

The DPRK Economy at a Glance

A 38 North Interview

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TRANSCRIPT

Part I: Internal Dynamics

Mike Chinoy: Well thanks very much for taking the time to talk to us. Let me start by asking you, what's your general sense of the state of the North Korean economy—it's been about a half a year or so since Kim Jong Il died; the succession to Kim Jong Un seems to have gone relatively smoothly, what's your take on the economy?

Yoon Deok-Ryong: Nothing has improved. North Korean economy is still in a property trap. And property trap means that if an economy cannot save much to compensate for the depreciation of the capital stock, then the capital stock will decrease, and this decreasing capital stock will cause negative economy growth. And North Korea is in a property trap, and North Korea is losing, continuously, a part of the capital stock. And that is the main reason of North Korea's negative growth.

Chinoy: How is this manifested; what do you see on the ground in terms of people's livelihoods, people's day-to-day lives?

Yoon: As an academic, I see this in terms of an economic growth rate. And if I visit North Korea and get the data from North Korea, [the data] shows negative growth. And if you visit North Korea, then the North Korean people – even though there is a bigger gap between the rich and the poor – but the average level of North Korean people's living standard has not improved yet.

Chinoy: Recently, there have been some very interesting statements attributed to Kim Jong Un. In one of them, he was quoted as saying that the time had come where the North Korean people should not be asked to constantly further tighten their belts. He's also been quoted as saying it was time for officials to change their outmoded way of doing and thinking things. What do you make of this? Does this suggest that there is some kind of serious discussion or consideration of reform or change in the way things are done in North Korea?

Yoon: There are many people who are waiting for the real policy changes in North Korea, because as you said, the North Korean government or the leader has promised something bigger in the future. But we don't see any concrete changes yet. According to his [Kim Jong Un's] words, the North Korean government is preparing for a kind of reform measures or more active opening policies.

Without these reforms and opening policies, North Korean economy does not have any chance to improve or rehabilitate the economic situation. Because of that, still I am waiting for North Korea's more active economic reforms and opening policy, but we cannot see any changes yet.

Chinoy: Does North Korea actually have the capacity to reform? Is there a problem here in that if they tried to reform, it could undermine the basis of their political system if they actually did it in a meaningful way?

Yoon: I think, yes. The economic changes, or the economic reform, is not always – or should not always – go together with democratic system. We have observed this kind of experience already in our own history in South Korea's economic development period. We have had a kind of authoritative government, and we have experienced less democratic system than we have now. But at that time, better living standard was more important for the people.

Because of that, even though we had less freedom, less democracy, the people could endure that, because we could improve our living standard and we could get our food and other necessary materials for living. Because of that, if North Korea would introduce economic reform measures and if North Korea would introduce more active opening policy, I think in the beginning the demise the North Korean system. It can probably strengthen the basis of the power of new Kim Jong Un's regime in North Korea, I think.

Chinoy: North Korea is different than China in the sense that in China, the government allows people to get on with their lives; as long as you don't oppose the Chinese Communist party you have a lot of freedom to do lots of other things. But in North Korea, it's a different kind of system; not only can you not oppose the government, you actually are pressured to sort of buy into the personality cult, the worship; it's a much more awe-encompassing system. Does that really mean that if they try to change, the political basis of that system could be under threat?

Yoon: I don't think so. I myself have been in North Korea several times. North Koreans are very similar to South Korean people. I understand their emotions and their customs and so on, because of that, if they were to get more necessary materials for living, then they can probably pay more respect to their leader. Even though Kim Il Sung and Kim Jong Il have promised to provide "Ssal bap" and "Gogi gook" – that means rice and meat soup – but they didn't keep the words, and they couldn't keep the words. But if Kim Jong Un would be able to provide these things – these necessary materials for living – then Kim Jong Un will get more support from the people, I think.

Part II: Markets and Foreign Investment

Chinoy: What's been the role and impact of markets in North Korea?

Yoon: North Korea introduced the market officially in 2002 via July reform. And market is working for distribution of the resources and not the allocation – that means the market is working in just consumption sector, not in production sector. North Korea has allowed this market mechanism just in consumption sector. Even though it is limited, the market is working – North Korean people get the necessary materials from the market and they bring their goods on the market, and they are living on market. And this market is providing more chance to make money and more chance to get necessary materials. Because of that, that is positive. But as the market is expanding, the gap between the poor and the rich – that is the negative picture, but it is unavoidable if you have market in your society.

Chinoy: Where are the rich people in North Korea getting their money from?

