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# The Political Economy of North Korea: Domestic, Regional, and Global Dynamics

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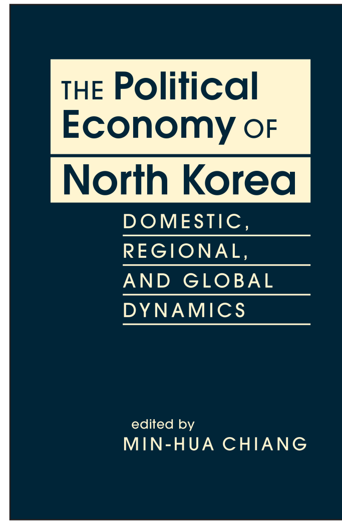


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# 1

# The North Korean Puzzle

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**The Democratic People's Republic of Korea (North Korea, or the** DPRK) is a missing piece in East Asia's economic development literature. Despite its rapid economic recovery from the Korean War, there has been relatively less discussion about the country's economy in academic works. In recent years, North Korea has been known mostly for its nuclear development. Due to limited access to the DPRK's economic data, some 25 million people live in a country where information about their quality of life and economic surroundings is still scant. For example, data from the United Nations shows that most North Korean people work in the agricultural sector, accounting for over half of total employment in 2020; meanwhile, 13 percent of total employment was in industry, and 34 percent was in services.[1] However, statistics from the World Bank indicate that 62 percent of the population lives in urban areas and is unlikely to work in the agricultural sector.[2] A possible explanation is that people officially registered as working in the agricultural sector may in fact be working physically in other industrial or service sectors. The inadequate remuneration in agricultural sectors explains the exodus of people to private businesses in the market. Indeed, North Korea's geographic condition does not allow it to possess a comparative advantage in developing its agricultural sector. The large number of people living in the urban areas could also be a result of a booming underground market economy in the last two decades, which is not reflected in the official statistics. The country's economy could have developed to an extent that the limited data can hardly elucidate. Obviously, there is a need to investigate the DPRK's economy quantitatively and qualitatively. This book aims to contribute to the latter. It hopes not only to provide better understanding about the country's economy but also to help toward the completion of the East Asian economic-development map.

A primary objective of the North Korean leader was to reconstruct the post–Korean War economy. North Korea is mountainous and rich in mineral resources. The heavy industry and hydroelectric power infrastructure left by the Japanese from the colonial period (1910–1945) allowed the country to quickly resume its industrial production after the war.[3] Hence, North Korean economic planners geared the country toward heavy industrialization by making use of its abundant natural resources and industrial base inherited from the Japanese colonial government. However, in contrast to other East Asian countries' resumption of external trade exchanges after the war, the DPRK's economy remained relatively closed to the outside world. Its domestic production was mostly destined to satisfy demand inside the country. Based on Kim Il Sung's *juche* (self-reliance) ideology, the DPRK's goal was to establish a self-reliant economic system with limited trading sectors. The North Korean leader was even reluctant to trade with other communist countries.[4] Politically, *juche* aimed to reduce the political-economic leverage of the Soviet Union. Ironically, the so-called self-reliance economy was able to maintain high economic growth rates thanks to the influx of aid from the Soviet Union from 1954 to 1960, apart from the postwar economic rebound. North Korea's moderate economic growth in the 1960s and 1970s is explained by its import-substitution policy, which facilitated domestic production, and foreign direct investment (FDI) from ethnic Koreans in Japan.[5] In the meantime, financial aid from the Soviet Union continued to underpin North Korea's economic development despite deteriorating bilateral relations.[6]

The DPRK's reliance on the Soviet Union for its economic development was similar to other East Asian countries' economic reliance on the United States after the war. The difference is that East Asia's development strategy had transformed from relying on US financial aid to promoting exports later on. On the other hand, North Korea's economy remained reliant on Soviet financial aid. The different choices in economic policy yielded a clear difference in economic performance. East Asian countries achieved postwar industrialization and high economic growth through the adoption of export-oriented economic development strategies. Many of them benefited from division of labor in the regional production network, constructed through massive inward FDI in the manufacturing industry. In comparison, North Korea's economy was isolated from the regional and global economy due to its ideological emphasis on self-sufficiency. Its import-substitution policy proved unsustainable in the end. Without significant exports to earn foreign currency, the country was heavily in debt due to its continuous purchase of capital equipment and machinery from abroad. The country eventually fell into greater difficulties in its debt repayment due to the plunging prices of nonferrous metals (North Korea's main export items) after the two oil crises in the 1970s.

The DPRK regime tried to open its economy, as had the other East Asian countries, since the 1980s for more foreign trade and investment, but failed to achieve the same economic success. The unfruitful outcome can be attributed to the DPRK's centrally planned economic system, continuous political and economic isolation from the international community, inadequate infrastructure, and malfunctioning economic system.[7] More importantly, the regime lacked strong determination to reform the economy. The government feared that the influx of foreign capital and information would lead to political destabilization in the country. The potential challenge to the government's authority constrained the level of opening to foreign investors and external trade. In sum, the DPRK government has been trapped in a dilemma between economic development and political instability. On one hand, the government could strengthen and legitimize its "totalitarian" system through promoting economic development. On the other hand, economic development, driven by greater inflow of FDI and external trade expansion, could result in the redistribution of economic interests in the country, posing threats to the regime's power control.

