Online Event

“The Outlook for North Korea’s Economy Post-Pandemic”

RECORDING DATE:
Tuesday, December 1, 2020

WELCOMING REMARKS:
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KEYNOTE ADDRESS:
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Session I: The Current State of North Korea's Economy: Coping with Adversity and Austerity

MODERATOR:
Victor Cha,
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PANELISTS:
William Brown,
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Seung-ho Jung,
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William Newcomb,
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Katharina Zellweger,
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Session II: Future Scenarios for North Korea’s Economy: Challenges and Opportunities

MODERATOR:
Sue Mi Terry,
Senior Fellow, CSIS Korea Chair; Former Senior Analyst, Central Intelligence Agency; Former National Security Council

PANELISTS:
Thomas Byrne,
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Transcript By
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Good morning to those of us joining us from the United States and good evening to those of you joining us from Korea, and good afternoon to those of you joining from Europe. I'm Sue Mi Terry, senior fellow at CSIS Korea Chair. I'm honored to welcome everyone to today’s CSIS Korea Chair conference on "The Outlook for North Korea's Economy Post-Pandemic," co-hosted with the Korea Foundation, a leading organization of Korea's international exchange and public initiative. Today we'll be digging deep on North Korean issues trying to get better clarity on North Korea's economy.

This morning’s conference will have two panel discussions with distinguished panelists. We have the first panel which will discuss how we assess the state of North Korea's economy as it stands today. And it will be moderated by Dr. Victor Cha, senior advisor and the Korea Chair at CSIS, and professor and D.S. Song-KF Chair in the Department of Government and the School of Foreign Service at Georgetown University. The second panel, where I’ll serve as the moderator, will discuss future scenarios for North Korea's economy.

But first, a keynote speech by Mr. Alex Wong, deputy assistant secretary for North Korea in the Bureau of East Asian and Pacific Affairs in the State Department. Mr. Wong is also dual hatted as a deputy special representative for North Korea, managing all diplomatic and technical policy on North Korea.

Mr. Wong thank you so much for joining us today.

Sue, thank you. And thank you to CSIS and the Korea Foundation for hosting me. It's really a pleasure to be here with all of you. You know, it’s heartening that the focus of this conference is on the economy of the DPRK. Judging from the major statements of Chairman Kim Jong-un during his time as the leader of the DPRK, improving the North Korean economy is among his top priorities. The improvement of the North Korean economy is also a core piece of the vision Chairman Kim and President Trump laid out in Singapore. And it was a major topic that we’ve discussed with the DPRK in our negotiations.

We all want, and we should want, an improved economy for the DPRK. An economically strengthened DPRK would permit millions of North Koreans to escape dire poverty and hunger, would allow everyday North Koreans to improve their wellbeing, and it would enable every North Korean to hope for more for themselves and for their families than perhaps they permit themselves to in current times. An improved DPRK economy is an important and valuable objective, but it doesn’t stand alone, sealed off from other objectives. It's inextricably linked to wider goals.

We want a DPRK economy that is strong. We want one that is continually improving. We want one that can stand independently from the whims of larger neighbors. But a strong DPRK economy must be realized alongside other objectives. First among these objectives is the lasting solution for regional security situation. The clear and simple truth is this: The biggest obstacle to an economically strong North Korea is the regime’s programs to build nuclear, chemical, and biological weapons, and the means to deliver those weapons around the globe.
The North Korea that threatens the region and the world cannot at the same
time build permanent and productive economic relations. A North Korea that
resists the global nonproliferation consensus cannot form lasting bonds with the
community of nations. And a North Korea that continues to prioritize scarce
resources for its munitions industry cannot lift the living standards of its people.
Nuclear weapons or neither or sword nor shield for North Korea. They are a
millstone around its neck.

For the North Korean economy to reach its full potential and the lives of all
North Koreans to be elevated, its strengthening must come alongside the
complete denuclearization of North Korea and the establishment of a permanent
peace regime on the Korean Peninsula. Those who say otherwise are misguided,
or perhaps more accurately they are guided by interests other than the lasting
security and prosperity of the Korean Peninsula. Unfortunately, I think we've
seen over the last couple of years that the government in particular, China, has
adopted priorities on the Korean Peninsula that are increasingly
counterproductive to the goals that we and the rest of the world share.

I've spoken with enough Chinese diplomats to understand clearly what course of
action the Chinese government is advocating. They are seeking to undo the U.N.
sanctions regime they themselves voted for in 2006, in 2009, in 2013, and 2016,
and in 2017. They are seeking to revive trade links and revenue transfers to the
North, therefore ensuring Chinese reach into the North’s economy. And they are
seeking this all without the North Koreans engaging in serious and substantive
negotiations, without an agreed roadmap, and without the DPRK – as of yet –
taking any countering steps toward denuclearization.

If we follow Beijing's advice it would be an act of self-sabotage in our pursuit of
peace. But pushing for the expansion of economic ties and the lifting of
sanctions right now, at this moment, before addressing the security situation on
the peninsula, Chinese leaders are asking us to build the frame of the house, even
furnish it, without laying the foundation first. Premature sanctions relief will put
the stable economic future we all want for North Korea even farther into the
distance by removing a key impetus for the DPRK to negotiate and to take
serious denuclearization steps.

It would also, in effect, reward North Korea for its continued weapons
development. Now we all saw the October 10th parade at Pyongyang. And we
were all disappointed by it. And that parade demonstrated that North Korea
continues to prioritize – highly prioritize – its ballistic missile programs. Lifting
sanctions and pumping more revenue into the DPRK while its missile and
nuclear production facilities continue to hum, is something we will never do
due to the world will never subsidize the DPRK’s weapon programs.

We are fortunate that the overwhelming majority of the world understands
these truths. These allies and partners stand strong with us in maintaining the
sanctions regime while welcoming, indeed actively seeking, negotiations with
the DPRK. These allies and partners join us in urging not only fidelity to the U.N.
sanctions framework, but also the hastening of a transformative relationship
through good faith negotiation. Beijing recognizes that this is the functional
consensus of the world. The Chinese government knows it is isolated on this
issue.
So the premature sanctions relief that Beijing can’t achieve through the diplomatic front door it is instead trying to achieve through the back door, by choosing not to rigorously implement its U.N. Security Council resolution obligations. The examples of this chronic failure are numerous, growing, and worrying. The U.N. Security Council, of which China is a permanent member, obligated all U.N. member states to repatriate DPRK laborers by the end of last year. The grand majority of countries, from Angola to Cambodia to Mongolia to the UAE, did the hard work of fulfilling that obligation, sending many thousands of workers back to North Korea, and ensured that Pyongyang could no longer expropriate the salaries of these workers to build more ballistic missiles and nuclear weapons.

Beijing didn’t do that. China continues to host at least 20,000 DPRK laborers who earn revenue that goes straight back to North Korea’s weapons development efforts. In fact, earlier this year Chinese authorities were making it easier – easier – for DPRK nationals to work in China, in complete violation of China’s U.N. obligations. The Chinese government increasingly allows its companies to conduct trading with North Korea in a broad spectrum of U.N.-prohibited goods, including seafood, textiles, iron and steel, industrial machinery, transportation vehicles, and sand and gravel.

Chinese companies transact with North Korean companies and establish U.N.-prohibited joint ventures. They even continue to conduct business with U.N.-designated entities and those operating on their behalf, including entities that play key roles in North Korea’s weapons programs such as Korea Namgang Trading Corporation, The Second Economic Committee, and the Munitions Industry Department.

Now, I want to focus for a moment on the DPRK’s weapons-related trade, because it is perhaps the most brazen of Beijing’s failures. The United States and our partners have greatly narrowed the space for the DPRK to import ballistic weapons development materials. But the DPRK still maintains shadowy avenues to procure inputs to its weapons programs. The DPRK cannot do that without middlemen. The DPRK cannot do that without illicit bank accounts. It cannot do that without a network of money launderers. The overwhelming number of those middlemen, bank accounts, and money launderers operate within the borders of China.

China hosts no less than two dozen North Korean WMD and ballistic missile procurement agents, representatives, and bank representatives. China was supposed to have expelled these representatives years ago, but it hasn’t done that. And it’s not because the Chinese government is unaware of them. The United States provided China with ample actionable information on the ongoing U.N.-prohibited activities occurring within its borders. But Beijing has chosen not to act.

Beijing’s failures are not limited to the weapons-related trade. Chinese authorities must also step up their implementation and enforcement against Chinese companies, people, and vessels that use its coastal waters and ports to conduct illicit trade in all U.N.-prohibited commodities. On 46 separate occasions going back to 2019, U.S. vessels provided information to nearby
Chinese Navy or Coast Guard vessels that ships involved in DPRK fuel smuggling were fleeing into Chinese coastal waters. The Chinese authorities did nothing to stop these vessels in response – not once.

In the past year, on 32 separate occasions U.S. vessels observed suspect fuel smuggling ships operating and loitering in Chinese coastal waters. Beijing again did not act – not once. In the past year, on 555 separate occasions, we have observed ships carrying U.N.-prohibited coal or other sanctioned goods from North Korea into China. On none of these occasions – none of these 555 occasions – did Chinese authorities stop to act these illicit imports – not once. Four hundred of those voyages were North Korean flag vessels shipping coal through Chinese coastal waters. Most of these shipments go to China's busy Ningbo-Xiaoshan area, where the vessels are required to provide extensive information about their identity, their origin, and their destination to local authorities.

These ships are not coming to China like a thief in the night. They are ringing the doorbell. There were literally announcements. But the Chinese authorities have done nothing. On another 155 separate occasions Chinese flagged coastal barges have sailed directly into North Korea, loaded up on U.N.-prohibited coal, and then carried the illicit cargo back to Chinese ports. The Chinese authorities, again, did nothing. There's no excuse for Beijing's failures. This is a government that jealously guards and fights for its maritime claims, no matter how strict. It is a government that has poured unprecedented funds into expanding its blue and green water navies and merchant marine. It is a government that has invested heavily in surveillance technologies that span its maritime neighborhood.