Yoon: In North Korea, the rich people are mainly from the people who are able to contact international currency, or the people who can have access to international currency; For example, the people who are working in the export sector or the people who have relatives in foreign countries or the people who have a family member who is working abroad. They can get the foreign currency. And using this foreign currency, they have the chance to invest or to produce something in North Korea, and they are the growing middle class in North Korea.

Chinoy: Could these people, with their money, present some kind of political threat to the regime, or do you think they're just happy enough to be doing better, and therefore they'll let the system and the regime carry on, because it's providing benefits for them?

Yoon: I think they are happy to have chance to that kind of exclusive right to access foreign currency and foreign goods.

Chinoy: Over the past year or so, China and North Korea have made some moves toward opening up special economic zones, one in Rason and one in Hwanggumpyong. What's your analysis of these zones and the potential impact they could have on North Korea?

Yoon: I think Rason will become a successful project, but Hwanggumpyong is not so hopeful, I think. Because for Rason area, China has a big interest – China has an access to the East Sea, and China has already borrowed three ports in Rason, and China is now constructing road to Rason. And they are repairing the road from Hunchun to Rason and so on. It shows the big interest of China. China can use this road and port to export the goods from the northeast region of China and they can bring these goods to Rason and then they can send these goods to Shanghai and southern parts of China. Then they can save the transportation costs and so on. And this has military meaning as well. But Hwanggumpyong is different – Hwanggumpyong is just a land in the middle of Yalu, and, you know, the only economic interest from China for Hwanggumpyong is using land and using the cheap labor. But there is no electricity and there are no resources for production and so on. Because of that, it is much inferior to Kaesong industrial complex. Because of that I don't think Hwanggumpyong will become a successful project. But Rason is very promising.

Part II: External Factors

Chinoy: In the past few years, as relations between the North and the South have soured, China and North Korea have gotten closer and closer and the Chinese role in the North Korean economy has become more and more important. What are the implications of this for South Korea, and with North Korea becoming increasingly integrated with the Chinese economy—does this actually raise some questions about the longstanding scenarios for unification under which the South essentially absorbs the North, if China to some degree is already absorbing the North in economic terms?

Yoon: Complicated question. But I think the China's role for North Korea nowadays is positive, because it can become a kind of shield for North Korea, if North Korea does not have any exit, then it can become more explosive, it can have more explosive potential. And China has reformed the economic system, and North Korea can learn this new economic system from Chinese companies and the Chinese people. But as you said, China is now expecting natural resources from North Korea. And they pay very cheap, because China is the monopoly power of demand – just China can buy something. Because of that, North Korea should make dumping. Because of that, China is now expecting many natural resources from North Korea very cheap, and they can use the North Korean labor very cheap. These are negative pictures. But China has adopted already the market mechanism in the economy, and the companies and the people are working on the market mechanism. That can

have probably an impact on the North Korean economy and North Korean people who are working with the these Chinese companies. And with regard to the possible reunification, it depends on if North Korea would learn new mechanism and new system from China. That will be helpful for the possible renunciation between two Koreas, but if China would not allow or would not give the chance for the reunification between two Koreas to hold their right to use natural resources from North Korea and so on, that may then be negative. We should see. Because of that, international cooperation is an important factor.

Chinoy: North Korea is still facing a whole series of sanctions; international sanctions from the U.S, and so on—in economic terms, how significant are those sanctions and in political terms, are they making much of a difference?

Yoon: Economically, North Korean needs new capital. But North Korea cannot get new investments due to these sanction mechanisms, and North Korea has lost the markets. That means that North Korea needs new production capacity, and North Korea needs the market. But through these sanction measures North Korea has lost the possible source of possible source of investments and markets. So because of that, North Korea does not have any hope or any possibility to rehabilitate its economy through these sanction measures and this can destabilize the political regime as well. As I said, if the leader would not be able to improve the economic situations, especially Kim Jong Un cannot stabilize his power system because Kim Il Sung was the leader of the independence movement and Kim Jung Il has worked with him and because of that the two forefathers have had a kind of authority, but Kim Jong Un did not contribute to North Korean history – he must be able to show his ability to contribute to the history of North Korea and to the people of North Korea. And in that sense, economic rehabilitation is really important and the sanction measures are important hurdle for his political reasons.

Chinoy: Russia recently announced that it was forgiving the loans that it had provided to North Korea, which the North doesn't need to repay most of what it owes Russia. What do you make of that? How important is it, what's the impact going to be?

