

North Korea and the coronavirus pandemic

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The COVID-19 epidemic started in Wuhan, China, but soon spread across borders and became a pandemic on a scale not witnessed since the 1918 flu pandemic. One of the countries most directly exposed to the outbreak was North Korea, whose economy is not as closed as the “Hermit State” moniker might suggest, but highly dependent on China, as documented in the OECD’s first study on North Korea.

The North Korean authorities acted swiftly: Air China flights between Beijing and Pyongyang were suspended on 20 January and so were national carrier Air Koryo flights soon thereafter and Chinese tourism more generally – a major forex lifeline. On 21 January, North Korea was reportedly already working with the World Health Organisation to try and prevent the spread of the virus in the country. Quarantine measures followed, including school and university closures.

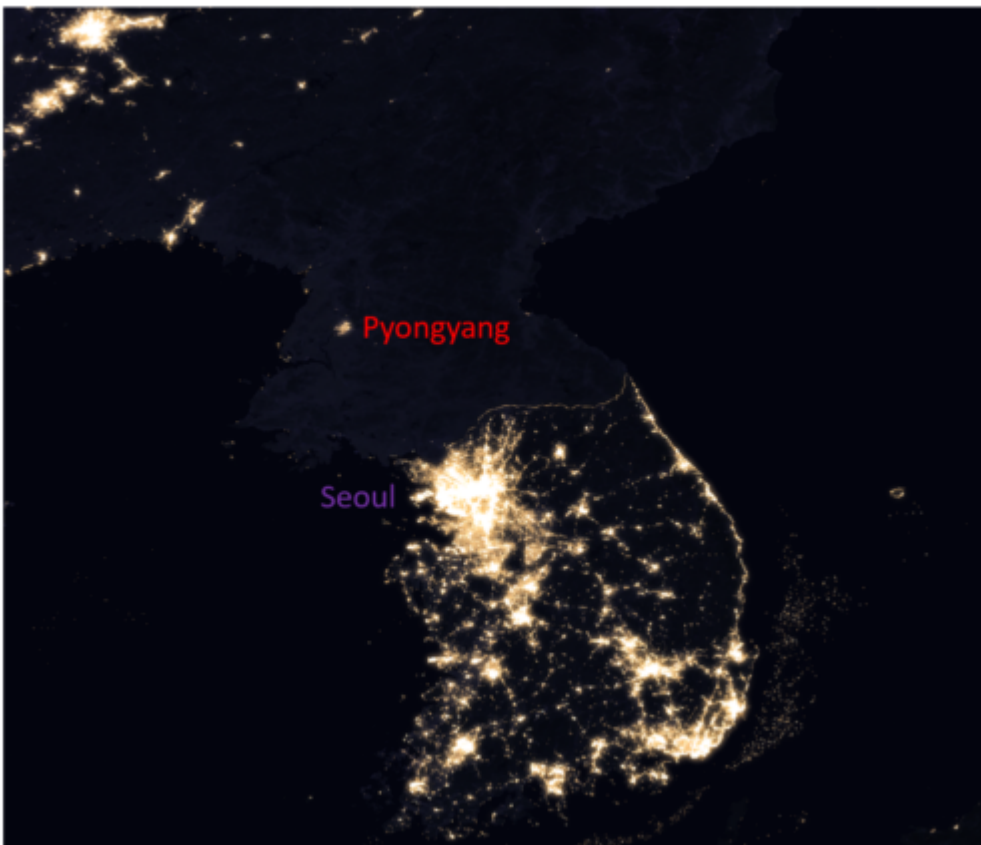
The North Korean economy has been a statistical black hole for decades but is undergoing substantial transformations. Rapid post-war industrialisation had put the country ahead of South Korea by the time Prof Joan Robinson visited in the mid-1960s, prompting her to wax lyrical: “Eleven years ago in Pyongyang there was not one stone standing upon another (...) Now a modern city of a million inhabitants stands on two sides of the wide river (...) A city without slums (...) Even more remarkable are the neat villages, scattered over the countryside (...) A nation without poverty (...) everyone is adequately provided with food, clothing, shelter, medical care, and educational opportunities” “All the economic miracles of the postwar world are put in the shade by these achievements (...) Every industry

and every service is building up capacity so as to be able to rush aid to the South as soon as communications are opened up.”

The “miracle” was not sustained, however, and South Korea’s economy far outpaced North Korea’s during the next three decades, during which trend growth declined and turned negative as Soviet support ended and the terms of trade with China became less friendly.

Today, GDP in North Korea is reportedly lower than in 1990, notwithstanding a larger population, and gross national income per capita is down to only a tiny fraction of South Korea’s. A large share of the workforce remains in agriculture but domestic food production is insufficient to avoid widespread chronic undernourishment. Infrastructure shortcomings are glaring, not least with respect to electricity supply and transportation.