It has the resources to implement its U.N. sanctions obligations but, again, it chooses not to. China for sure has reduced its overall trade with DPRK since 2017. And this has become even more apparent during this period of COVID-19. But the remaining illicit, unreported trade that exists is significant. And it's trending in the wrong direction. In no other country do we see this breadth and depth of continuing illicit commercial activity with North Korea, the scale of which puts China in flagrant violation of its obligations.

I'll let the representatives from China explain why they aren't willing to take effective action to implement the requirements of the U.N. resolutions, implementation actions that many dozens of other countries around the world have taken. But one thing I can say is that Beijing's failures to meet its obligations is in direct contravention of China's professed desire to support a denuclearized and peaceful Korean Peninsula. If it truly wants the latter, it must do the former.

But the United States is not waiting on Beijing to do the right thing. We have and will continue to take action to maintain pressure while pursuing productive diplomacy. Today the State Department of launching a new website – DPRKRewards.com – through which individuals across the globe can provide information to our Rewards for Justice program on DPRK's sanctions evasion. Under this program, an individual provides information related to sanctionable conduct, including illicit DPRK financial activity that supports sanctions evasion, may be eligible for a reward of up to $5 million. There is a lot of sanctionable
trade between China and the DPRK. And I assure you, many of the tips we receive through this program will directly implicate that trading.

The United States will also continue to impose sanctions on any individual or entity perpetrating sanctions evasion, including individuals and entities within China's jurisdiction. We've imposed numerous such sanctions designations in the past. And I want to tell you, more are forthcoming. These sanctions actions and the ongoing enforcement efforts of our partners around the globe are tough actions. But make no mistake, they are vital to our ultimate objective of peace. Peace is the watchword here. I want to be clear: Our policy is not pressure for pressure's sake. It never was and it never will be. Indeed, as the president has said, we very much look forward to the day when we can lift all sanctions and work together to achieve a brighter future and a lasting peace for the North Korean people, including a strong and growing North Korean economy.

But realizing that aspiration will require dedication to binding obligations – require dedication to binding obligations and U.N. Security Council resolutions. And they will require strong, verifiable, and undeniable steps toward denuclearization. You know, I know for many people this path to lasting peace may seem distant and unreachable. I know that for many people the idea of the United States and China working together to address mutual concerns about the DPRK's weapons program and to effectively implement sanctions seems far-fetched. But I firmly believe that by cooperating with the United States on North Korea issues China can help itself, can help North Korea, and can help the entire world be closer to a secure, prosperous and peaceful region.

Just as the United States remains ready, willing, and able to sit down with the North Koreans to make progress on every pillar of the Singapore Summit Joint Statement, we remain ready, willing, and able to work with Beijing on the full range of our North Korean interests. The United States remains fully committed to achieving a lasting peace on the Korean Peninsula. Our friends and our allies remain committed to that lasting peace. It would benefit the region and the world if China recommitted itself to that noble goal as well.

Thank you. It was a pleasure to be with you today.

Victor Cha: Great. Thanks very much, Alex, for that keynote address. It's very thorough and a great way to start off today's public sessions.

So we will, according to the schedule, move right into session one. Thanks again, Alex. Really appreciate it. We will move right into session one, which is on The Current State of North Korea's Economy: Coping with Adversity and Austerity. My name is Victor Cha. I'm senior advisor and Korea Chair at CSIS, professor at Georgetown. And we have a great panel. We have just about 50 minutes for this session. And my understanding is we'll start with some initial interventions by our speakers – our distinguished panel of speakers. And then we will take audience questions through the Google forms. They will be fed to us.

So let me introduce the panelists in order of their presentations. First we have Bill Newcomb, who's fellow at the Center for Advanced Defense Studies, otherwise known as C4ADS, and member of the National Committee on North Korea, NCNK. And Bill looks like he's in his study at home. Good to see you, Bill.
Next we have Bill Brown, who is an adjunct assistant professor at Georgetown and a member of the board of the Korea Economic Institute. He was formerly in the Office of the Director of National Intelligence. And so Bill looks like he’s in his library. Thanks very much. I don’t see my book up there, Bill, but that’s OK.

Next we have Katherine (sic; Katharina) Zellweger, who’s director of KorAid, and a North Korea program affiliate at CISAC, the Center for International Security and Cooperation at Stanford, formerly the North Korea country director for the Swiss Agency for Development and Cooperation. Good to have you join us, Katherine (sic; Katharina).


Victor Cha: Yes, thanks.

Katharina Zellweger: Yeah.

Victor Cha: And then batting cleanup we have Seung-ho Jung, who is assistant professor at the School for Northeast Asian Studies at Incheon National University. And so good evening Professor Jung. Thank you for joining us from Korea at this late hour in the evening.

Seung-ho Jung: Thank you. Thank you very much.

Victor Cha: So let’s start with Bill Newcomb. Again, for those of you who do North Korean economy, he’s well-known on all these issues, formerly on the U.N. Sanctions Panel, formerly at Treasury and State. So I think we’re going to have some initial short interventions by each of our speakers, and then we’ll go to a discussion. So, Bill, over to you.

William Newcomb: Well, thank you very much, Victor. I was really struck by that terrific address we were treated to from the deputy assistant secretary of state.

So I want to make six very short, quick sort of overview points. If we look at the latest midterm U.N. panel of experts report that’s published in August we can draw a couple quick conclusions. It certainly shows that actually sanctions are working just well enough to cause the North Koreans to go to extraordinary and extensive lengths to evade them. So they’re establishing front companies, they’re using all kinds of evasive techniques in shipping, and so forth.

But the other unfortunate conclusion is that sanctions have failed to stall any progress – or, failed to stall progress in the WMD and ballistic missile programs. And we saw good evidence of that in the recent parade. And that is quite disappointing. If you go to David Albright’s ISIS site, he does a really good job indicating the global extent of compliance problems with sanctions that extends well beyond just the Chinese violations that were outlined.

Now the North Korean response to COVID-19 has, over past months, reinforced the effects of sanctions on exports, but especially on imports. What we had was a selective embargo under Chapter 7 Article 41. But now what’s going on looks like a self-imposed blockade enforced by North Korea’s own armed forces. It’s
the same kind of blockade that could be imposed if the U.N. Security Council moved Article 41 to Article 42. And that’s a step that probably never would happen.

Now, the data illustrating the effectiveness of this self-imposed blockade recently came out with trade with China through September, as reported by TITA (ph). And that trade showed that exports through September were down 70 percent, to 46 million (dollars). Imports from China were down 73 percent to 487 million (dollars). And these numbers are a bit misleading. Trade with China involves a lot of border trade, it involves a lot of smuggling. So prior to the self-imposed blockade, let’s take the imports from China, let’s exclude the oil, and the number is going to be much higher than that is reported in Chinese customs statistics. But that kind of commodity trade is not taking place now, so decline is likely to be much greater than the 73 percent reported by TITA (ph).

And this trade shock, substantial trade shock, is likely leading to an accelerating decline in national income that’s going to be difficult to slow and reverse in the near term. One of the consequences of these kind of trade shocks, you’re going to have cascading shortages throughout the economy. And that in itself disrupts supply lines and so forth, it disrupts your markets. It’s very, very difficult to recover from that in a short time. People had thought, well, end of COVID-19 the North Korean economy will bob back up like a cork in the sea, or something. I don’t see that. I see perhaps a dead cat bounce and a long U-shaped recovery, not a sharp V-shaped recovery.

The regime’s policy response today, it appears to contain self-defeating contradictions. It wants to spur economic activity, but at the same time improving central guidance and increased centralized control. These conflicting signals just don’t, I think, give scope for individuals who exercise even de facto property rights, make their own decisions. And certainly it’s not going to free up the resources that would be needed to be shifted to new kinds of activities, particularly unless – well, if North Korea started to demilitarize, then yeah, we’d get some resource boost. But otherwise, I think it’s under too much strain.

So very quickly, three points about the outlook. I don’t think any new sanctions are likely, unless you have a provocation. In past it’s taken a nuclear test to really get the Security Council to act. Or, perhaps, a long-range ballistic missile test. But, you know, absent that, I don’t think we’re going to see any action at the level of the Security Council. The haphazard compliance we see from U.N. member states in terms of enforcing sanctions rigorously, I don’t think that’s going to improve too much. I mean, we see what they’re doing in Africa. There was a recent center report about statue building and other things still going on. The money laundering’s still going on. So I don’t think that we’re going to see terribly much improvement there.

So it’s more like a continuation of the status quo, with one exception. I think the economic outlook for the North Koreans is going to be grim, particularly over the next six to 12 months. I don’t know exactly how they’re going to answer the more difficult policy questions that they’re facing, but I’m not optimistic that they’ll come to a solution. Thank you, sir.

Victor Cha: Thanks, Bill. We’ll go to the other Bill now, Bill Brown.
William Brown: Yes. Thanks a lot for having me here. It’s very fun to do.

Let me just make – answering the big question, the question of the panel. I think the economy is under great strain. I mean, it’s always in bad shape, but it’s under great strain, I think. And some movement in the financial market in the exchange rates just in the last few weeks I think shows the strain in Pyongyang. I think that they’re coming up to some very big decisions in January with the Party Congress in trying to inaugurate a new plan. Very tough time, I think, in Pyongyang for Chairman Kim.

