduced on a large scale at every production site in the DPRK. Indeed in Pyongyang in 2007, in the concessions and shops in hotels and in eateries, stock control and accounts are done by computer.

In the joint editorial of three newspapers, the “Workers’ News”, the “People’s Army of Korea” and the “Youth Vanguard” published on 1 January 2007, with the policy of economic construction having been given top position starting in the 1990s and thereafter, the solution to the agriculture and food problem was given thus: “with agriculture being the foundation for the world, a groundbreaking advance must be brought about for the solution of the people’s food problem.” Then it called for the increased production of supplementary foodstuffs and daily essential items thus: “We must vigorously maintain the revolutionary flame of light industry and decisively raise the production of the people’s consumer products.” The conventional “Four Priority Sectors” of the electrical industry, the coal industry, the metal industry and rail transport were given as the important sectors for economic construction.

Macroeconomic Developments in the DPRK

I will give an overview of DPRK macroeconomics combining the Bank of Korea estimates and the trade statistics of individual countries.

The economy is on the upturn in the medium-term, but the repercussions of the nuclear test can be seen.

According to the Bank of Korea estimates, the DPRK economy recorded negative growth for nine years in a row since 1990. From 1999, however, this changed to positive growth, and to 2005 the growth in actual GDP for each year has been estimated as 6.2%, 1.3%, 3.7%, 1.2%, 1.8%, 2.2%, and 3.8%, respectively, though with the test-firing of missiles in July 2006 and the October nuclear test, because the DPRK’s relations with the outside world have become tense a negative growth (of -1.1%) has been estimated.

From 1998 on, the economy has been on an upturn,

and the following can be noted; in agriculture, that there were successive good harvests from 1998 on, and that following the North-South presidential summit of June 2000, North-South relations changed for the better and the ROK began providing fertilizer; and in industry, via the progress in economic reform, that it became a possibility for the management of enterprises to match reality, and that the effectiveness of the putting in place of infrastructure for production has increased.

In the industrial structure, agriculture has slipped in position

According to the Bank of Korea estimates, the share of mining and manufacturing in total production fell dramatically in the 1990s with the fallout from the collapse of the Soviet Union and Eastern Europe, and dropped 17 percentage points from 42.8% in 1990 to 25.5% in 1997. From 1997 it increased slowly and reached 29.6% in 2006. Agriculture’s share of total production from 1990 to 2006 inclusive has moved between 23.3% and 31.4%. The volume of crops produced has increased, and particularly within the last few years, in spite of the implementation of an agricultural promotion policy, agricultural production’s relative position is continuing to slip in the Bank of Korea estimates.

Government finances are on the upturn

The Supreme People’s Assembly (parliament) of the DPRK restarted the issuing of indices for government finances in 1998, and from 1999, annual expenditure, albeit small, has shown an increase on previous years.

Fall in food production from the previous year

According to the estimates of the ROK Rural Development Administration, the crop production for the DPRK in 2006 was estimated at 4.48 million tons. The production volume has decreased from the previous year, from the flood damage which occurred in summer 2006.

Trade and Investment

From 1999 with its increasing upward trend, total trade (including North-South trade) as well as GDP increased year on year, and reached 4.35 billion dollars in 2006 (an increase of 7.1% on the previous year). A complete recovery, however, has not been achieved, and is at a level of over eighty percent of the peak (5.24 billion dollars in 1988). Exports in 2006 were 1.47 billion dollars (an increase of 9.54% on the previous year) and imports 2.88 billion dollars (an increase of 5.90% on the previous year). The balance of trade was 1.41 billion dollars in the red. The trade balance has been permanently in the red since the establishment of the DPRK.

On the other hand, taking away the North-South trade, and looking at the genuine trade total, we see that the increase in the share of North-South trade in the DPRK economy has been continually growing.

The Current Status of North-South Economic Interchange and Cooperation

The Current Status of North-South Trade

Since the North-South presidential summit of 15

June 2000, great changes have been achieved, from the relationship centered on the private sector in North-South economic relations, to the commencement of operations of enterprises via agreement between the two governments.

If we take a look at the figures for 2006, commercial dealings make up approximately 69% of total North-South trade, and non-commercial dealings, being assistance in the main, make up approximately 31%.

Increase in North-South personal exchanges

North-South personal exchanges have increased, receiving a boost from the North-South interchange since the North-South presidential summit of June 2000, and in 2006 broke the 100,000 barrier. In particular, it has been characterized by the enormous growth since the getting under way of production in the Kaesong Industrial Park in 2005. Furthermore, the visitors on tours to Mount Kumgang not included in the above figures have exceeded the 200,000-level from 2004 on. North-South traffic is mostly of visitors from the ROK to the DPRK, and from the DPRK to the ROK the numbers are miniscule.

Kaesong Industrial District (Gaesong Industrial Complex)

Within the 1,000,000 pyong (3.285km²) initial stage of the Kaesong Industrial District, a pilot project (model district) has been completed for 28,000 pyong with 15 enterprises moved in, all of which are in operation.

For the “real” section of the initial stage of the park, some of the supporting facilities are under construction, but are practically complete.

In June 2006 there were 7,871 workers from the DPRK-side in the Kaesong Industrial Park then in September 2006, 8,879; in January 2007, 11,342; and in July, 15,958 (of which 13,330 were factory workers, 487 were ancillary and administrative personnel, and 2,141 were construction workers). In addition the cumulative

total production of the Kaesong Industrial District has also grown rapidly: 42.30 million dollars in June 2006; 82.25 million dollars in September 2006; and 100.81 million dollars in January 2007.

The DPRK economic crisis gained its initial momentum from the collapse of the former-Soviet Union and Eastern Europe in the early 1990s, weathered the worst period of 1995-97, and from 1998 has been moving toward recovery. The preparation for economic reform was carried out at the very bleakest of times. In 1998 the first buds could be seen from the economic reform measures in their various forms, and through the revision of salaries and prices of 1 July 2002, named the “Measures for the Improvement of Economic Management”, this came to be known to the outside world as well.

Resulting from the North-South presidential summit of 15 June 2000, in the area of North-South relations the undertaking of large-scale projects became possible with agreement between the two governments. As a result North-South commerce has increased, and North-South economic interchange has been actively carried out in the Kaesong Industrial District, the Kumgangsan Tourist Region, and elsewhere. This has shown itself in the increase in the share occupied by North-South trade within the DPRK economy as a whole.

The DPRK, even as it is continuing to uphold a socialist planned economy, is, in the area of domestic economic policies, continuing to make possible the adoption of policies which are rather more flexible compared to those in the past. Furthermore, policies have been adopted which place relatively more importance on the daily lives of the people. At the same time, it is striving to make a reality its moves to get investment from overseas, to enter world financial organizations and to strengthen economic interchange with the outside world, along with the improvement of its international relations.