



# Making the North Korean Economic Project Work

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In June 2018, President Donald Trump and Kim Jong-un met in Singapore to build a roadmap towards peace. Trump's pitch rested on the belief that Kim would denuclearize in exchange for real estate investments, access to the international market, and economic assistance. Although Trump's reliance on flashy videos and salesman-like rhetoric was unconventional, his reasoning reflected the conventional wisdom that economic development was central to changing the trajectory of North Korea. President Moon Jae-in shares such optimism, and even suggested last August at the height of the South Korea-Japan trade dispute that a joint Korean "peace economy" could replace Japan's economic superiority in "one burst."

## Wasted Opportunities

Although there have been plenty attempts to execute investment projects in North Korea, virtually none of them have yielded lasting results. The Kaesong Industrial Complex (KIC), a [joint economic initiative](#) of both Koreas, was launched in 2004 to boost bilateral cooperation and business opportunities. South Korea benefitted from North Korea's land and cheap labor while North Korea took advantage of South Korea's expertise and technology. After tensions arose following North Korea's nuclear testing in 2016, South Korea's Ministry of Unification suspended operations at the industrial complex, forcing business owners and workers to leave behind what they had built up over the past years. Before its closure, the KIC [generated](#) over 120 million USD a year for the North Korean government and employed over 55,000 North Koreans. South Korean clothing manufacturers saw their profits [rise](#) at a greater rate than manufacturers operating outside

the KIC.

The Mount Kumgang [Tourist Region](#) is also a failed inter-Korean investment project. Established in 2002, it once facilitated trips by South Koreans and other foreign tourists. The resort was closed, however, following a tragic shooting incident in July 2008 that involved a South Korean tourist entering a restricted military area. At the end of 2019, North Korea announced plans to demolish all South Korean property at the resort to develop its own tourism facilities, but has recently halted operations in light of the coronavirus (COVID-19) outbreak.

Private investors have also had business conflicts with North Korea. In 2012, Chinese mining conglomerate Xiyang Group published a blog post [blaming](#) North Korea for the failure of a joint venture worth more than 40 million USD. After the Xiyang Group helped construct and operate an iron ore mine, North Korean business partners demanded contract revisions and evicted all Chinese workers without Xiyang's compliance. The Chinese company claims that North Korea waited just long enough to acquire the necessary know-how of mining and processing techniques before ousting their Chinese business partners. However, North Korea responded by accusing the Chinese conglomerate of failing to meet their promise to provide half of their investment obligations. It remains unclear which side of the story holds more truth, but the case of the Xiyang Group illustrates how the lack of a transparent business environment makes it difficult to ensure long-term project stability in North Korea.

It is risky to invest in North Korean property and ventures. Due to heavy UN sanctions, investors hoping to establish business operations must first endure the time-consuming process of applying for exemptions. There is also little transparency in how the North Korean government allocates and utilizes funds. Investors risk feeding into an autocratic and corrupt system in which their investments might be used contrarily to what they had intended. The Kim regime's unpredictability swings wildly from one crisis to the next, which can disrupt years of investment efforts. Any progress in negotiations concerning a joint venture can quickly be reversed by bombastic rhetoric or missile tests. The Kim regime has the capability to leverage progress on joint economic projects during nuclear negotiations. Why, then, do some investors remain [optimistic about economic projects with North Korea](#)?

For one, North Korea enjoys an advantageous geographical positioning: it shares borders with China, Russia, and South Korea, some of the most economically and politically influential players in the region. North Korea also has access to high-potential seaports that are important for regional trade networks. North Korea's isolation from the global economic system has left it as one of the few untouched places in the world. Investors are particularly interested in North Korea's

significant and unexploited natural resources. Experts estimate the country's [assets of minerals](#) such as copper, gold, graphite, iron, and zinc to be worth nearly 10 trillion USD. South Korea has expressed interest in exporting rare-earth metals, and investment in the North Korean mines would require additional investments in infrastructure and the production chain to ensure a profitable enterprise. Thus, a single project can be far-reaching, lucrative, and transformative. North Korea's development of cyberattack capabilities has also provided the regime a [robust IT landscape](#) that can be converted for more peaceful purposes. A well-resourced IT network is key to modernizing other sectors of the North Korean economy.

Equally important for economic growth is a low-cost and adaptive labor force. When business owners of the KIC venture hired workers in the early 2000's, monthly wages were as low as 50 USD and remained competitive in comparison with the rest of the world, even when accounting for annual wage increases. With room for infrastructural modernization and industrial development, North Korea has the potential to grow exponentially once it opens up. Moreover, there is potential for North Korea to develop a substantial tourism industry that will attract both South Koreans looking to visit ancestral sites as well as others from all over the world that are eager to gain a glimpse of the country.

The North Korean public seems quite capable of adjusting to a more market-driven economy. Studies show that North Koreans already depend heavily on private markets in both rural and urban areas. According to micro [surveys](#) of residents currently living in North Korea, the majority of North Korean households receive most of their income from markets. Individuals also find that external goods and information have a greater impact on their livelihoods compared to decisions by the government. Despite the efforts of the Kim regime, economic mechanisms such as supply, demand, and market pricing already exist in North Korea and would constitute a promising foundation for an investment-induced development.