I have about seven little points here, let me just run through them, observations, I would call them. One is, don’t forget, just about three years ago – less than three years ago Kim really raised expectations for prosperity in a great speech. But recently in a Politburo meeting just over the weekend, some big speeches he’s given, he’s really dashed a lot of these expectations, talking about failure of the plan. He actually uses the word “failure.” And suggesting that the new plan is going to have to be different in some big way. So I’m looking forward to see how that’s going to be different.

Going back to the North Korean economy generally, we all know that it’s an extremely poor country. But I like to point out though is why it’s poor. I think it’s poor because – not because of lack of resources. It has great natural resources, great physical resources, great amount of built-up capital. The Stalinist system is good for building capital. The Soviet Union showed us that. They have a lot of factories all over the place. And a lot of people have invested in North Korea. We forget that too. A lot of Europeans, Japanese, even us. We tried to build a nuclear power plant there.

So it’s not a lack of resources. It’s incredibly poor use of those resources, especial labor, especially human capital is used extremely poorly. I would argue – we use this term in economics, total factor productivity. I would argue North Korea has the weakest total factor productivity in the whole world. And that delivers very poor outcomes. The sanctions – I’m a little bit different from other people here – I think the Chinese sanctions have been incredibly tough on North Korea and continue to drive them into a very bad situation. Of course there’s a lot of smuggling. That comes always with sanctions.

Another issue I like to focus on is the monetary system. You know, three generations ago, Kim Il-sung, they didn’t use money. They used rations. Under Kim Jong-il, they had what I’ll call a bad money system. A lot of yuan use, but they inflated it, hyperinflation. Now, Mr. Kim, Kim Jong-un, has done a great job of solidifying the monetary system, clamping down on inflation, and stabilizing the exchange rate.

The problem with that is the way he’s done that – I don’t think he had any choice – was dollarization. So dollars and RMB, Chinese money, circulate widely in the economy. That puts incredible pressure on the financial authorities in North Korea to not produce their own money, keep the value up for yuan. And that’s very harmful for their own budget and for their own investment, especially as they look forward to this new plan. Big trouble I think now coming up in the monetary system.
One problem now with the trade, clearly the COVID restrictions have reduced trade even further from the Chinese sanctions, really clamping down on the borders. And I’m afraid this is having a perverse and bad effect on the market activity and ordinary livelihood in North Korea. I think that’s something we should be concerned with. We’ve always thought – I’ve always thought that big famine wouldn’t happen again because of – back then there wasn’t any trade. Now there’s a lot of trade between villages. I’m afraid this virus issue could stop that internal trade and cause a lot of trouble.

Is there hope for reform? Sure. There’s a lot of hope for reform. Marketization has proceeded quite well, I think, under Kim Jong-un, it just hasn’t reached a final point to it. But again, I think a lot of focus should be on this Party Congress coming up. And the Party Congress, you know, they have to create this new plan – five-year plan. We tend to forget North Korea still is at least in part a centrally planned economy. That’s their problem. That’s why they have such low productivity.

They have parallel command economy and market economy systems. That delivers two prices for everything. And the prices are wildly different, even for the exchange rate. The official one is I think 100 yuan per dollar. The unofficial one, well, you have to look at it, it’s changing a lot. Today I think it’s 7,200 yuan per dollar. And salaries differ by 100 times between the state sector and the private sector. Huge difference in prices. So typically when they start a new plan they try to rationalize these prices. That may be what they’re trying to do. Let’s hope they move their command prices to the market and start moving along from there. That would mean big increases in pay for state workers.

There are a couple of odd little things that are going on, other than this currency issue, for the yuan appreciated tremendously at the end of October. And it appreciated especially against the yen not the dollar, which is even more odd. So I’m not – I don’t know. If people have any ideas of what’s going on, I don’t know. I have some theories, of course. But also there are a couple of movements and regulations where it looks like they’re expanding the use of these work teams – foreign currency work teams – allowing many, many more trading teams. Well, that sounds like a good thing, but then they want to party – so a team can have seven members, according to Daily NK, but wo of them now have to be party members. Oh, that’s really interesting. So is that going to corrupt the party? I think so. They think it’s going to fix the market situation; I think it will corrupt the party.

Anyway, there are a lot of things going on. And I think we need to be observant in the next few weeks. Thanks. I have a bunch of graphics, but I won’t show them. Maybe I’ll show them if issues come up, I think especially on this exchange rate issue. Thank you.

Victor Cha: Great. Thanks, Bill.

Now we’ll go to Katherine (sic; Katharina) Zellweger. Katherine (sic; Katharina).

Katharina Zellweger: Yeah. Hi.

Victor Cha: Hi. Please go ahead.
Katharina Zellweger: OK. Well, first of all, great to see you all. Hello from Switzerland. And thank you for giving me the opportunity to participate in this conference.

So what do I think of the present situation in North Korea? I must admit, I haven’t been back since December last year. Still, let me start with COVID-19. It is not clear if there are COVID cases. I believe it is possible that the early border closure, internal travel restrictions, the strict enforcement of many control measures, have prevented an uncontrolled outbreak of the virus. But isolation has steep costs. Life for ordinary citizens is even more difficult now. Markets, if they still operate, are now mostly stocked with local goods. Imports from China and other Asian countries have stopped. The public distribution system operates only very sporadic, and no longer across the whole country.

And then the restrictions also have made it almost impossible for the diplomatic presence, and even more so for the international organizations, to continue their work. Most foreigners have left Pyongyang. The U.N., for example, now has, as far as I know, only about nine expatriates in the country. And because of the fear of corona, North Korea is, for the time being, not accepting outside assistance, except COVID-19 related shipments. To deliver aid goods is almost impossible. And then the country’s hit every year by natural disasters, now more often than years ago. However, positive is that Pyongyang this year has improved its disaster management practices and for the first time North Korea state TV aired early warnings and information about the floods to the general public.

Food and health problems remain of grave concern. The previous two harvests were already considered low, but OK. And I have not seen harvest figures for this year. The local food supply situation does not look promising, but substantial food deliveries from China and Russia, donated or purchased, have been arriving in 2019 and continue for this year. But even if food availability is OK, the main concern is access to food. Then we have limited capacities in the health facilities, notably lack of medicine, medical supplies, ongoing water and electricity problems – all very serious issues. And TB – the rate of TB is one of the highest in the world in North Korea. Interesting is that the Supreme People’s Assembly approved a budget increase of 7.4 percent in the health budget for 2020. Let’s see if we see any positive outcome on that.

I believe poverty will continue to plague this country. Since the mid-’90s, the rations provided have been insufficient to cover basic needs of workers and their families. Over the years people gradually learned how to fend for themselves, engaging mainly in market activities. But with the present situation, those opportunities are decreasing, and people’s living standards are worsening. The border closing also means that factories are unable to get raw materials or spare parts from abroad, leading to un- or underemployment. In Pyongyang, so I hear, shops which were selling imported goods are now short of sugar, cooking oil, coffee, dairy products, and so on. Not a happy situation for the small middle class that has developed in Pyongyang.

I believe in rural areas people are more self-sufficient. They cannot even afford imported goods. But competition for the local products is now increasing. And as mentioned before, the currency situation is also showing very strange signs, like the drop in U.S. dollar. And I also learned that shops and restaurants in the
capital are currently reluctant to take foreign currency, and foreigners are only allowed to exchange $100 per day – a difficult situation.

A few words to the sanctions. As we all know, North Korea has one of the most severe sanctions regimes imposed on any country in the world. Despite the increased economic pain achieved, are the sanctions achieving the stated goals of denuclearization? I have my doubts. While the sanctions should not harm local civilians, the reality is different. The whole economy suffers because of import and export restrictions and ordinary people are feeling the pain. Especially the 2017 U.N. sanctions are having an impact on agricultural food production. I believe there is a direct correlation with the drop in locally produced food.

In a recent U.N. human rights report I read the following: Under the unprecedented situation of the COVID-19 pandemic, the need to reevaluate parts of the sanctions regime is more compelling. Will anything be done? With the economic situation becoming increasingly dire, North Korea’s ideology of self-reliance will remain relevant. And I also see that the sanctions are hindering any integration in the world economy, and I fear also stalling domestic economic reform – or, at least economic reform steps.

The three major ongoing humanitarian challenges are that an estimated 40 percent of North Korea’s people are food insecure, and 33 percent lack access to safe drinking water. And as said already, the country has the highest incidence rates of TB in the world. But the lack of funding, strict quarantine measures, inability to import goods, as well as the reduction of international staff are among the main problems we aid agencies face in order to respond to the pressing needs. Humanitarian aid must continue. A lot also must change. But I feel the fate of the North Korean people can easily be forgotten. However, I also believe that North Korea will get through this crisis, possibly with a stronger control mechanism in place. But at what price? That is the big question. Thank you.

Victor Cha: Thank you, Katherine (sic; Katharina).

And for our final presentation, we’ll go to Professor Jung Seung-ho. Professor Jung.

Jung Seung-ho: OK. Thank you for having me. Please show my PowerPoint. OK. Today topic is about – my topic is about the North Korean exchange rate reserves. And more specifically, I tried to identify three key factors affecting North Korean foreign exchange reserves during this pandemic era. Next. Next please.

OK, the first and most important thing is economic sanctions, multilateral and bilateral sanctions definitely damaged the foreign reserve. The U.N. sanction includes ban on the key export of coal, mineral, textile, seafood, which account for almost 90 percent of total North Korean export. As you can see in the graph, even before the pandemic North Korea – when you depend on the official statistic – they exported close to – (inaudible).

OK. And U.N. sanction also include ban on labor export, which are main source for their foreign exchange remittances. Regarding the bilateral sanctions, North Korea lost more than $100 million annually from closing down Kaesong
Industrial Park. So all thing together lead to a huge trade deficit. In case of, you know, 2019, the trade deficit account for – amount to $2.6 billion, is surely deteriorating its reserve. Next.