The interplay between politics and economics is not new in economic development literature. East Asia's economic development experiences have shown that economic development and authoritarian political systems can coexist, at least for a time.

## The International Political Economy Perspective

Over the decades, international political economists have been debating the best route to develop poor countries' economies. For neoclassical economists, market openness, fiscal discipline, and noninterventionism are key to economic development. On the other hand, the theory of the developmental state claims that governments, instead of market forces, play a central role in guiding economic development. Advocates of market-led economic development argued that state-led development results in serious distortion in the allocation of domestic resources and impairs a country's development prospects in the long run. Latin American countries' adoption of import-substitution industrialization (ISI) and the economic stagnation that followed provided clear evidence of the failure of the state-led development approach.[8] Nevertheless, in contrast to Latin America, East Asia's high economic growth through an export-led development strategy after a short period of ISI was praised as a model of economic development for developing countries. East Asia's economic success became strong evidence for developmental state supporters in favor of the importance of state policy in guiding development.[9] Following newly industrialized economies (NIEs)—namely, Taiwan, Singapore, Hong Kong, and South Korea—other Asian countries also achieved high economic growth rates by adopting similar export-led economic development models. The developmental state theory thus prevailed in the 1980s and 1990s thanks to successful economic development in many East Asian countries with strong state intervention. The East Asian countries' economic success also made traditional dependency theory unsuitable for elucidating economic development. Dependency theory claimed that the advanced countries' development, through expropriation of economic resources from developing countries, would keep them less developed. Although those East Asian economies were dependent on foreign trade and FDI, this dependence did not lead their economies to failure, as dependency theory predicted. Nevertheless, the developmental state suffered setbacks after the Asian financial crisis (AFC). Neoclassical economists thus argued that the AFC proved the economic development model based on free markets and minimal state intervention is the best. In response, developmental state theory supporters reasoned that the huge investment in the region was driven by irrational international investors. The excess world liquidity was generated mainly in the core economies. The global financial institutions and powerful countries in the West also bear responsibility for the premature liberalization of financial markets and capital accounts in the region.[10]

Apart from the debate between neoclassical economists and defenders of developmental state theory, some scholars suggested a third factor that contributed to East Asia's economic development: the United States' economic power presence in the region. The US market's opening to the products manufactured in and exported from East Asian countries constituted the main driving force behind the region's economic growth. The United States' massive consumption of goods from East Asia made the regional production network a success. Regional division of labor in manufacturing production is of no use if there isn't a market large enough to absorb the final products. America's tolerance of goods imported from East Asia has been linked with its strategic consideration since World War II.

Under what Berger called "the US-led modernization project," a group of capitalist countries were successively developed after the war.[11] Development centered on state-guided national development in these countries was associated with America's security interests against the communist regimes between the 1940s and the 1970s. In Ikenberry's view, these security and economic relationships between the United States and Asia grew into a complex system of interdependencies. The Asian countries export goods to America, while America offers military protection for these countries. Asian countries accumulate substantial trade surpluses through exported goods, while these surpluses are used to finance the American deficit.[12]

This particular regional economic development phenomenon can be divided into several different waves. The first country that initiated outstanding economic progress is Japan. During the 1960–1970 period, the economic growth rate in Japan, driven by exports to the American market, was about 10 percent per year.[13] It soon became the largest economic powerhouse in the region. After Japan, the four NIEs received sunset sectors from Japan and adopted similar export-led development strategies. At the same time, Japan moved into higher-technology production. Next, the new NIEs (NNIEs)—including Thailand, Malaysia, the Philippines, and Indonesia—also followed export-led economic development strategies. The NNIEs received the labor-intensive manufacturing industries from the NIEs and created another wave of the East Asian miracle. China and Vietnam followed the same development model after political reconciliation with America. Starting in the late 1980s, China and Vietnam replaced the NNIEs and became the fastest-growing exporters in labor-intensive manufacturing sectors. China, in particular, emerged as a new engine that drove regional economic growth.

Based on each country's level of economic development, each was engaged in a different part of production for the same final products. The East Asian countries' different roles in manufacturing production from labor-intensive to high-technology and capital-intensive production drove the circulation of industrial goods between countries in the region. Much of the trade in industrial goods between countries in the region was induced by global multinational corporations (MNCs) that aimed at final consumption for the global market. The United States is the main final-consumption goods market after manufacturing in East Asia. As such, the United States' consumption capacity played a key role in the export-led economic growth in East Asia. At the same time, the United States is also an important supplier of high-value-added goods and services to the region. The technology transfer from American investors to local manufacturers in the region occurred before the rise of Japanese outward investment in the 1970s and 1980s. The point of view centered on the United States' leading position in Asian economic development and integration also leads to an adaptation of the "flying geese" model. Different from the traditional "flying geese" model, which saw Japan as the initial goose, Ozawa suggested the Asian economic miracle was actually led by the United States as the first goose, followed by Japan, the NIEs, the NNIEs, China, and Vietnam. The Pax Americana constitutes an economic system that Ozawa called "hegemon-led macro-clustering," an extended outcome of "Pax Britannica–led macro-clustering."[14]

