

# Sejong Policy Brief



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## *Executive Summary*

### **COVID-19 Crisis and Uncertainty of the North Korean Economy**



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## **Executive Summary**

### COVID-19 Shock in North Korea

- There is a high possibility of the COVID-19 (coronavirus disease 2019) outbreak in North Korea, but it is hard to confirm the fact due to information control and the lack of testing kit.
- Since the COVID-19 crisis, uncertainty regarding the North Korean economy has rapidly increased. Such phenomenon results from complicated factors such as a decrease in China-North Korea trade, diminished corporate production activities, a shortage of foreign currency, and a contraction in the market.

### Implications of the Decrease in China-North Korea Trade

- China-North Korea trade has temporarily ceased due to border closures, and the existing economic sanctions against North Korea has significantly reduced the amount of trade.
- Excessively high dependency of China in trade ironically delayed the recovery of the North Korean economy. In other words, a quick restoration of trade between the two countries may considerably improve the economic situation in North Korea.
- Since the COVID-19 crisis, North Korea's foreign currency earning has diminished, but the demand for it has risen. It is predicted that the volatility of the North Korean won's exchange rate will further increase.
- It is very likely that financial crimes to fill in the foreign currency gap will escalate.

- The market in North Korea is in short of Chinese products, and side effects such as panic buying and price inflation have emerged. Wages of workers in relevant fields also radically decreased.

- A Serious Blow to the Planned Economy

- In North Korea, state-run corporations buy most of their raw materials with foreign currency. Since the COVID-19 pandemic, foreign currency shortage has worsened, and thus, most of corporations have stopped running.

- Asset and foreign currency shortage due to the COVID-19 crisis have already caused a significant slowdown in the North Korea's planned economy. A bigger problem lies in the fact that economic recovery in a short period of time is nearly impossible.

- The 3rd Session of the 14th Supreme People's Assembly ended without noticeable results in the economic section. It seems hard to expect active changes in North Korea's economic policy, and thus, it is likely to maintain the current strategy.

- Where Does This Lead the North Korean Economy?

- It is impossible for North Korea to fully recover its economy with domestic resources alone. At this point, it needs to set a strategy for minimizing economic loss rather than focusing on the recovery. To this end, North Korea inevitably needs to strengthen its network for economic cooperation with the international community.

- This uncertainty in the economy due to the COVID-19 crisis comes from an externally originated, unexpected shock. Such external crisis makes the state hard to compose corresponding policies or to recover its losses in the short term.
- The North is unlikely to accept the South's suggestion of medical support regarding the COVID-19 pandemic despite a huge, positive impact it may bring to the North Korean economy,
- The South Korean government has continuously demanded the North to implement the agreements between the two, but North Korea has not responded and even criticized the South for its actions.
- It seems the COVID-19 crisis has provided North Korea an opportunity to step up as a normal state. It is the North's best interest to abandon the nuclear power and reinforce economic cooperation with the South for reviving the economy and advancing economic development. ❖

*※ Translator's note: This is a summarized unofficial translation of the original paper which was written in Korean. All references should be made to the original paper.*