And this kind of thing come from domestic policy decisions to make a huge, expensive investment on tourism industry. As you can see in the photos, the scale of resources dedicated to the tourism development is enormous. It’s not mere of, you know, tourism development – tourism development by a private company, OK. It’s a kind of national agenda incorporating numerous infrastructure constructions. This is Wonsan-Kalma. You can see the airport here. And this is Samji Lake under the Paektu Mountain. And this is Yangdok hot spring and ski resort.

So why do they make such a decision? It is obvious that North Korea saw tourism as a plausible option to circumvent sanctions and on foreign currency. But after closing the border due to the pandemic the biggest development sites, Wonsan and Lake Samji still remain uncompleted. So at hindsight, in the middle of pandemic, it was big, of course, mistake – this opening resort and costly waste this valuable asset. Next. Next please.

And final thing is closing the border with China. All kind of cross border transitions, both legal and illegal, including smuggling, was suspended since January this year. And please move to the first slide. Please move to the first one – first one. First page. OK, when you see the 2020 until October, the trade deficit only record just more than $400 million. This is historical low level. OK. So go back to the last one – last page. So this trade deficit, OK, was weakened substantially. So it could positively attribute to the balance of foreign exchange. So I don’t know the exact number of foreign exchange reserve but let me guess the sign that this year’s foreign exchange balance should be positive sign.

Now, lastly, as Bill pointed out, we observed very interesting development in this November. Market exchange rate against dollar did fall by more than 10 percent. So I think normally export anticipate market exchange rate will be skyrocketing as foreign reserve drain. So what did happen? I think there is two reason behind. One is expectation and the other is restrictions. Actually, there is expectations in April and October for reopening the borders. But this border closing continues, and at the same time region prohibits foreign currency use, which were a lot deeper. So closing made this domestic demand for foreign exchange fall. And demand for domestic currency increased.

And this time the situation can facilitate the recently absorbed currency to the general, but only temporarily. If the border reopen, then North Korea cannot sustain this low level of exchange rate. OK, thank you.

Victor Cha: Great. Thanks to all of our presenters for some great presentations. We have a little more than 15 minutes for discussion. And I’ll go to some of the questions in the chat, but if I could first start by asking – and I guess this is probably most directed to Katherine (sic; Katharina), but everybody else could chime in. And that is the – how long the so-called COVID effect is going to be in North Korea. In the conversations we were having yesterday evening, you know, we’ve done some work that shows that North Korea, when it responded to the Middle East Respiratory Syndrome in 2015, it had a long effect on sort of North Korean
behavior at home. The MERS epidemic lasted about two to three months in Korea. It was, like, in the summer – basically early to midsummer.

But, you know, based on some of the stuff that we’ve done at CSIS, North Korea didn’t sort of come out of its sort of MERS mobilization until January of the following year, until January of 2016. So I guess – and, you know, COVID is not going away anytime soon. So if the – I guess the question is, how long is this self-imposed isolation going to last? You know, it’s clearly had an impact on cross-border trade with China. As Katherine (sic; Katharina) there’s no – there’s no international products in the local markets now. You know, it’s having all sorts of second – so I guess I’m trying to find – get a sense, a gauge, like how – what is going to be the effect of this on the economy if it lasts for a long – if it lasts for a long time? And anybody, please feel free to – feel free to chime in.

Katherine (sic; Katharina).

Katharina Zellweger: Well, as far as I know, North Korea at one time said they would open up again only when immunization for all their people is available. Well, we’ll see. But among the aid community, we hope to be back in last spring or summer next year. From people involved in the tourism business, I see that trips are planned for fall 2021, where the North Korean side has already basically made program suggestions. But of course, it’s a big guessing game. And I also think – the other thing is it also is a question of when China asks – when will China open the borders? Not just the border with North Korea, in general the border. Because we cannot go to North Korea without going through China. And nobody wants to go into Chinese quarantine. So that also plays a big role.


William Brown: Yeah. I don’t mean to downplay the virus in any way, and I’m sure it’s a big concern in North Korea, but I’m a little also concerned that it’s a little bit too convenient for conservatives, that means party stalwarts, in Pyongyang who want to stamp down on the trade, who want to stamp down on market activity, who want to get rid of the use of dollars. It’s very convenient for all of this, especially if, as I think, they were starting to run out of money in 2019. So what better thing to do than to close the border and shut off all this external activity – even the aid activity. That would be a very bad sign, but I think we have to be cognizant of that potential. In other words, that the virus is being used as an excuse to shutdown markets.

Victor Cha: Bill Newcomb.

William Newcomb: Oh, thank you. I just want to make one quick observation that the longer the COVID-19 shutdown lasts – I mean, a short to medium term causes disruption in new trade in markets. But a longer shutdown causes dislocation. The companies you were supplying find new suppliers. The company you were buying from, you know, do the same. And you have to reestablish that. We saw after the fall of the Soviet Union how long it took North Korean firms to reestablish trade relations with their former partners, who had turned totally to others and were, you know, trying to get out of the system. So I just think their problems become exponentially more difficult if they continue the shutdown into, say, mid-’21.
Victor Cha: Professor Jung, do you want to respond to this too?

Seung-ho Jung: I agree with that, because they're very cautious because they're preparing the next January congress meeting. So after finishing this important event, they consider it because, you know, they're – as I explained – their reserve is going to be drained. So there is not much room for North Korean reason to closing the border more times.

Victor Cha: Good. OK. OK, so – (coughs) – excuse me. We have a question from Professor Andrew Yeo at Catholic University.

He asks: Have there been any reports of the possible onset of a famine as a result of the border lockdown? Do you expect North Korea to be more open to South Korean and other international humanitarian assistance in the near future if the food/health situation becomes really desperate?

So, Katherine (sic; Katharina) you mentioned in your presentation that the food – there are still food deliveries coming in from China and Russia. Do you think the lockdowns because of the pandemic could induce a famine-like condition for the country, if it's a prolonged lockdown?

Katharina Zellweger: I think there is still food in the country. It's just that the diet is really just based on carbohydrates with little vitamins, proteins, the micronutrients. I mean, fat is also a problem. I think we will see how the situation develops by late next spring into summer, when their own harvest is used up, when we move into the so-called barley season, if there is still stock available to bridge until the next harvest or not.

But I do think people are now much better to fend for themselves than during the famine that started in 1995. I was there many times during that period. And those – at that time, the older generation was really used to government handouts. But now, the younger generation doesn’t even know government handouts anymore. So they know they have to make ends meet by themselves. So I’m more optimistic that we will not have a famine like we had between 1995 and 2000. Again, we will have malnutrition. We will have problems. We will have extreme pockets of poverty. That I do believe.

Victor Cha: When I – so if you think about the – when did North Korea shut down the border with China because of COVID? When did they do that?

Katharina Zellweger: Twenty-first of January.

Seung-ho Jung: This January.

Katharina Zellweger: So very early, 21st of January, so.

Seung-ho Jung: North Korea was the first country to close border.

Katharina Zellweger: Yep.
Victor Cha: So if you think about this, I mean, you know, for the United States, at least, I mean, we’re not going to come out of this in any reasonable fashion until, you know, possibly the fall of 2021. You know, if North Korea shut down – so this is what they did during MERS. They shut down – they started precautionary measures at the end of 2014. You know, the real crisis in Korea was in May through July of 2015. And then North Korea stopped doing temperature checks at Kaesong in January of 2016. So there was a long period that they – so this could be a very long period of North Korean self-imposed isolation that could have really dire effects on the economy. I mean, not just – you know, as Bill said, dislocation not just short-term effects.

Bill Brown, you wanted to say something.

William Brown: Yeah. One thing I wanted to point out about the money situation, it’s very positive to me this dollarization. Now, everybody – most people in North Korea have some Chinese money, and U.S. money, and North Korean money in their pockets. This is the first time really since 1945 that North Korean citizens have any kind of financial savings. Before then, they couldn’t. Rations are not savings. Terrible wine is not a saving. A U.S. dollar – a hundred-dollar bill has a saving. So speaking to Kathy’s point, I think North Korean citizens, not all of them – there’s a lot of variation – but a lot of them have U.S. money in their pockets. A $100 bill will go a long way in China buying rice or something, even under the current situation. So I think in that way the stabilization of the money system is tremendously important and really good for human rights in North Korea.

Victor Cha: Professor Jung.

Seung-ho Jung: Yeah, let me add one more thing about the supply side, OK? This is a really – as, you know, the border closing continue – this is really, you know, devastating shock, impact, for ordinary people because they heavily rely on the import from China for consumption goods. And also, if this supply shock (never truly ?) impact for farm productions. All textile goods and (intermediate ?) goods, they live on the Chinese side. So it – that means their long-term production capability, as well.

Victor Cha: OK. Thanks. Let me move to the next question. We have a question from Dennis Maeda (ph) from the financial services sector. And he asks: How much of an impact will the struggling economy in addition to the COVID situation have on DPRK’s cybercrime? Anybody want to take that? Bill Newcomb.

William Newcomb: Yeah. Well, their cybercrime, evidently it’s continued unabated by the reporting that we see of various incidents, particularly those that are being tracked by the panel of experts. So they’re going to continue to build up proceeds from cybercrime. But they’re not able to utilize them like they were before with the closure of the border. So they may be piling up assets overseas from this, but the utility of it in the near term, you know, is very limited.

Just to make another point, North Korean front companies operating overseas that were set up to acquire goods to take back to North Korea – like the luxury good trade they used to have with Singapore – they’re not making money anymore. So they’re going to be looking to do other things. So we might see a
pickup in other kinds of illicit activity while they try to make their budgets. So anyway, yeah. No easing of cybercrime. In fact, just the reverse.