The explanation, centered on the United States as the core in the regional economy, is linked with modern world system (MWS) theory. Influenced by the Marxist perspective and the French Annales school of thought, MWS extends the Marxist reasoning behind the hegemonic state in a capitalist world. Within this world system, the interaction between international trade and investment is considered the fundamental mechanism for maintaining this structural feature. In order to compare the relative position of each region within the world economy, as well as certain internal political and economic characteristics, Immanuel Wallerstein proposes three different categories—core, periphery, and semiperiphery—into which all regions in the capitalist world economy can be placed. While the core focuses on capital-intensive production, the periphery emphasizes production of labor-intensive goods. Between the two extremes lie the semiperipheries. Wallerstein asserted that, rather than providing prosperity for all of the countries, the capitalist world system has brought about a distorted development that has led to economic and social disparities between the different regions in the world economy.[15] While the division of labor in the East Asia region and the United States looks similar to MWS's economic structure, the distorted economic development as a consequence is not necessarily accurate. Several East Asian economies, such as NIEs, have developed to an extent comparable to the advanced countries in the West. China, the economy at the periphery, emerged as the greatest challenge to the core economy.

Indeed, the complex interaction between internal and external factors made it such that no single theory alone can explain the economic development path properly. Market-led economic growth would rely on the governments to adapt business-friendly rules. Government-led export-oriented policy alone cannot push the economy to grow without strong global demand. A prosperous world economy cannot guarantee economic growth if domestic rules restrict local firms from engaging with overseas business. Another critique is that the international political economy (IPE) perspective tends to theorize development by investigating empirical cases in advanced countries. The lack of empirical studies from other developing countries limits the theories' wide applicability to a variety of countries. Certainly there is not only one pathway toward development. The greater inclusion and investigation of a variety of countries' development experiences provides inputs for advancing economic development theories.

## Capitalist Countries' Development Bottleneck

At the end of the 1970s, several countries in East Asia emerged as an economic threat to the American domestic market following the success of their export-led strategy. The result was a mounting deficit in the US trade balance. The continuous US trade deficit with Japan and the NIEs triggered the rise of American trade protectionism. In 1974, Section 301 of the US Trade Act was formulated as the principal statutory authority under which the United States might "impose trade sanctions against foreign countries that maintain acts, policies and practices that violate, or deny US rights or benefits under trade agreements, or are unjustifiable, unreasonable or discriminatory and burden or restrict US commerce."[16] In 1988, the US Congress passed the Omnibus Trade and Competitiveness Act, which required the US government to investigate foreign trade barriers on US exports and to negotiate with the large Asian exporters on the trade imbalance by provoking the Super 301 provision, a trade retaliation against foreign countries. To be removed from the blacklist of the Super 301 provision, several countries had to open more to foreign goods and services. This required tremendous domestic economic reforms to cope with the impact of the greater economic liberalization, notably exchange rate relaxation and simplified import procedures. The United States' trade deficit with Asian countries gradually reduced. However, that doesn't mean the US trade protectionist policy worked. It was rather the result of China's becoming the final production site and export platform. China received semi-industrial goods from other Asian countries and assembled them into final goods for export. As such, the nature of US-Asian economic relations (Asia produces and America consumes) did not change. America's trade deficit simply transformed from one with several countries to one merely with China. As many manufacturers in Asian countries used China as an export platform, China is like a combination of the US trade deficit with several countries involved in the regional production network.

Many Asian countries regard amassing foreign exchange reserves via exports as self-insurance against sudden negative financial shocks. The United States' long-term securities held by foreign governments surged from US$4.466 billion in September 2011 to US$7.549 billion in September 2021. Of this, around 44 percent was held by East Asian countries.[17] As for the United States, deepening economic relations with countries in the region could reinforce US-Asian economic interdependence and further sustain the US economy with growing debt. However, there is a risk that the more trade surplus and US treasury bonds are held by Asian countries, the more worrisome the potentially large depreciation of US currency. An important reason why the economic system based on the US accumulation of debt is supported by most Asian countries is that there is no better alternative. In consideration of its relatively lower gross domestic product (GDP) per capita and high saving rate, China is apparently not able to replace the US role as the largest consumption market. Besides, the continuing stability of China's macro-economic situation, domestic politics, and society is still uncertain.

If North Korea chooses to pursue its economic development in the conventional "Asian way," as mentioned above, it will have to bear greater opening to foreign goods and services after reaching a certain level of economic development. Economic liberalization and free trade are the current trend in the region. North Korea will have to conduct several domestic reforms to meet the international standard in trade and investment. It does not seem possible for North Korea to choose this development path at this stage. Apart from its domestic political constraints, which limit its level of economic opening, North Korea's following of East Asia's development model also implies its exodus from China's influence, which might put China in a geopolitically disadvantageous position.

