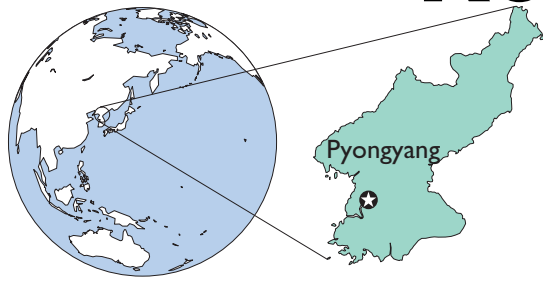


KOREA, DEMOCRATIC PEOPLE'S REPUBLIC OF (NORTH KOREA)



Rank: **155**
 Score: **5.00**
 Category: *Repressed*

Trade Policy	5	Government Intervention	5	Foreign Investment	5	Wages and Prices	5	Regulation	5
Fiscal Burden	5	Monetary Policy	5	Banking and Finance	5	Property Rights	5	Black Market	5

The Democratic People's Republic of North Korea remains a totalitarian dictatorship under the absolute rule of Kim Jong-Il. It also may be the most closed and isolated economy in the world. After the historic summit between Kim Jong-Il and South Korean President Kim Dae Jung in June 2000, the United States lifted all sanctions on trade with North Korea except for those on strategic and military-related goods. In May 2001, the European Union and its 15 member states agreed to establish diplomatic ties with the DPRK. This year, North Korea indicated that it might be heading toward limited economic reform when its legislature passed a trade-liberalization law meant to replicate the guided economic reforms pursued by China as a way to fuel growth. Specifically, it seeks to generate more hard currency by expanding and strengthening economic exchanges. Among the steps North Korea is taking are expanding free-trade zones from the original area of Rajin-Sonbong into the north and south of the country and broadening the types of North Korean firms that may partner with foreign companies. The economy has never recovered from the sharp decline in trade and aid after the collapse of the former Soviet Union and East European Communist governments in the early 1990s. Last year, North Korean industries continued to operate at much-reduced capacity because of antiquated plant and equipment and a severe shortage of inputs. Efforts at economic recovery and stability have been hampered by heavy military spending, which exceeds 25 percent of GDP, and by a lack of access to commercial lending that stems from the DPRK's default on its foreign debt and inability to obtain loans from international financial institutions. The economic crisis is further heightened by North Korea's lack of self-sufficiency in the production of food. The country relies on international food aid to supplement domestic production, which has been hobbled by disastrous agricultural policies; since 1995, nearly annual droughts and floods exacerbated by poor ecological planning have destroyed crops and ruined agricultural land, and hunger and malnutrition have been widespread.

TRADE POLICY

Score: 5—Stable (very high level of protectionism)

The government controls and inspects all imports into and exports from North Korea. There is an effective ban on many imports from Western countries. Essentially, North Korea is closed to trade, except for some imports manufactured in South Korea, China, and Japan. Trade with South Korea has risen recently. According to the Economist Intelligence Unit, "Until 1988 the two Korean states conducted no trade with one another, at least not openly. Since then a trickle has begun, rising from US\$200m to US\$333m in 1999: insignificant for South Korea, but enough to make it North Korea's third largest partner."

Scores for Prior Years:

2001: 5.00 2000: 5.00 1999: 5.00
 1998: 5.00 1997: 5.00 1996: 5.00
 1995: 5.00

Population: 23,413,500

Land area: 120,540 sq. km

Major industries: military products, machine building, electric power, chemicals, mining (coal, iron ore, magnesite, graphite, copper, zinc, lead, precious metals), metallurgy, textiles, food processing

Major agricultural products: rice, corn, potatoes, soybeans, pulses, cattle, pigs, pork, eggs

GDP: n/a

GDP growth rate: 6.2%

GDP per capita: n/a

Exports of goods and services: n/a

Major export trading partners: Japan 27.9%, South Korea 20.8%, China 5.2%, Germany 4.0%, Russia 1.2% (1995)

Imports of goods and services: n/a

Major import trading partners: China 32.6%, Japan 17.2%, Russia 4.7%, South Korea 4.3%, Germany 2.9% (1995)

Foreign direct investment (net): n/a

FISCAL BURDEN OF GOVERNMENT

Score—Income and Corporate Taxation: n/a

**Score—Government Expenditures: 5–Stable
(very high level of government expenditure)**

**Final Score: 5–Stable (very high cost of
government)**

In 1999, government expenditures equaled 57.5 percent of GDP. (Tax data are not available; therefore, North Korea's fiscal burden of government score is based solely on government expenditures for 1999.)