Victor Cha: OK. Thanks. Thanks, Bill. I don’t see anybody else’s hand up so let me move to the next question.

And so this question is from Don Kirk, the journalist, who asks: Might Trump go to Pyongyang, as did Carter and Clinton, after COVID-19 dies down, urge relief from sanctions and consider investing in that tourist complex/airport near Wonsan that we saw displayed in Professor Jung’s presentation? I assuming Don means as ex-president would he go, because COVID’s not going to die down before he leaves office. So anybody want to take on that question? So broadly, can President Trump be a player on North Korea after he leaves office, since he’s the only one that actually has a relationship with the North Korean leader?


William Brown: Yeah. I’ve always thought it would be fun to see – you know that big, triangular, pyramid-shaped hotel in Pyongyang? Maybe Trump can go in there and rebuild it and have a Trump hotel. That would be kind of interesting. Actually, I don’t want to be too facetious because I think the opportunity, especially for tourism – for American companies to launch in tourism in North Korea, would be tremendous – if, of course, North Korea makes some reforms, pays the people, basically. Gets rid of some of this socialism. There’s a lot of opportunities for American investment. And I would argue the tourism sector would be the biggest – one of the biggest ones. If I were arguing for sanctions relief, that’s the first one that I would start to relax is the restrictions on U.S. people going to North Korea. Not quite yet. I mean, the North Koreans have to do some things first.

Victor Cha: OK. And then we have another question from Joel Okundi Obengo at Kenyatta University.

And he asks: What can the new administration – I assume he means the Biden administration – do differently to achieve a better result other than the maximum pressure campaign of the Trump administration? So this I a bigger, broader policy question. Anybody want to take that? Or, I guess – the other way of putting it is: What would you like to see the Biden administration do differently than what the Trump administration has done, either on the disincentives or incentives side?

Bill Brown.

William Brown: Yeah. I would – I would suggest, and I’ve been suggesting this for decades, is that U.S. side push back a little bit on this nuclear focus. It’s not working. We all know it’s not working. We want it to work, but it’s – we need to go at it a different way. My argument, it’s been forever, is that we should focus on economic reform in North Korea. And by that I don’t mean opening. I mean reform. Reform first. And that means doing a lot of things that I think Kim probably wants to do, but he’s unable to do it. So on the margin I think there’s some small things we could do to sort of focus on the reform issue as opposed to the nuclear issue.
Victor Cha: OK. Others? OK. And then – so we have – we still have two minutes left. And so we have one question from one of our panelists here – one of our other panelists. And so this question comes from Bill Brown to Kathy. And he asks: Why are North Koreans so concerned about corona but not so concerned about TB?

Katharina Zellweger: OK. Well, with corona they can implement early enough, and that’s what they have done, because I do think the government feels that the health system would collapse across the country, including Pyongyang, if they had a corona outbreak like we have here or in many Western countries. Where TB is spread across the whole country, it’s a long-term problem and they need foreign medicine, they need imports to run their labs. And that has all stopped right now. So it’s a dead end. Except that I learned recently that India has provided TB medicine for about $1 million U.S., which is very positive because without medicine the situation will just get from bad to worse, especially as we have winter ahead of us.

Victor Cha: Yeah. I would – the only thing I would add to that is that I think that – I think Kathy’s right. I think the other thing is that from the North Korean government perspective, TB has been inside the country for a long time. And as bad as it is, they have some sense of how to manage it or how to deal with it, whether it’s through outside support and other things. If you look at the way they responded to Ebola, to MERS, and to SARS, and to corona, these are things they feel like they cannot control at all. And that’s what – that’s when we see the complete shutdown. And so I think one is a chronic thing that they’ve been dealing with while the other, these are very new and scary things to them, just as they were to, you know, countries in Asia when SARS hit. Just very frightening. These coronaviruses are very frightening.

So, OK. So that was a great discussion, a great way to start off our day. And I want to thank all of our panelists – Bill Newcomb, Bill Brown, Katherine (sic; Katharina) Zellweger, and Seung-ho Jung for great presentations and for a great discussion. My understand is we’ll now take a five-minute break, but we ask all participants and audience to stay on the line. And we’ll come back at 9:20. Sue, is that right, 9:20? For the next session.

Sue Mi Terry: Yes, in five minutes.

Victor Cha: In five – in four minutes. OK, thank you, again, everybody.

Seung-ho Jung: Thank you. Thank you very much.


Victor Cha: Bye.

(Break.)

Sue Mi Terry: Welcome back to the second panel on the Future Scenarios for North Korea’s Economy: Challenges and Opportunities. In the first panel we just heard from the panelists pretty grim economic situation in North Korea, what Kim Jong-un
has been dealing with in the past year. The impact of sanctions actually even before the arrival of COVID, border closing and other preventive COVID measures doing great damage to its economy as these measures isolate and strip the – strip the North’s ability to bring in hard currency.

This panel will discuss whether alternate scenarios are also possible, what the challenges and constraints, as well as opportunities, are for North Korea to indeed achieve a brighter economic future. To discuss these issues and more we have distinguished panelists today. We have Professor Byung-Yeon Kim, professor in the Department of Economics at Seoul National University. Professor Stephan Haggard, Lawrence distinguished of political science at the University of California, San Diego. And we have Mr. Thomas Byrne, president of Korea Society, who’s also teaching at Columbia University and at Georgetown. And finally we have Dr. Joong-ho Kim, currently nonresident scholar at George Washington University's Institute for Korea Studies.

We will have each speaker give opening remarks – just a few minutes of opening remarks – and then we’ll go to audience questions. The audience can ask questions through the CSIS event page.

Professor Kim – Kim Byung-yeon – could we start with you? Can North Korea’s economy be used as a leverage for denuclearization steps? We heard a lot about negative terms, like sanctions, but is it possible to do it also in positive terms through projects of economic development and so on? Is it possible to induce North Korea to denuclearize? How do you assess some of the possible scenarios for future for North Korea?

Byung-Yeon Kim: Thank you so much, Sue Mi. It's my great pleasure to be with you today. It is a matter of fat that Kim Jong-un came to negotiating table to get the sanctions lifted. The sanctions significantly negatively affect the North Korean economy. This is theoretically proven and empirically supported in the North Korean context. Their effects have reduced since 2018, mainly because of China factor, but the cumulative ones keep increasing. I believe the most vulnerable area from North Korean perspective is foreign currency reserves, which could run out within some years.

The sanctions aim to increase the opportunity cost of developing and having nuclear weapons, and thus transform Kim’s strategy from the parallel development of nuclear weapon and the economy to a tradeoff between these two. Some argue that economic pressure will be irrelevant to denuclearization given Kim Jong-un is an absolute dictator. However, I wonder if there is any dictator who does not care for the economy while keeping power for an extended period. Having said that, the sanctions alone are unlikely to achieve complete denuclearization that we would hope. I believe that the economic leverage is useful for denuclearization, not only in negative terms that is sanctions, but also in positive ones such as projects for economic development.

For the future of North Korea, as well as us, the best scenario, however unlikely, is that Kim Jong-un abandons all nuclear weapons, materials, and facilities, together with ICBMs, while he opens up the economy and makes transition toward market economy. If he is ready for this, he may implement transition policies, such as privatization and liberalization to be a way of establishing legal
and institutional foundation for capitalism. At the same time, he could allow FDI to flow into any parts of North Korea and North Korean workers to be employed in firms owned by South Korea, Japan, the United States, et cetera.

But the problem is that such policies are likely to weaken Kim’s power and undermine regime stability. A more realistic scenario is that Kim accepts economic projects only if they are regarded as non-regime threatening. Such projects may include energy assistance, tourism to confined regions, and construction of some infrastructure. Special economic zones, such as Kaesong complex can be considered as well. He can also launch policies for some decentralization and liberalization within the boundary of socialist principles.

Then what should be our strategy? First, we should bear the aims of economic engagement clearly in our mind. I suggest the following four aims: inducement for North Korea to denuclearize, support for North Korea’s internationalization, contribution to North Korea’s sustainable development, and facilitating economic integration between the two Koreas. If I’m allowed to give some example, although simple nuclear buyouts with certain conditions can be considered as positive economic incentives for denuclearization. Support for gaining a membership in international financial organizations, such as the IMF and the World Bank, would contribute to North Korea’s internationalization and growth. Economic integration between the two Koreas will lead to North Korea’s permanent denuclearization and economic development.

An important question is how to increase the probability of successful denuclearization using economic leverage, at the same to lead to North Korea’s transition to market economy. To achieve this, I would suggest the following strategies. First, include economic projects in a package on nuclear deal with North Korea. We can select three of four concrete projects and offer them to North Korea in negotiations in return for denuclearization. Of course, the better – the best one is North Korea suggests what they want and both sides make a deal on the basis of the preference of which side. Given uncertainty of this, however, we need to select projects by ourselves to identify what North Korea really wants, but more importantly we should be able to sow seeds for North Korea’s transition to a market economy.

A second, enlarge the role of United States allies – South Korea, Japan, et cetera – at the early stage of economic engagement. If economic engagement – such as lifting sanctions or projects – empower only China, not only denuclearization could be endangered but also the future of the Korean Peninsula becomes more uncertain. I’ll stop here. Thank you so much.

Sue Mi Terry: Thank you. That was great.

Professor Haggard, can I – can I bring you in here? We just heard Professor Kim, but what are some of the challenges you see? Do you driver of North Korea’s – what do you see as a drive of North Korea’s future? What are some of the challenges? Do you see fundamental reform being possible in North Korea?

Stephan Haggard: Thanks very much, Sue Mi, for having me. I really appreciate being part of this group. It’s been a terrific conversation over the last couple days. I want to make four short points. One having to do with the nature of the North Korean
economy most fundamentally, one having to do with Korea – South Korea, and one with China, and one with respect to the Party Congress and the prospects for fundamental reform.