## North Korea and the Transitional Economies

Export-oriented economic development is an important feature of the post-war capitalist economic system. The communist economic system, however, led by the Soviet Union and based on central planning, was another plausible development alternative during the Cold War era.[18] Communism also spread to several important economies in addition to the Soviet Union, such as China, Vietnam, and North Korea in Asia and Ukraine, Poland, Romania, and East Germany in Europe. Despite remarkable economic growth in the beginning, the Soviet economic development model failed at the end of the 1980s. Rapid economic growth among the communist countries after the war is explained by rapid growth in input, including expansion of employment, increases in education levels, and massive investment in physical capital. This is unlike the capitalist economic system, which relies on enhancing productivity for economic growth. When the input hits the limits, the return diminishes as a result.[19]

The collapse of the Soviet Union demonstrated that the communist approach to developing the economy was problematic. By the early 1990s, the two largest communist states in the world had already abandoned communism. Russia transformed into an economy dominated by natural resources. Despite its institutional form of democracy, authoritarianism remains in its political culture.[20] Before the collapse of the Soviet Union, China had already followed the rest of East Asia's economic growth model through promoting inward FDI and exports. However, its political system remained a one-party-dominated dictatorship. To justify its one-party dominance and fundamental ideology in Marxism-Leninism and Maoism, China calls its adaptation of the capitalist economic system "socialism with Chinese characteristics."[21] Despite its differences with other capitalist countries, Chinese president Xi Jinping has portrayed his nation as dedicated to furthering global economic integration. Indeed, China's involvement in economic globalization is a strong driving force behind its economic prosperity. As such, the country has been making efforts to preserve benefits from globalization. It has not only actively engaged in the market-driven economic globalization process but also established free trade agreements (FTAs) with several important economies in the world.

Following the collapse of the Soviet Union, several former communist countries in central and eastern Europe adopted market-oriented economic development. The transition from communist to capitalist economic systems was not smooth in the beginning, and development outcomes varied across countries. Hyperinflation and declines in output were the most commonly observed problems during the initial stages of postcommunist transformation. Hyperinflation after price liberalization indicated limited supply and excess demand under the planned economic system.[22] The reasons for plummeting output are diverse. The combination of excessive foreign debt and large fiscal deficits aggregated the economic chaos during the transition period.[23] The rush to impose standard privatization and regulation before appropriate market institution was established was another cause for the economic setbacks.[24]

For neoliberalism, the postcommunist recession was an inevitable consequence of economic transition from communism to capitalism. Given the fundamentally different economic systems, it is understandable that the adjustment would take time. Communist culture also made the transition process difficult. According to the cultural legacy argument, communist economic systems created passive and dependent people. The crisis-of-governance explanation demonstrated that the state failed to operate the national economy during the transition period. When former communist countries started to adopt a market economy, some government elites grabbed state assets for private advantage.[25] With time, the resulting chaos during the transition period collapsed their respective economies. Since 2004, the central and eastern European countries (CEEC) region seems to be catching up with western Europe in terms of employment and economic performance.[26] The CEEC's economic integration into the European Union further improved their economic strength, accelerating their overall economic growth and thus their achievement of greater economic convergence with the western European countries.[27]

Vietnam is another example of successful economic development in the transition economic literature. Since the economic reform initiated in 1986, Vietnam has achieved high economic growth, spectacular exports, and significant inward FDI and domestic investment. The reform measures started in a small number of provinces. The interprovincial contestations for more market reforms facilitated economic transition and contributed to their economic triumph. Indeed, government officials, at both central and local levels, saw it to be in their own self-interest to limit their power in exchange for a more efficient economy and thus their long-term legitimacy.[28] The establishment of property rights, introduction of a competitive market system, privatization of state-owned enterprises, and liberalization of international trade and tax, legal, and accounting regulations are the main reform measures that led Vietnam to become a success story. Unlike in other former communist countries in the CEEC, labor productivity in Vietnam never fell below its level at the start of the transition period.[29] In general, Vietnam pursued East Asia's export-oriented development strategy, its bold measures for greater economic liberalization allowing it to outperform other developing countries in the region. The opening of the country's economy continues, as shown by its active participation in various multilateral FTAs, such as the Regional Comprehensive Economic Partnership and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

North Korea is a puzzle among the transitional economies. On one hand, the country was able to insist on its communist economic system when many countries in the Soviet bloc started to embrace the capitalist economic system. In keeping with the economic chaos in other postcommunist countries during the transition period, North Korea suffered from the loss of economic support from the Soviet Union as well as its traditional economic links with many former communist countries. The termination of aid from the Soviet Union after its collapse was the most devastating factor to North Korea's economy, the resulting economic crisis triggering an extreme food shortage from 1995 to 1998. Estimates of the number of deaths due to the famine range between 500,000 and 1 million people.[30]

On the other hand, although North Korea continues to be governed by the communist regime, the market economy has been functioning within the country for almost three decades. Although the DPRK government has yet to recognize the existence of private sectors within the country, estimated private business activities are already between 30 and 50 percent of North Korea's GDP.[31] In other words, North Korea has been experiencing "economic transition" toward a market economy, though the officials have never acknowledged it. As the market economy has already been operating in the country, economic chaos could be minimized when the market economic system is officially adopted. Nonetheless, rigid domestic politics constrain North Korea's establishing an institutionalized economic system, which is important for the country to successfully transition into a market economy.