Yoon: It is really good, and we welcome that kind of decision. But it is normal in the international society. Probably Paris Club is the club of the developed countries, who have provided ODA or loans to emerging economies and poor countries. If these poor countries are not able to pay back, then the countries in the Paris Club discuss the rescheduling, and mainly the countries allow debt redemptions and so on. And North Korea does not have access to international financial market, because North Korea has not paid the debt. But if the other countries would follow the Russian example, then for North Korea these countries would open new way to get the financial support from the world. And because of that, I think it is very important for North Korea. And probably if the other countries can bring North Korea's old debt issue to the Paris Club or other international society. If other countries would follow the Russian example, then for North Korea they can provide new hope.

Chinoy: What's your prognosis for the future of North-South economic relations? They've been in a deep freeze the past few years, but you're going to have a new government in South Korea next year, after the election—what's your sense of where things are likely to go?

Yoon: Good question. I think the inter-Korean relations will be improved in the next government. Because we think, even though the negotiations or the dialogues happen in the low level, it is important to prevent possible physical conflicts. But I think this government, the Lee Myung Bak government, has given the important chance to North Koreans to rethink on inter-Korean relations. And this Lee MB government's position was that North Korea has cooperated economically one hand, but in other hand, North Korea has produced nuclear weapons and missiles. These kinds of two

different attitudes cannot be endured by South Koreans any longer. I think all South Koreans have the same opinion. Because of that, even though the next government would reopen the dialogues with the North Koreans, we cannot endure this kind of dual attitudes. But if North Korea would change their positions towards more peaceful dialogues, then we are ready to produce more active relations and we are ready to provide much more economic resources to North Koreans. But we cannot endure the threatening attitude.

Chinoy: Professor Yoon, thanks very much for speaking with us.

Dr. Yoon Deok-Ryong is a senior research fellow at the Korea Institute for International Economic Policy (KIEP). Currently he also works as a member of steering committee of the Korea Investment Corporation (KIC), Korea's sovereign fund. He serves as a member of the advisory committee of Ministry of Foreign Affairs and Trade and Ministry of Unification. He was a member of the National Economic Advisory Council for the President. He also served as a Senior Advisor to the Minister of Finance and as a head of an evaluation team for public companies at the Ministry of Strategy and Finance. He is a member of several expert groups and advisory committees for diverse ministries and presidential offices in Korea.

Dr. Yoon was a visiting professor at the Paul H. Nitze School of Advanced International Studies (SAIS), Johns Hopkins University. He is also an invited professor at the Institute for Korean Unification Studies at Yonsei University. He received his B.A., M.A., and Ph.D. in economics from Kiel University in Germany. He was an executive director of PECC Korea and director general of APEC Education Foundation.

In addition to numerous papers and books, he is the author of "Asian Monetary Cooperation: A Search for Regional Monetary Stability in the Post-Euro and the Post-Asian Crisis Era" in *Economic Papers* (Bank of Korea 2000); "Searching for a Better Regional Surveillance Mechanism in East Asia" (HWWA, 2002); "The Role of Regional Development Banks: Financing for Development and Solidarity in East Asia" (Edward Elgar, London, 2003); "The Structure of North Korea's political Economy: Changes and Effects" (KEI, Washington DC. 2004); "How to Finance North Korea's Capital Requirements for Economic Recovery," (East Asian Review, Vol. 16, No. 2, 2004); "National Financial Revenue and Expenditure of North Korea" (KIEP 2005); "A Roadmap for East Asian Monetary Integration" (KIEP 2007); and "The Korean Economic Adjustment to the World Financial Crisis" (Asian Economic Papers, 2010).

Mike Chinoy is a Senior Fellow at the US-China Institute at University of Southern California. He was CNN's Senior Asia Correspondent and served as a foreign correspondent for more than thirty years. After joining CNN at its London bureau in 1983, Chinoy served as Beijing Bureau Chief from 1987 to 1995. During that time he covered the 1989 events at Tiananmen Square, earning the CableACE, duPont and Peabody awards. He was also Hong Kong Bureau Chief for five years. His other awards include the Silver Medal from the New York Film Festival and Asian Television Awards for his reporting in Indonesia and Taiwan. Chinoy's published two books, *China Live: People Power and the Television Revolution* (1999) and *Meltdown: The Inside Story of the North Korean Nuclear Crisis* (2008). He taught at the USC Annenberg School of Communication and ran the School's Hong Kong summer program 2007-2009. From 2006-2009 he was Edgerton Senior Fellow at the Pacific Council for International Policy.