### **More than Just an Economic Investment**

Economic projects in North Korea tend to be driven by more than financial lucrativeness. North Korea is a country of immense humanitarian violations. According to [one study](#), 60 percent of North Koreans live in absolute poverty. As the 1990s famine brought hardships upon North Korean citizens, the current COVID-19 pandemic could also lead to a similar economic crisis. Government leaders, businesses, and NGOs have tolerated the Kim regime's behavior with the hope that investment would ease the suffering of North Korean citizens, and potentially pave the way for economic and political reform. At the very least, joint-development projects would increase North

Korea's interactions with the international community, which would facilitate information transmission into and outside of North Korea. Governments and private businesses may be willing to endure financial losses due to the moral imperative of ending the North Korean nuclear threat and humanitarian crisis. A failed state would greatly damage security and business.

The future prospects of investment development in North Korea depend on several factors. First, whether a state offers North Korea an economic lifeline will depend on its denuclearization progress. North Korea's most recent [missile launch](#) was a reminder that the Kim regime will continue to use the stick when carrots are not provided in a timely manner. However, if the Kim regime is unable to secure economic resources due to continued provocations, it is bound to experience an economic catastrophe and humanitarian crisis. Kim Jong-un will have to adjust to the reality that he will not get what he wants without significant concessions, such as giving South Korea greater oversight of the KIC when it reopens. Second, the United States (U.S.) unwillingness to lift sanctions without North Korea's completely denuclearization is a significant roadblock in the development of economic projects. The soundness of such a strategy can be debated, but sanctions hold the capacity to disrupt supply chains, slow business transactions, and increase the costs of development projects. In order to have progress in North Korea's economic development, Pyongyang and Washington need to work on making compromises. A tit-for-tat dismantling of the nuclear program and economic development, for example, may help to move negotiations forward. Third, the U.S. should promote additional buy-in from the international community. If multiple states invest heavily in North Korea, the cost of backsliding increases for the Kim regime because North Korea would be more dependent on substantial joint-projects. The private sector would also pressure governments to protect their investments. Lastly, South Korea's domestic politics will also be a factor in easing business transactions with North Korea. South Korea's stance towards North Korea has depended on the respective administration. While Moon's North Korea policy initially sparked hope about improving inter-Korean relations, it has also [angered](#) conservatives. And despite the fact that Moon's party won the majority of seats in the April parliamentary election, if conservatives regain power in the coming years, South Korea's policy towards North Korea is likely to shift again in a less favorable direction as it was during the Lee Myung-bak and Park Geun-hye administrations.

## Conclusion

It is premature to deem investment in North Korea futile. Governments and businesses have to find a way to make the North Korean economic project work, or the state is likely to fail and deal

with the consequences. Although talks have been inconclusive thus far, the two Koreas and the U.S. emphasized their interest in continuing [negotiations](#) earlier this year. The Moon administration's decisive victory in the recent election provides some fertile ground for continued engagement. The U.S. presidential election in November will be the next significant development to watch. If Trump or former vice president Joe Biden aligns with Moon, sanctions may be eased, and investment is bound to flow into North Korea.

Ultimately, the international community must decide if it truly believes in the transformative power of economic development in a liberal world order. Can North Korea be transformed if its people simply gain access to the goods and opportunities of the wider world? China provides a blueprint for economic growth. Private investment from Chinese companies are less politically driven and therefore, could be a deciding factor for fueling monetary inflows that improve living conditions within North Korea. Even with current sanctions in place, China has [plans](#) for future investment projects and incorporating North Korea in the Belt and Road Initiative (BRI). By separating economic and political motivations and recognizing that a "take it or leave it" approach does not work, China has slowly but steadily increased its influence in North Korea's development.

The U.S. can help shape the trajectory of North Korea by refraining from politicizing development and humanitarian aid. Trump's decision not to weaponize the COVID-19 pandemic with North Korea, unlike with Iran, is a step in the right direction. During pandemics and natural disasters, sanctioned countries are at their most vulnerable state because they lack access to medical supplies, food, and water. Moreover, decades of underdevelopment which are partly due to poor domestic policies and exacerbated by sanctions leave little capacity to address unexpected natural disasters. By tightening the screws on North Korea, the U.S. and like-minded countries will neither gain goodwill among the North Korean public that it wishes to win over if economic development were to take place, nor pro-peace domestic audiences that find sanctions ineffective and unethical. The COVID-19 pandemic may even revive the KIC. Kim Jin-hyang has [argued](#) that the KIC's 73 sewing companies and one mask factory should be reopened to produce masks and other materials.

Investors look at risk factors, potential rewards, and assurances when deciding on a project. Successful joint projects in North Korea will yield profits for investors, provide greater economic opportunities for North Koreans, and increase interactions between people beyond government elites. North Korea need only look south for a neighbor eager for peace and evidence of the transformative power of the free market.

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