## North Korea's Unsuccessful Economic Development

Several factors have impeded North Korea's economic advancement since the country was established. First, as in other communist countries, the incentives for production were low under the socialist economic system.[32] North Korea especially lacked the capacity to organize economic institutions based on a socialist framework. Its effort to set up a central planning system was further hindered by its worsening relations with the Soviet Union after Joseph Stalin's death in 1953.[33] The failure of its central planning system was shown in its inflexibility in production and a chronic shortage of input and energy.[34] Moreover, the self-reliance economic policy resulted in the low competitiveness of North Korean products in the world market and limited access to technology from overseas. Costly military buildup further drained scarce economic resources.[35] Externally, the long-standing nuclear standoff with the international community restrained the inflow of international aid and inward FDI, thereby hindering the nation's economic development.[36]

After three decades of the self-reliance economic policy, North Korea started to officially extend its economic linkages with the outside world in the 1980s. It first signed trade agreements with the Soviet Union and China in 1984 and 1986, respectively.[37] In 1984, the Foreign Joint Venture Law was enacted to attract FDI. The economic crisis of the 1990s forced the government to institutionalize marketization and liberalize external trade a step further. Nevertheless, Kim Jong Il reversed his economic reform efforts after 2005 due to rising income inequality and the weakening of state authority over local officials and newly emerging capitalists. The return to the prior restrictive policy created even more chaos in the economy.[38]

There are three explanations for North Korea's inability to carry out reform toward the market economy. First, unlike China's promotion of "socialism with a market economy," North Korea's priority was to protect its economy's socialist character. North Korea's monolithic system also resulted in its less dynamic and ultra-cautious reform strategy.[39] Second, reforms failed to increase the country's official food supply and to control rampant inflation. Economic failure triggered a vicious circle of antimarketization, militarization, and stagnation later on.[40] Third, some scholars believed that the North Korean government was not sincere about reforming the economy. The law indicated in the People's Economic Plan of 1999 reasserted state control over the economy and the importance of the central planning system.[41] It is also argued that the July 2002 reform was to increase Pyongyang's organizational control over a failing economy rather than to promote economic development.[42] The motivation of the reform was to restore the centrally planned official economic sector by cracking down on black markets and bringing them under state control.[43]

The South Korean Central Bank's figures show that the DPRK's economy has gradually recovered since 2000 despite unsuccessful economic reforms. The booming border trade since the great famine period was believed to have largely sustained the domestic economy. The development of an underground market-oriented economy pushed the economy to grow further. The warming of inter-Korean economic ties through South Korea's Sunshine Policy may also have improved North Korea's economy. Nevertheless, the closer inter-Korean economic relations deteriorated after the sinking of the South Korean naval ship *Cheonan* in 2010. In response to a rocket launched by the DPRK, South Korea has halted all its economic engagements with the North since 2016. North Korea's economic ties with another important trading partner, Japan, also faded after the DPRK acknowledged in 2002 that it had kidnapped Japanese citizens. The Japanese government imposed its most severe economic sanctions on North Korea by ending all bilateral economic activities. China has become the only country that maintains regular and relatively large commercial exchanges with North Korea.

After taking office in 2011, Kim Jong Un replaced his father's "military-first policy" with a policy of "equal importance on the military and economy." Despite the different slogans, many economic measures adopted by the two leaders are similar in essence. First, Kim Jong Un has maintained his father's industrial policies with emphasis on the development of the agriculture, coal mining, electricity, rail transport, and metals sectors. Second, like his father, Kim Jong Un has tried to develop the economy by enhancing the authority of cabinet leaders and appointing officials with economic expertise. The two Kims appointed the same cabinet officials to take charge of economic matters. Park Bong Ju served as North Korea's premier from 2003 to 2007. He was again the premier in 2013 and stepped down in 2019. The same personnel being in charge of economic affairs might explain the similar economic policy measures between the two Kims. Third, the reason for Kim Jong Il's "military first" policy was to generate spillover effects to the civilian economy due to limited national resources. Although Kim Jong Un highlighted the importance of economic development, the country's military expenditure continued to surge. His argument is still akin to a "military-first policy": if nuclear deterrence could guarantee peace, North Korea could channel more efforts into economic construction. The only difference between the two leaders is that so far Kim Jong Un has not yet reverted to any antimarket measures. The current regime under Kim Jong Un seems to be more habituated to marketization than that of his predecessor.[44] If no antimarket measures are enacted, North Korea is expected to experience deepening marketization in the future.

Nevertheless, North Korea's insistence on nuclear weapon development and missile tests triggered UN-imposed sanctions on the country. The economy was further severely impacted when the sanctions gradually included several essential economic sectors. Sanctions evasion and a variety of illicit activities have become a core component of the regime's survival strategy. The meeting between Donald Trump and Kim Jong Un on June 12, 2018, in Singapore raised hopes for the lifting of sanctions against North Korea. The United States also mentioned its willingness to help rebuild North Korea's economic system if the latter agreed to denuclearize. North Korea seemed interested in following East Asia's economic development model by promoting FDI and exports. Kim Jong Un particularly praised the development experiences of China, Singapore, and Vietnam as models of reference for

North Korea. Those countries have been able to develop their economies while restraining political liberalization. Beyond the above three countries, some East Asian countries, such as Taiwan and South Korea, had their economies take off while still under their respective prior authoritarian governments. Nevertheless, North Korea may not adopt the same "developmental dictatorship" in which authoritarianism is tolerated for the sake of economic development. The North Korean leaders have been deeply embedded in the country's self-reliance and ignorance of the outside world.[45]

The key to economic development still relies on reforms toward a market economy. Without more deepening reforms, North Korea is not going to achieve a growth rate comparable to that of China, Vietnam, or other East Asian countries. Indeed, the country can achieve a leapfrogging style of economic catch-up, but only through FDI and trade.[46] By inserting itself into the regional manufacturing supply chain network through FDI, North Korea could possibly join the export-led economic development path experienced by many East Asian economies. Whether the regime likes it or not, the country has been increasingly reliant for its economic survival on external economic ties, including humanitarian aid, foreign currency earned through overseas North Korean labor, trade, and FDI. The inability to attract foreign capital, transfer technology, and explore new export markets has hindered its economy from progressing.