GOVERNMENT INTERVENTION IN THE ECONOMY

Score: 5–Stable (very high level)

North Korea has a command economy in which the government owns all property and sets production levels for most products. State-owned industries account for nearly all GDP. According to the U.S. Department of State, "The State directs all significant economic activity, and only government-controlled labor unions are permitted."

MONETARY POLICY

Score: 5–Stable (very high level of inflation)

North Korea's currency is worth little and is not convertible on the international market.

CAPITAL FLOWS AND FOREIGN INVESTMENT

Score: 5–Stable (very high barriers)

Although North Korea's government recently claimed to recognize the importance of foreign investment, foreign investors still do not receive equal treatment under the law. In April 2001, *The Wall Street Journal* reported that the legislature "has passed a new trade-liberalization law that analysts view as further proof of the communist country's desire to open up to foreign investment.... Under the new law, North Korea will expand these free-trade areas into the north and south of the country and broaden the types of North Korean firms that can partner with foreign companies. North Korea's new law is also setting up a legal mechanism through which foreign firms can seek financial compensation if their contracts in the country are violated." Meanwhile, the government must remain a majority owner in a business, and investments are effectively banned in most industries. According to the U.S. Department of State, "Foreign companies that have established joint ventures report that all their employees must be hired from lists submitted by the KWP [Korean Workers' Party]."

BANKING AND FINANCE

Score: 5–Stable (very high level of restrictions)

The government controls the financial system, and the state provides most funding for industry. The state also holds a monopoly on insurance. Foreigners are barred from using banking services. Many banks that were operating in North Korea have closed because of the country's economic problems. In 1999, ING, which had established a joint venture in

1995 and was the only remaining foreign bank, left the country, citing an utter lack of business. According to the Economist Intelligence Unit, "As a communist command economy, North Korea still lacks a financial sector in the capitalist sense. Most funding for industry comes from the state, which also earns revenue by taking a percentage on transactions among enterprises."

WAGE AND PRICES

Score: 5–Stable (very high level of intervention)

The government sets wages and prices in North Korea. According to the Economist Intelligence Unit, "There has been a classic malfunctioning of a centrally planned economy, in which price signals still play almost no part in official resource allocation, the result being inefficiency and shortages." In addition, "consumer goods are few and of poor quality, with some provided on a ration basis."

PROPERTY RIGHTS

Score: 5–Stable (very low level of protection)

According to the Economist Intelligence Unit, "Constitutional revisions in 1998 gave more scope both to co-operatives and private property. Farmers' markets, never abolished, have expanded, as has private crossborder trade with China." The U.S. Department of State reports that "the judiciary is not independent."

REGULATION

Score: 5–Stable (very high level)

As North Korea's principal economic force, the government regulates the economy heavily. Corruption remains a problem; the Economist Intelligence Unit reports indications that local government officials have stepped up extortion-like tactics to help raise revenue. Although the possibility of openness has been floated, Deutsche Bank Research warns that "a successful implementation of economic reforms must be assessed skeptically in view of the political and social constraints, so more pronounced instability is likely in the medium term." According to the Economist Intelligence Unit, "Without market reforms, North Korea's economy cannot recover. Periodic reports that things are looking up must be taken in that context. More aid may improve plant operation rates, but this does not overcome the defects of either the plants themselves or the system within which they operate. Similarly, the claims by the South's central bank, the Bank of Korea, that the North's GDP grew by just over 6% in 1999—there are no figures for 2000 yet—at best reflect external transfers and aid infusions rather than real economic recovery."

BLACK MARKET

Score: 5–Stable (very high level of activity)

North Korea's black market is immense, despite the fact that the government imprisons many who engage in such activity. Black market activity in agricultural goods flourishes as a result of famines and oppressive government policies. There is also an active black market in currency.