The first thing I want to point out is that North Korea is a small, open economy. And that might seem like an obvious point, but the open part is actually what’s quite crucial. You know, this is often treated as an extreme closed economy, hermit kingdom, all that. But that’s decreasingly true. But what that means is that there are fundamental limits on what North Korea can achieve through domestic reform alone. We can – we can push them to do things in the agricultural sector, with the state-owned enterprise sector, with allowing markets to flourish.

But a lot of that work, believe it or not, has probably been done in important ways, as the marketization from below has occurred over the last several decades. And the point I want to make is that it’s really impossible for North Korea to reform without confronting the foreign sector, how it’s going to open. It’s not just reform, it’s opening reform. And if that’s going to take place, obviously you have to confront the nuclear issue. Those things are joined at the hip. So much is going to depend on what two countries do, in my opinion, South Korea and China.

On the South Korean front, President Moon has clearly been looking for opportunities to break the North-South logjam. And I think for a Biden administration that can be very useful because allowing South Korea to relax sanctions selectively is probably superior to relaxing the multilateral sanctions that we have in place through the U.N. Security Council. Once those get rolled back it’s going to be extremely difficult to put them back in place. So I think there is an opening for South Korea to do something.

But issues like opening the Kaesong Industrial Complex or Mount Kumgang are going to hand a lot of foreign exchange directly to North Korea. And it’s uncertain to me that a Biden administration is going to be interested in doing that. And the longer-run projects obviously involve very high risk, things like reforming the rail system. You know, that’s a multibillion-dollar project that’s going to unfold over many years and doesn’t have to do with the present.

Seyoun (ph)? If Seyoun (ph) could pull up one slide, I just want to communicate with the audience what the panelists were arguing about this morning so that you can make your own judgement about what we’re looking at. This will just take a minute, but I think it’ll clarify a lot of things. So if we look on this, this is trade – China-DPRK trade data from 2016 to 2020. And notice that the effects of sanctions – Chinese sanctions – were very sharp on observed North Korean exports, this blue line, and on Chinese exports to North Korea. So this is the trade shock that’s associated with the sanctions, this period in here in 2017. And this is the closure of the border, over here on January 21st of 2021, and this flattening, with trade virtually at nothing.

But let me just observe a couple of things here. First of all, this is observed merchandise trade. It doesn’t cover things like services or remittances or other sources of income. Second, as Alex Wong pointed out quite well this morning, these export numbers for North Korea are almost certainly too low because we
have evidence of smuggling of major commodities – not small-scale smuggling, large-scale smuggling. And notice also that China’s financing is possibly financing this very large current account deficit that North Korea is running. So there could be transfers here from China to the DPRK that we’re not seeing. True, this looks bad. But this could very quickly bounce back, and it may be bouncing back in the illicit sphere.

And that brings me to the final question of whether the Party Congress is going to yield something quite fundamental coming up. And my answer to that is, it depends on this picture here. Because if China is willing to allow North Korea to limp along and to survive, then Kim Jong-un is going to be reluctant to engage in a deep discussion that will trade off nuclear weapons for economic reform and opening.

Thanks very much, Sue Mi.

Sue Mi Terry: Thank you so much.

Tom Byrne, how do you assess the situation? We just heard a lot about, you know, the first panel, predicament that North Korea’s in, and then you just heard Professor Haggard laying out some of the constraints and challenges. Your thoughts on post-pandemic –

Thomas Byrne: OK, sure. So thanks, Sue. And thanks for inviting me. And I enjoyed the first panel. It was very informative.

So let me begin my presentation. Do you have the PowerPoint slides? OK. So I think what best frames the prospects for reform post-pandemic is North Korea’s predicament. And I’ll dip into the wisdom of Yogi Berra, the New York Yankee legend. And he said, “In theory there is no difference between theory and practice: But in practice there is.” So what do I mean by that? And what I mean by that, in theory North Korea could double down on its byungjin policy. It could announce a new pathbreaking five-year economic development plan during the upcoming 8th Congress. Or it could resurrect North-South cooperation projects, such as the Kaesong Industrial Complex. But none of these approaches have had pre-pandemic success, nor would they have lasting results in post-pandemic North Korea. Unless you believe in miracles, there is no economic hail Mary for North Korea either.

So what path would economic reform need to take? And for that, if you could advance to the next slide. OK. So what this shows is the path that North Korea would have to take would be to engage the IMF for any hope of success for reform. So the path goes through Washington, D.C., more precisely 1900 Pennsylvania Avenue. And this is evidence-based. This is what I consider to be the evidence-based litmus test that we’ll know if North Korea’s serious in reform and it’s worth helping support North Korea economically. So history teaches us that every socialist country that transitioned from a socialist economic system began a process or made a commitment, showed a willingness to reform, and then entered the IMF or restored its status with the IMF, in the case of Vietnam. And later on, that led to access to the international financial market and also greater access to the international trading system through WTO membership.
So my point is that without reform supported by the IMF and the international financial institutions, North Korea will remain in a low-income trap and its income growth will remain lackluster. So if you can turn to the next slide. Yeah. So what this shows is this is North Korea on juche byungjin. And what’s happening is that North Korea was once a little wealthier than the poorest countries in the world. Now it is poorer than the poorest countries in the world – the so-called HIPC countries that benefit from the World Bank and the HIPC program of debt relief and reform. So that gap, the red line is North Korea, is widening now, given North Korea’s kind of inability to reform.

Now, there was a slight opportunity for reform. I think that existed in September 1997, when the IMF fact-finding mission to Pyongyang took place, six years after the collapse of the Soviet Union during the great famine. But nothing came out of that. Coincidentally, three months after that the IMF went to Seoul. Seoul accepted the IMF, Pyongyang replied. And at that time, North Korea had the political ability to join the IMF, I believe, or a slight opportunity. It was cooperating with the U.S., the EU, Japan, and South Korea on the agreed framework for the peaceful use of nuclear power. But North Korea did not have the willingness to embrace economic reform.

And now with its well-developed nuclear arsenal that has evoked multilateral U.N. Security Council sanctions, sweeping sanctions from the U.S. Treasury and Congress, North Korea has neither the ability nor willingness to move along the reform path. For that to happen, North Korea would – before going to 1900 Pennsylvania Avenue would have to go to 1600 Pennsylvania Avenue, the White House, to open the doors to reform.

So where do we stand now? The coronavirus shock has both pushed North Korea’s public finances to the edge. They have no fiscal buffers and no access to credit to cushion the blow. There’s no orthodox policy buffers, monetary or exchange rate policy. And so Pyongyang is seeking to squeeze the regional and local governments – or, sought to squeeze the regional and local governments for revenue as the pandemic broke out earlier this year. The Korean Workers’ Party newspaper stated in April 2020 in its budget announcement that the profits of cities and counties would cover their own expenditure for their own revenue, but also contribute lots of funds to the centrally run budget. In fact, one quarter of the centrally run budget was to be financed by squeezing the regional and local governments.

But recognizing the limits of squeezing revenue from a collapsing economy, the government resorted to issuing domestic bonds for the first time since the small issuance of People’s Livelihood Bonds in 2003. It did not go well. North Korea suspended the issuance of both the public bonds to SOEs and to the Donju. An internal investigation by the Central Committee found that less that 20 percent of the bonds earmarked for the Donju were sold. And this is according to the Daily NK, our only source on financial news, as it is, from North Korea.

So North Korea has this huge financial trust deficit, which is overlooked often, a deficit between the North Korean government and its would-be creditors, even among its citizens. North Korea is unique among nations in this regard. Even Cuba has limited access to international and domestic finance, even though it too is not a member of the IMF. So if the path to reform and recovery from the
pandemic shocks do not go through Washington – and Pyongyang has not shown the willingness to reform – can it go through Beijing? The answer is, most likely not. China will trade with North Korea, but it does not invest in North Korea, at least on a significant scale.

And let's consider the new Asian Infrastructure and Investment Bank. Does North Korea have access to this? No, because access requires IMF membership. And let's consider China's Belt and Road Initiative. Why isn't North Korea a flagship project, kind of like the Pakistan – China-Pakistan Economic Corridor which, by the way, at least on paper will provide $46 billion to Pakistan – a sum of money that probably comes close to North Korea infrastructure investment needs over the next 10 years if it began the process of reform? Well, the answer is mostly these projects that China has in the BRI are commercial, and North Korea has no creditworthiness.

So China's not going to lose money investing in North Korea. So I think that looking forward North Korea will survive, as it did when the trade links collapsed, with the Comecon collapsed when the Soviet Union dissolved. China will allow a modicum of trade, as Alex Wong said earlier, either indirectly or directly, illicitly or licitly. But North Korea will not thrive. For North Korea to thrive it will need investment, and for investment it will need to be reformed.

So what do I mean by reform? It needs basic institutional reform, which is property rights, contract rights, creditor rights, a stable and predictable investment regime, and a functional financial system – all of which I think only the IMF and World Bank could help North Korea develop. So reform cannot spontaneously take place in North Korea. There is no theoretical or miraculous path to reform. In practice, North Korea must muster the willingness and ability to join the international financial community.

Thanks, Sue.

Sue Mi Terry: Thank you. Dr. Joong-ho Kim, I know you've been looking at possible scenarios in the future. Given so many challenges in North Korea, what opportunities actually exist – if possible at all? Could you start your presentation, please?

Are you on mute?

Dr. Joong-ho Kim: Sorry. OK, thank you for having me here. Yeah, I'm not always optimistic – (laughs) – in this case. But concluding the nuclear deal in the future we can check what can be changed in North Korea. If maximum pressure forces North Korea to move in one direction, maximum engagement may also encourage North Korea to move in the same direction. And in order to keep North Korea staying on track toward the end state of a deal, a comprehensive strategy for economic engagement with North Korea should be prepared in advance.