Another critical impediment to North Korea's economic development is its large share of military expenditure in the economy. The North Korean regime's deep-rooted anxieties about its external security are reasons for the country's continuous development of nuclear weapons. The unsuccessful negotiations in Hanoi showed that the United States might have underestimated North Korea's strong sense of insecurity. In the eyes of the North Korean government, lifting sanctions through a complete denuclearization does not inspire tremendous political and economic interest.[47] Apart from national security concerns, without the external threat of "US imperialism," the Kim regime's ideological and propaganda system would lose the conceptual basis for its existence. Kim Jong Un also needs to continue nuclear development to maintain a policy of the equal importance of both the military and the economy in North Korea's national development strategy (Byongjin policy). Although the importance of the economy was highlighted in the Byongjin policy, that doesn't mean the military is less important than before.[48]

## North Korea's Growth Potential

Developing countries may not be able to imitate the economic developmental practices of advanced countries, given their different external environments and cultural and historical backgrounds. In the case of North Korea, its strong sense of insecurity, strong linkage with the Soviet Union and China, and political confrontations with the United States have made it a unique case among the development theories.

Economically, North Korea's growth potential lies in its geographic location, abundant natural resources, and relatively cheap labor force. First, situated between China, Russia, and South Korea, North Korea is an ideal investment destination for investors in the neighboring countries. Second, North Korea has substantial reserves of iron ore, coal, limestone, and metals. A South Korean research institute valued North Korea's mineral wealth as high as US$10 trillion.[49] Third, North Korea has a population of 25 million and a well-educated labor force. The literacy of its people aged fifteen and above is 100 percent.[50] This is higher than the average rates in South Asia (72 percent), West Asia (81 percent), and East and Southeast Asia (96 percent).[51] Despite limited economic progress so far, compared to many East Asian countries, North Korea's survival in the past decades could be considered a miracle, given the daunting challenges both internal and external. What the country has experienced is certainly not a model for other countries to follow. However, how the regime can continue to maintain its economic operation and its stability for over seventy years remains an interesting question and needs a systemic review. Despite its regime stability, the economy cannot stay excluded from the outside world forever. A more important question is whether the regime can adopt East Asia's economic development model or find an alternative way to develop the country.

## About the Book

The book aims to explore North Korea's economic development process from an IPE perspective. The more specific research questions for this study are as follows: How did North Korea develop its economy after the establishment of the DPRK? What are the similarities and differences in economic policies between the three North Korean leaders (from Kim Il Sung to Kim Jong Un)? How was North Korea's economy influenced by its relations with the greater world powers? Will the expansion of market activities eventually lead to North Korea's greater engagement with the global economy? What can North Korea learn from East Asia's development experiences? How is North Korea's economy going to be affected by geopolitical factors, especially the growing US-China rivalry?

The first part of the book focuses on investigating the main economic issues in North Korea since DPRK establishment in 1948. It discusses how the country's economy has evolved and transformed over the last few decades. The government's policy and North Korea's external relations are the main variables in the changing dynamic of the country's economic development. This part is divided into three chapters. Each chapter addresses the main policy measures and key economic concerns under the three different leaders.

In Chapter 2, William B. Brown examines North Korea's economy under Kim Il Sung, providing a historical overview of North Korea's economic situation. Brown explores the economic realities behind North Korea's seemingly respectable economic growth, the origins of *juche* ideas, and the main economic policy initiatives that were taken at the initial stage of development. Despite a relatively strong industrial inheritance from Japan after the war, Kim Il Sung was not able to successfully improve the living standards of the people, instead pushing hard through a centrally commanded system to develop industry and the military—with far too much emphasis on state investment, a complaint noted by both Chinese and Soviet advisors. Kim oversaw the complete takeover of private capital and farmland, especially after the Korean War, with a devastating drop in productivity.

Sangsoo Lee analyzes North Korea's economy under Kim Jong Il in Chapter 3. Kim Jong Il noted the importance of both economic reforms and North Korea's connecting with the outside world. However, domestic political constraints did not allow him to proceed with bold reforms constantly. The geopolitical environment at the time was also not helpful for Kim Jong Il to move the reforms forward. His unsuccessful reforms resulted in economic chaos. Kim Jong Il's main reform measures, the barriers to the reforms, and the consequences to the economy due to his unsuccessful reforms are evaluated in this chapter.

