Chapter 2

North Korea in Transition: its Potential and Limitations

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[Key Points]

➢ Contrary to the prevailing view that the North Korean economy is continuing to deteriorate, the palpable indicators of the state of North Korea’s economy are demonstrating an upturn. While this is partly due to the limitations of viewing the North Korean economy from the outside, the situation requires a critical examination that also takes into account the fact that this perception might result from prejudice.

➢ The main growth engines of the North Korean economy are still mass exports of domestic resources, including North Koreans working overseas, as well as coal and steel. As such, it is still reliant upon other countries, which does bring its sustainability into question.

➢ Another engine is the expansion of markets. The fact that markets in North Korea are no longer in conflict with the state, but play a peripheral role in the state sector is worthy of attention in examining the synergistic relationship between state and markets.
Winners and Losers from Reform

Key Data

Gross Social Product (J-curve)

Income Gain

a. New entrants

b. Oligarchs and Insiders

c. State sector workers

R0 - Beginning of reforms
R1 - Point at which Income gains of Oligarchs and Insiders are maximized
R2 - Level of Reforms that allows the winners of reforms beyond R1 (new Entrants) to compensate for or exercise enough political pressure to neutralize the resistance of oligarchs, insiders and state sector workers. Here, Gross Social Product refers to the weighted total product of each class of which the society consists.

Source: Compile by the author on the basis of World Bank (2000) Ten Years of Transformation, with the addition of a J curve