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Triple Distress of the North Korean Economy: COVID-19 Crisis, Economic Sanction, Typhoon Damage

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English Abstract

North Korea's initial response to COVID-19 can be considered as quite a success, despite the difficulties to estimate the exact casualties. This is because the North Korean leadership has taken strong measures by restricting population movement, and there is no news coverage by the international community or NGOs concerning signs on a rapid spread of COVID-19 or massive death toll in North Korea. In addition to this, the North Korean leadership has also stressed vigilance against the outbreak of a second wave of COVID-19 by reporting the cases of re-proliferation in Europe through the Korea Central TV (KCTV).

Most of the products distributed in North Korea, including strategic materials that are absolutely necessary for state operations such as crude oil and food, are from China. The circulation of the Chinese Yuan is ahead of the North Korean Won in the major markets in North Korea. A sharp drop in trade with China prompted North Korea to suffer from a shortage of foreign currency as well as a shortage of daily necessities. The North Korean market has also been hit hard. In order to recover from the economic shock that COVID-19 has caused, a certain period of time is needed before the eradication of the COVID-19 viruses. The implementation of short-term stimulus measures, such as the South Korean disaster support funds, is not feasible given the North Korea's economic structure. The policy of distributing food to the peo-

ple is not possible as well because the food and rice production should be prioritized and reserved for the North Korean military.

The argument that an increase in trade in a closed country like North Korea will stimulate considerable economic growth is persuasive. However, it is questionable whether simple export growth can lead to economic growth in the case of North Korea. There are several reasons for this claim: first, the North Korea's low export sophistication index has reached a pointless level since 2018, due to a sharp drop in trade with China. The export sophistication index of Cuba, which was passive in the market reform, was estimated to be higher than that of North Korea. Moreover, localization of North Korea has yet to be widely implemented. In the case of South Korea, it has raised the competitiveness of its goods through constant overseas cooperation and competition, but North Korea still prefers policy that relies solely on China. Therefore, taking the current situation into consideration, if North Korea conducts brisk trade with the world, the North Korean economy may achieve a new miracle of rapid growth.

Despite the triple distress, surprisingly, rice prices in the North Korean market remain stable. There is no news of a serious food shortage in North Korea. In June, South Korea tried to provide 50,000 tons of rice through the UN World Food Programme (WFP), but the North refused to receive, citing the resumption of the ROK-U.S. military drills. This attitude of North Korea is claimed that China's support is behind. According to reports, China's rice stock in 2019 and 2020 stands at about 180 million tons, holding 50 percent of the world's rice stock. This supports the rumor of China's support of 600,000 tons of rice to North Korea in 2020.

Kim Jong Un's leadership would face a major challenge, if COVID-19 continues for a considerable period of time and causes massive damages to the North Korean economy. Kim Jong Un has already admitted the failure to the grand five strategies for national economic development. Hence, if the economic hardship continues and accumulates, Kim Jong Un will face a fall of his authority even if some responsibility may be shifted to the party members and its officials. It is, therefore, a time for a close analysis of the events and dynamic situations in North Korea, including the upcoming 75th anniversary of the establishment of the Workers' Party of Korea. ♣

※ Translator's note: This is a summarized unofficial translation of the original paper which was written in Korean. All references should be made to the original paper.

※ This article is written based on the author's personal opinions and does not reflect the views of the Sejong Institute.