Young-chul Chung, Yong-hyun Kim, and Kyungyon Moon examine Kim Jong Un's economic policy with connection to North Korea's security in Chapter 4. Unlike his father's focus, Kim Jong Un's Byongjin policy prioritized economic development over the military, a new strategy to tackle the growing domestic demand for an improved economy and the new challenges posed by North Korea's surroundings. Although the policy was still trapped between economic development and national security, the authors argue that Kim Jong Un's pursuit of "security for development" was different from Kim Jong Il's "development for security."

The second part of the book shifts to the external factors that helped to sustain North Korea's economy following the economic crisis of the 1990s. South Korea, China, Russia, and Japan were major players in facilitating North Korea's economic development. This part analyzes their economic linkage with North Korea and contribution to North Korea's economy.

In Chapter 5, Hyo-young Lee examines inter-Korean economic relations from an economic and legal perspective. The ultimate goal of South Korea's economic engagement with the North was to reach sustainable peace in the Korean Peninsula. However, political and geopolitical factors prevented the South from proceeding with the inter-Korean economic cooperation projects. Lee proposes that instead of a reliance on South Korea's initiatives alone, international involvement is needed to facilitate North Korea's economic reforms and eventually reach a sustainable peace in the region. South Korea could be an active player in North Korea's economic engagement with international organizations.

Tat Yan Kong assesses China's support for North Korea's economy in Chapter 6. China is widely believed to have continued to support North Korea's economy despite the UN sanctions that requested countries not have any economic engagement with North Korea. With North Korea's development of marketization, its dependence has shifted from China's financial aid to China's market. In addition to reviewing China's support to North Korea, Kong analyzes China's motivations and the factors that have affected its support during the past decades.

In Chapter 7, Olga Garanina examines Russia–North Korea economic relations from Russia's perspective. Moscow's importance in North Korea's economy shrank after the collapse of the Soviet Union. Russian policy toward North Korea after the 1990s and its consequences for their economic relations are explored. Unlike during the Cold War, Russia today is not able to aid North Korea's development due to its limited economic resources and tremendous domestic challenges. Bilateral economic relations have been weak as a result. Russia's tense relations with Western countries and UN sanctions against the DPRK further constrain Moscow's economic presence in North Korea.

Yanghyeon Jo looks at Japan-DPRK relations in Chapter 8. Japan was once an important trade partner and source of investment in North Korea, but the bilateral economic ties ceased after political relations deteriorated. Japan's potential great contribution to North Korea's economic development cannot be realized without the normalization of bilateral diplomatic relations, which is unlikely, given deadlocked talks over the abduction issue and North Korea's incessant conduct of missile tests.

The third part of the book examines the roles of international players in North Korea's economic development. North Korea's denuclearization is key for advancing its economy. The United States and European countries are critical in international organizations' response to North Korea's nuclear development. North Korea's resistance to the pressure from the international community is also discussed.

The evolving US policy toward North Korea and North Korea's response to bypass the international sanctions are analyzed by Troy Stangarone in Chapter 9. The United States is the most important factor for the DPRK to undertake export-oriented economic development. At present, the most urgent issue for North Korea is removal of UN sanctions, which also depends much on its relations with the United States. The Trump-Kim meeting in Singapore brought hope for advancing bilateral relations; however, relations were ruined a year later.

Antoine Bondaz evaluates Europe's relations with North Korea, Europe-DPRK economic relations, and Europe's adoption of sanctions against the DPRK in Chapter 10. Despite the EU's limited weight in the DPRK's economy, European countries have made great contribution to North Korea in terms of humanitarian aid and capacity building. Europe's continuous assistance and efforts to engage North Korea provide important ground for the country's future development and regional stability.

In Chapter 11, Denny Roy elucidates the reasons behind North Korea's active pursuit of nuclear weapons despite the pressure from the international community for denuclearization. Despite its small economic size vis-à-vis the greater powers in the region and isolation from the international community, the DPRK has been able to resist pressure over denuclearization and has successfully developed its own nuclear weapons. Roy identifies three unusual factors that helped North Korea to develop its nuclear power, including the regime's extraordinary determination, its semi-isolation from the international community, and the South Korean capital city's vulnerability to external attacks.

In Chapter 12, Min-Hua Chiang illustrates how North Korea's economy could have been sustained under UN sanctions. As the UN sanctions before 2016 focused on restricting arms deliveries to North Korea, the impact on the economy was not obvious. North Korea's greater economic engagement with South Korea and later China through trade, FDI, and people-to-people exchange could have further helped the economy to grow and indirectly financed its military expenditure. Although North Korea's economy suffered from greater inclusion of economic measures in the UN sanctions after 2017, its insistence on nuclear development indicates that the cost of abandoning its nuclear program, for the regime, is greater than its economic setbacks.

Chapter 13 concludes the book by summarizing the arguments raised in the previous chapters. It also reflects on how North Korea's economy can be better integrated into the region and the world, which is essential for the country's economic development prospects. This concluding chapter further compares North Korea's case with mainstream theories in international political economics with regard to economic development.

## Notes

1. "Democratic People's Republic of Korea," United Nations Statistics Division, https://data.un.org/en/iso/kp.html.

2. World Bank data derived from CEIC database, 2022, https://www.ceicdata.com/en.

3. On the contrary, South Korea primarily inherited its modernized agricultural infrastructure from the Japanese. Schwekendiek, *A Socioeconomic History of North Korea*, 116–117.