The Korean Peninsula by night

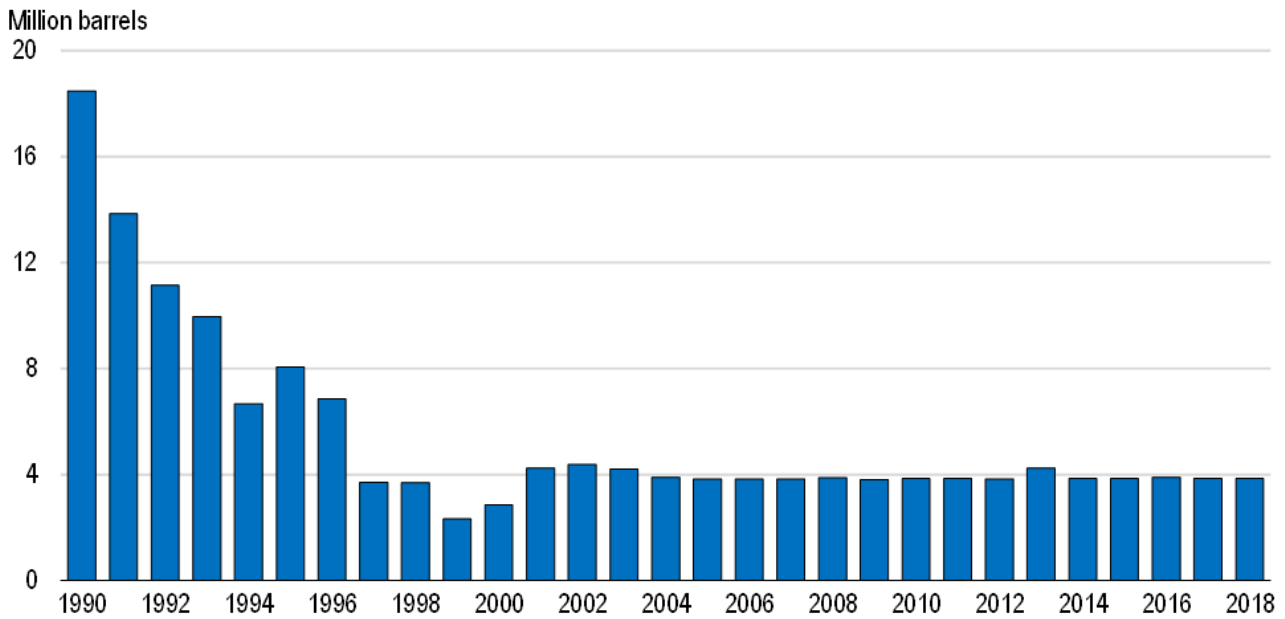


Source: NASA Earth Observatory, 2016.

At the same time, the scale and breadth of market activities has visibly expanded since the turn of the millennium, as part of a transition to a hybrid system mixing State, Party and army control with decentralised initiative, against the backdrop of a military build-up met by tightening international sanctions.

The OECD's new working paper documents a number of the changes that have taken place North of the 38th parallel. It draws on a wide array of published sources, which rest on limited and often indirect hard evidence and numerous bits of more anecdotal evidence. The study describes the evolution of economic planning, currency reform, "yuanisation", the proliferation of markets, the emergence of a new mercantile class dubbed the "masters of money" (donju), the development of special economic zones and their failure to attract much foreign investment, the dispatch of North Korean workers abroad and the promotion of tourism as means to secure forex, and how digitalisation is changing lives. It also discusses the impact of the economic sanctions, which can be seen for example when looking at mirror statistics of official crude oil imports. The study lists some of the myriad ways the sanctions are circumvented, including via a bewildering variety of smuggling channels.

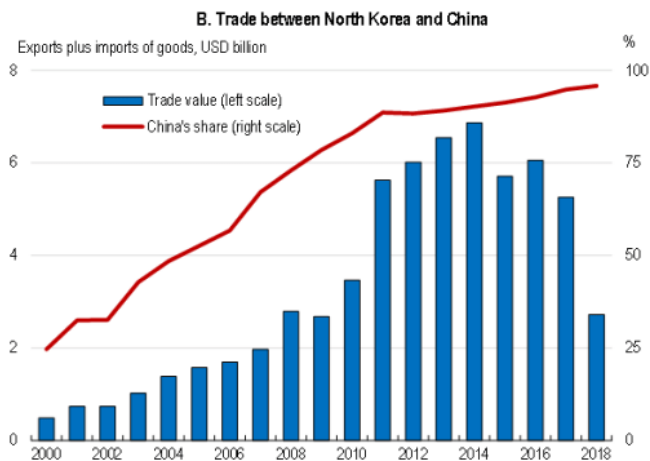
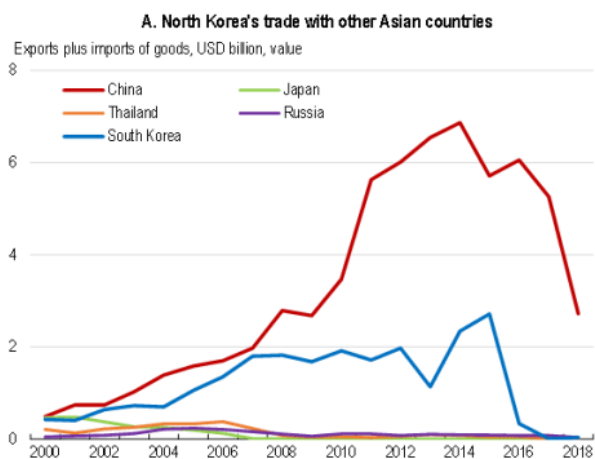
Estimated official crude oil imports



Source: Bank of Korea.

In many of the aforementioned areas, the country's very high dependence on China is striking. This has been particularly evident since the outbreak of the COVID-19 pandemic, which cut off some of North Korea's major sources of supply and the main market for its products – a situation that is hard to sustain for an economy with limited reserves. Indeed, while North Korea closed its border with China in January 2020, some traffic has reportedly resumed, with exemptions provided by the Chinese authorities to North Korean traders in late March and container trucks seen to again cross the Sino-North Korean Friendship Bridge in early April.

Trade with other Asian countries



Source: Korea Trade-Investment Promotion Agency (KOTRA).

Read the full paper: Vincent Koen and Jinwoan Beom, "North Korea: the last transition economy?", *OECD Economics Department Working Papers*, No. 1607, April 2020.

Information on COVID-19 in North Korea:
<https://www.nknews.org/pro/coronavirus-in-north-korea-tracker/>