For example, with the nuclear deal while the Kaesong Industrial Complex may be resumed, but we need to upgrade the inter-Korean cooperation through that kind of special economic zones by fixing the previous errors and mistakes. The first slide shows the internal and external factors of opportunities for North Korea. In a word, the most wonderful news for North Korea is that by signing a
nuclear deal they can be connected with the global economy where rich countries are willing to help them grow. Next slide.

Let’s see what internal changes may occur in North Korea by stage of denuclearization. With a nuclear deal partial relief or removal of sanctions will bring about changes in policymaking and institution building. One of the key question is how the market will be recognized and integrated with state economic institutions in terms of efficiency and productivity. Another question here is how soon the regime recognizes the importance of refining the financial system. That is indispensable for future transaction with the world.

In addition, it is also interesting to see whether a new class of economic power would arrive in the process of a power redistribution. Many of the elites will compete for privilege and resources in taking advantage of economic changes. So in a sense some Donju or money lenders would grow to the size of (treble ?) or a conglomerate by combining multiple business entities under the auspices of government authorities. Next slide.

With the breakthrough on a nuclear issue, the North Korean regime has asked which path to take – path of reform and limited opening or active reform and total opening? The easiest way for North Korea may be going along with China for achieving both political stability and economic growth. In moving into the small and poverty-stricken country, China may have the advantage of nearly ideal conditions for the imposition of its own brand of socialist capitalism. In the role of economic assistance, China is in an excellent position to exploit the situation for its ends.

Considering the China factor, we have a question here, if North Korea’s dependence on China has negative connotations, what is needed to make North Korea to choose a different path to be integrated with global economy? Next slide, please. Why it is important to discuss how to design economic project and programs for North Korea, it is also critical to explore how to strategically finance the economic engagement with North Korea by stage of development.

In a post-nuclear deal year every plan for North Korean economic development will cost a lot in the initial stage of development. Most projects are far away from profitability. So most of them are about building the social overhead capital, shortly SOC, ranging from roads, railways, airports, seaports, electricity, water, or education, or health system. Thus with a high level of political risk at this stage government-led projects are funded with economic aid and loans made by foreign companies – foreign governments, sorry.

In the middle staging, with the provision of the necessary infrastructures, more profit-centered projects are operated and funded with a combination of government and private funds. North Korea can discuss with the multilateral development banks about obtaining its membership and receiving loans for development. And in the final stage private funds will take initiative in designing and operating development plans in North Korea. With this chart planners and operators will make thousands of scenarios, along with the details of economic plans.
Final slide, please. Before and after signing a nuclear deal North Korea must be helped to see the outside and learn what to do and how to do for its economic growth. With North Korea dispatching its delegation to the U.S. for economic study may be the beginning of the understanding the world. The denuclearization process can be paralleled with a wide discussion of creating international organizations and programs to deal with North Korea’s socioeconomic issues at the regional level. Some examples are on the slide, so we can discuss various ways to cope with the problems and the process of North Korean reform or transition.

I will stop here and look forward to your further questions and discussion. Thank you.

*Sue Mi Terry:*

Thank you so much. While we ask – we’re going to look for audience questions. But I wonder if you can just go back – and maybe, you know, this question is for Dr. Kim Byung-yeon or others can answer this too – just more fundamental question, because I’ve been asked this a couple times by folks. Professor Kim Byung-yeon, mentioned in your remarks that Kim wants to grow the economy, but also wants to keep power. So you propose non-regime threatening projects. I think many of us would agree that Kim genuinely wants to push his – the country – push the country to the 21st century. But he also desires to continue his political rule.

So I guess this is a really fundamental question in terms of whether you think Kim would eventually face the same crossroad that his father faced. Meaning, if Kim gives up a little control, and more control, and reform the North’s economy, as we all just talked about, and open up, wouldn’t it inevitably lead to sort of, like, kind of tsunami that he can’t control? So I guess the question is, is it really possible for North Korea to genuinely reform and get connected to global economy, like we just heard, without risking regime survival – the dynastic – you know, this – I guess it’s more fundamental question that folks are asking, as we talk about the bright future for North Korea. Could you comment on that a little bit?

*Byung-Yeon Kim:*

Yeah. That is a very fundamental question. We have to think about it carefully. Of course, the other situation is that he keeps power, also keeps nuclear weapons, while growing the economy. That is the perfect solution. But that seems incompatible given the sanctions and COVID-19. So you have to compare two sort of realistic options. The first one is to reduce his power but allow the economy to grow thanks to reforms and opening up. That is one possibility. The other one is not to allow reforms but just keeping nuclear weapons. Which is more attractive to him? That is the question.

So we should not compare what is ideal situation for him, but from his perspective, what is more attractive solution between these two realistic options. I guess in that way there is hope that he may abandon at least partial – you know, nuclear weapons partially, and also try to get help from outside. That is, I think, a kind of opening for us to go into North Korea to make a – to make help to transition to market economy. That is what I hope.

*Sue Mi Terry:*

Steph, do you want to comment on this too?
Stephan Haggard: Yeah. You know, I think – I think there are models for opening that don’t involve the kind of fundamental changes in the economy that Tom and I and others would like to see. So let me just cite a couple of examples. Chinese tourism. I mean, you can imagine Kim Jong-un being perfectly happy investing in tourism facilities to bring Chinese tourists to North Korea. Not seeing that as a fundamental threat. Kaesong. You know, Kaesong is often, you know, trumpeted as an example of what North Korea can do, and that’s probably right.

But notice, it’s precisely because Kaesong is completely insulated and controlled, and the North Korean workers who work there essentially fall under North Korean management and are deeply surveilled. That’s why they were willing to do that, and it generated significant foreign exchange. So I’m a little hesitant to say that reform and opening necessarily poses regime risks because Kim Jong-un’s smart. He’s going to choose projects that don’t run up against those kinds of constraints.

Sue Mi Terry: Yes, Dr. Kim.

Dr. Joong-ho Kim: As you pointed out, the top leaders intention and recognition will matter. But on the other hand, we can think of the possibility that the elites could react to the changes inside and outside. For example Jang Song-thaek was a key player in the time of Kim Jong-il. And he was making a bridge between North Korea and China by introducing grand economic development projects, discussing with the Chinese government officers and investors. So by his contribution, Kim Jong-il was responding to the potential changes in a positive way. So Kim Jong-un may be guided at two stages, where he recognizes the importance of changes, and his ruling pattern may change accordingly. Thank you.

Sue Mi Terry: Thank you. So we have a question – this is from Joyce Tan, Georgetown University.

Given how North Korea takes COVID pandemic so seriously, would vaccine distribution be a new leverage over Kim Jong-un to consider reengaging international dialogue over nuclear weapons, economics, et cetera?

That’s a really good question. You know, we’ve seen reports just last week of North Korea’s hacking attempts to break into COVID vaccine maker, right, AstraZeneca, and a South Korean company, and five other companies. I think Canada, France, India, and so on. Clearly North Korea – one of North Korea’s priority right now is obtain vaccine. So you have to wonder if they will ask for cooperation from international community or, as this person asks – as Joyce asks, if there’s a leverage we can use to provide – in terms of providing vaccine to North Korea?

I think that’s a good question because there’s a humanitarian perspective too, but potentially a diplomatic gain. What’s your thoughts on this? Who wants to answer this question?

Thomas Byrne: Sue Mi, I’ll just – you know, I read in the newspaper today that Kim Jong-un and his family were vaccinated by one of the Chinese vaccines. So yesterday there was an interesting question – who was it from – Kee Park (ph), right, was talking about how North Korea is a member of Gavi and has been receiving various
other vaccines from this international consortium. But the question is, if Gavi is willing to provide vaccines – and evidently Gavi has credibility in North Korea and the vaccines would be used – who would get these? Who would get these first? Would Gavi be willing to provide vaccines to North Korea that only goes to the leadership rather than to the general public or to the frontline health workers? I doubt North Korea would be very democratic and fair on its access to a vaccine from Western countries.

Sue Mi Terry: Anybody else on the vaccine? OK.

OK, actually before I get to one of the audience questions we have Bill Newcomb asking this question.

Isn’t the need to address human rights a major obstacle to opening and reform? Human rights? Anybody want to address that?

Thomas Byrne: I’ll just make a comment, Sue Mi.

Sue Mi Terry: Yeah.

Thomas Byrne: Well, if North Korea – I mean, if North Korea has to get political buy-in from Washington, D.C. I think it seems like increasingly Washington will move forward with its human rights concerns about North Korea. So you have the nuclear weapons concerns, weapons of mass destruction concerns, and now I think the human rights concerns. So North Korea has to make some gesture on those fronts, I think, to get the ball rolling on reform by getting, you know, Washington to agree to go – to allow North Korea access to the IMF and the international financial institutions.

Sue Mi Terry: We have another question. This is from Kim Dayeon from Korea University.

It’s a little bit long. He says: Connecting with the international society may lead to certain fruit, one of them involving economic growth. This means, however, less autonomy and more possibility of volatile influence from turbulent international economy. How much support or profit will North Korea desire to make choices to reform and open or transition to market economy while risking dependency and less autonomy? Or the North Koreans noticeably rely on just China, right? So I guess the question is, you know, would North Korea risk, you know, sort of dependency and autonomy question with the international economy.

Stephan Haggard: Yeah, I can say something briefly about that. I think – I think the image of North Korea as being self-reliant has been so ingrained in analysts of North Korea, or casual students of North Korea, that we forget that it’s a very open economy. It’s already extremely dependent on China. And if anything, one of the interesting things we’re seeing in its export patterns over the last couple of years is an effort to diversity. For example, looking at markets in South Asia for North Korean exports which would be price-competitive in large parts of the developing world.