4. Schwekendiek, *A Socioeconomic History of North Korea*, 118, 146.

5. Kim, *Unveiling the North Korean Economy*, 79.

6. Lankov, "The Resurgence of a Market Economy in North Korea."

7. North Korea lacked reliable data on the national economy and the capacity to organize economic institutions based on a socialist framework. See Eberstadt, *The North Korean Economy*, 17–59. Beyond the geopolitical factors, North Korea would have to fix some fundamental problems in its domestic economic system before economic take-off could occur. First, the current tax system does not allow public saving to pass through the budget to increase public expenditure in the civilian economy. Second, its banking system has not adapted to the growing accumulation of private wealth. Due to corruption and black-market lending, the banking services are not widely trusted by the public. See Babson, "The North Korean Economic System," 149–175.

8. Broome, *Issues and Actors in the Global Political Economy*, 244–245.

9. Haggard, *Pathways from the Periphery*, 13–14.

10. Gilpin, *Global Political Economy*, 330; Wade, "Wheels Within Wheels: Rethinking the Asian Crisis and the Asian Model," 85–115.

11. Berger, *The Battle for Asia*, 37–42.

12. Ikenberry, "American Hegemony and East Asia Order," 353.

13. Jorgenson, "Productivity and Economic Growth in Japan and the United States," 217.

14. Ozawa explained that "macro-clustering" is a phenomenon in which hegemony generates growth stimuli for its closely aligned group of countries. The growth stimuli include the dissemination of technology, knowledge, skills, access to the hegemon's home market, and institutional arrangements of open market capitalism. See Ozawa, "Pax Americana–Led Macro-Clustering and Flying-Geese-Style-Catch-Up in East Asia," 701.

15. Wallerstein, "The Rise and Future Demise of the World Capitalist System," 405; Wallerstein, *The Modern World-System*, 20–21.

16. Grier, "Section 301 of the 1974 Trade Act."

17. US Department of the Treasury, "Major Foreign Holders of Treasury Securities."

18. Beeson and Bell, "Structures, Institutions and Agency in the Models," 116–140.

19. Krugman, "The Myth of Asia's Miracle," 62–78.

20. O'Brien and Williams, *Global Political Economy*, 89.

21. "Socialism with Chinese Characteristics," *China Daily.*

22. Miller, *International Political Economy*, 256.

23. Aslund, *How Capitalism Was Built*, 57–81.

24. Assa, "Transition Economies," 1265–1266.

25. Gilpin, *Global Political Economy*, 334–336.

26. Andor, "Fifteen Years of Convergence," 18–23.

27. Gorzelak, "The Eastern Horizon."

28. Jandl, *Vietnam in the Global Economy*, 265–266.

29. Lim, *Economic Growth and Employment in Vietnam*, 158.

30. Beyond the collapse of the Soviet Union, insufficient agricultural production due to bad weather conditions, continued high military expenditure, and reduction of food rations were important factors in the hunger disaster in the 1990s. See

Noland, "North Korea in Global Perspective," 71; Kim, *Unveiling the North Korean Economy*, 47–49.

31. Lankov, "The Resurgence of a Market Economy in North Korea."

32. Hong, *North Korean Economy in the Kim Jong-un Regime*, 9.

33. North Korea viewed the attempts of Stalin's successor, Nikita Khrushchev, to reform as revisionist. Moreover, conflict between the Soviet Union and China compelled North Korea to adopt a more balanced stance between the two countries. Kim, *Unveiling the North Korean Economy*, 43.

34. Schwekendiek, *A Socioeconomic History of North Korea*, 147.

35. Lee, "A Note on Economic Development in North Korea," 1–13.

36. Ku, "North Korean Economy," 130–150.

37. Mah, "Patterns of International Trade and the Industrial-Led Economic Development of North Korea," 820–834.

38. Ku, "North Korean Economy," 130–150.

39. Park, "The Political Economy of Economic Reform in North Korea," 529–549.

40. Kong, "The Political Obstacles to Economic Reform in North Korea," 73–96.

41. Ballod, "Political Economy of East Asia Economic Zones."

42. Hale, "Real Reform in North Korea?," 823–842.

43. Park, "Regime Change in North Korea?," 23–45.

44. Kong, "The Advance of Marketization in North Korea," 830–867.

45. Lankov, *The Real North Korea*, 111.

46. Lee, Kim, and Lee, "The Possibility of Economic Reform in North Korea," 279–294; McKay, "How Significant and Effective Are North Korea's Market Reforms?," 83–97.

47. Habib, "The Enforcement Problem in Resolution 2094," 5–68.

48. Hong, *North Korean Economy in the Kim Jong-un Regime*, 19–20.

49. Killalea, "North Korea Is Sitting on $6 Trillion in Mineral Resources."

50. However, the supply of cheap labor may not be sustainable. North Korea's median age (34) is higher than that of Southeast Asia (28.5). When Vietnam and China embarked on reforms, their median ages were about 20. *World Population Aging*, United Nations, 2017, 30; "Is North Korea the Next Vietnam?" *The Economist*.

51. United Nations Educational, Scientific, and Cultural Organization (UNESCO), "Literacy Rates Rise from One Generation to Next, but Challenges Remain in Region."