So the days when North Korea was a closed economy I just think are over. And they’ve already accepted a certain amount of buy-in to a dependence on external resources. The question is, where do those lie? And I think they lie in the
interstices of the world economy, so to speak. You know, not likely through the IMF but through shadow banking in China, by shipping services provided in the Gulf, by exports to weak jurisdictions, by cryptocurrency theft, those kinds of activities.

Thomas Byrne:

Can I – can I just follow up on what you said, Steph? I agree. North Korea has a degree of openness in its current account. You know, it allows trade, services, and businesses. But it has a closed capital account. So it’s – in a very basic way it’s an open economy. And it was like that even during when the Soviet Union existed. It wasn’t a member of the Comecon, but it participated in Comecon trade. And by the way, it often went into arrears on Comecon trade, much to the annoyance of Russia and other members. But it has a close capital account. So its openness to the international trade and financial system is circumscribed by that, I think, very basic impediment.

Stephan Haggard:

Yeah. Look, I fundamentally – I fundamentally agree. But there’s the “but.” And that is, I’m not sure we really know whether there’s foreign direct investment into North Korea or not . And let me just say two examples that have gotten attention over the last year. One grows out of some research I’ve been doing with Liu Yaozhang (ph) at Ohio State on participation in global production networks. After 2017-18, and the beginning of the Chinese sanctions, we see this very interesting uptick in imports of intermediate goods like clock and watch parts, strangely, and then exports of clocks and watches back out.

Now, is this direct foreign investment as we typically think of it in terms of a capital flow? Maybe not. But Chinese firms are organizing these production networks with North Korea. And another interesting thing we found is that trade with North Korea is not only going through the northeast provinces of China, but Guangdong is becoming more involved in that trade, suggesting that there’s a kind of export processing opportunities that are already, you know, occurring. And then, Tom, I think you’ve heard these rumors of Chinese purchases of North Korean real estate, that there actually is a real estate market in North Korea which has at least some foreign participation.

So I guess my point is that while the advanced industrial economies are going to stay away from North Korea, and maybe the AIIB and BRI are going to stay away from North Korea, it’s not clear to me that private Chinese capital couldn’t move into the country to some extent. Again, think tourism as a possibility. Is this bounded? Absolutely. But is there something there for North Korea to exploit? I think there’s something there for North Korea to exploit.

Byung-Yeon Kim:

I heard several complaints from North Koreans indirectly that China actually exploits North Korea in terms of prices they pay for North Korea’s exports. We found that China pays about 30 percent lower price to North Korea compared with the exports from other countries. I talk about the same category of goods. So North Koreans are worried about their dependence on China. When they trade with South Korea and Japan, their structure of the exports were more diversified. The prices they received were higher. That means that that opportunity now is lost, that is great pain to North Korea.

So if I were Kim Jong-un, if I had to choose between dependence on China but the long-term growth perspective is constrained. Another one is to integrate with
international, you know, world order, then I think the turbulence may come in. But we have to rise with tide. That is what South Korea has been doing greatly. The North can do it as well.

Sue Mi Terry: OK. We have a question from the audience. George Torreira (ph) from USC panel of experts.

Can the sanctions relief bring North Korea out of illegal business? It's a really good question. Who wants to take that? That's a good question. (Laughs.)

Dr. Joong-ho Kim: It would take – can I? Yeah, it would take time to shift North Korean regime's focus from legal and illegal business, a combination, to only legal business format. Because the North Korean regime is running business through various types of state power institutions, such as the party, military, and then the Cabinet. They employed different types of agents. And they do their business on their own for their survival and then for their connection with the power of institutions. So for the time being, in transition, the North Koreans cannot give up all illegal businesses. But in the long run they must be guided with a recommendation of the true benefits of engaging only in legal business.

Sue Mi Terry: Bill Newcomb, our panelist from the first panel, says his answer is "no" to this question. The illicit activities were there way before impositions of the U.N. sanctions.

Stephan Haggard: Well, Sue Mi, I mean, almost by definition George’s question – the answer to George’s question is yes. Because if sanctions relief is granted, then it means whatever those proscribed activities would then be made legal. But I think the main point is – you know, I just – North Korea knows how to operate in the shadows of the world economy. And it’s going to continue to do that. It’s an incredibly resilient and capable sanctions-evading country. And they’ve learned this – doing this for 25 years. It doesn’t mean we shouldn’t try to close things down, as Alex Wong suggested, but – (laughs) – there are plenty of dark corners of the world economy where North Korea can continue to operate.

Sue Mi Terry: Bill Newcomb just also mentioned like counterfeit, and narcotrafficking, and so on. OK.

Thomas Byrne: Yeah. That’s North Korea's comparative advantage.

Stephan Haggard: Yeah. Hear, hear.

Sue Mi Terry: So we have a question – I think this is for Professor Kim Byung-yeon. It actually is from Bill Brown. Is corruption likely to bring down the socialist system? Corruption is the result of such a big price/wage differences between state/private sectors.

Byung-Yeon Kim: When I give lecture about the collapse of socialist economy, one of the reasons for the collapse include corruption. That is possible in the long run. If you read North Korean papers, whenever Kim Jong-un talks about COVID-19, he also pinpoints the problems of corruption. Because corruption is a kind of hole through which COVID-19 spreads inside North Korea. If somebody wants to move to other cities then they pay bribes to officials, and officials let them go. These kind of things are worried about Kim Jong-un. So this too, COVID-19 and
corruption are interconnected. So that is quite worrying for Kim Jong-un in the long run. So that is the price North Korea has to pay given these kind of sanctions. And they have to evade sanctions in many ways. So corruption is possibly a kind of instrument which may bring down the regime.

Stephan Haggard: Sue Mi?

Sue Mi Terry: Yes, go ahead.

Stephan Haggard: Can I say something on this? Because you know, in the spirit of having, you know, heated exchange, I actually disagree with that. And I disagree with it for the following reason, that there's corruption and then there's corruption. When Kim Jong-un talks about corruption, I think what he means is market activity which is outside the reach of the state. That's what he means. But if you look at what's happening within state-owned enterprises, for example – and this comes from great defector testimony to people like Andrei Lankov, you see those entities working with private sector counterparts in order to forge money making projects which the state can effectively tax.

And so I can imagine a political economy of North Korea in which the Donju-class is effectively integrated into the party as a player in the same way that Jiang Zemin brought the capitalist red hats into the Chinese Communist Party. And so the enemy at that point would be those market activities which still are outside the role of the state, not those which have been brought into the state. And this is, again, why I think the North Korean economy is just much more resilient than people think, because he's not an ideologue. He's a pragmatist.

Byung-Yeon Kim: I agree. This sounds like – (inaudible) – discussion. I published a paper in the journal which shows that the combination between corruption and liberalization is very risky. But corruption can be repressed to make it loyal. Corruption is bad, but loyal corruption can help the economy to sustain. The reason that, you know, the corruption – corrupted officials have to pay something to the government coffers. Also, enterprises have to run their businesses with corrupt money. This is loyal corruption.

But if system is liberalized, repression is a bit dwindled, then this corruption may grow very big, to affect negatively the system. So Stephen is right. But at some point, the corruption may become much bigger without limits. Then it's – a big problem may emerge.

Sue Mi Terry: On Donju class, we have one more question from Kim Dayeon of Korea University.

Asking: Regarding internal changes in North Korea, can we expect more rapid transition to market economy by activities of Donju class? Or are they content – we're talking about Donju class – are they just content to just stick to what they have right now and not upset the regime?

Thomas Byrne: Can I make an observation?

Sue Mi Terry: Sure.
Thomas Byrne: Yeah. You know, what Steph said, I think in theory you could have a symbiotic relationship between the Donju and the state system and the government. But in practice, that relationship has turned parasitic. And we see this in the recent bond issuance. And we also see this in reports of foreign currency traders being executed. So unfortunately for North Koreans we are not at the Jiang Zemin moment where he announced that capitalists could become part of the – could join the Communist Party. I don't think he's made an announcement that the Donju can join – or maybe they are already in the Korean Workers Party. I don’t know. But I don’t think we’re at this Jiang Zemin juncture yet in North Korea.

Stephan Haggard: I think that's certainly fair.

Dr. Joong-ho Kim: Yeah, I can compare the North Korean Donju role with the case of Mongolia. In the time of transition in Mongolia, there was no separation of political and economic interests. So political officers and elites worked together in a group. And for example, finance minister makes a decision today, and he receives the government and the benefits as the president of his own company. So he and his wife and the children will take advantage of their father’s decision as the finance minister.

Well, Donju is not an independent, separate class in North Korea yet. Donju is hired agent used by the government officers in order to show performance to the top leader. So Donju will be connected with the power elite when the external – the capitals and materials flowed into North Korea. And they will be busy playing together and they show performances. So Donju will increase its class role in the future, but the Donju for the time being will be going together with the power elites. So some time in the future the Donju will grow as an independent force, and Donju will being to exert influence over politics.

Sue Mi Terry: Thank you. Unfortunately, we are – we have run out of time. Does anybody else want to make a final comment? Professor Kim? Professor Haggard?

Stephan Haggard: No, I'm fine. Great it was a discussion.

Sue Mi Terry: Well, great discussion. So with that I think we're going to have to wrap up the conference. Thank you to all the panelists for participating today in this panel – Professor Kim Byung-yeon, Professor Steph Haggard, Tom Byrne, and Dr. Joong-ho Kim for participating. And for the Korean participants, you’ve stayed up after midnight to do this. So very grateful. Really thought-provoking discussion. I think we learned a lot. And thanks to all of you for watching today.

This concludes today’s conference on “The Outlook for North Korea’s Economy Post-Pandemic.” Good night and good day.

(END)