

**Below:** Farmers in North Korea are unable to produce enough food to feed all the citizens of the country. The United Nations estimated in 2017 that 41 percent of North Koreans are undernourished.

## Section 4

# The Economies of the Koreas

Setting a Purpose

### As you read, look for

- ▶ how economic sanctions hurt North Korea;
- ▶ why countries place sanctions on North Korea;
- ▶ how the economies of North and South Korea differ;
- ▶ **terms: command economy, cooperative farm, famine, North Korean won, South Korean won, black market.**

### Type of Economy: North Korea

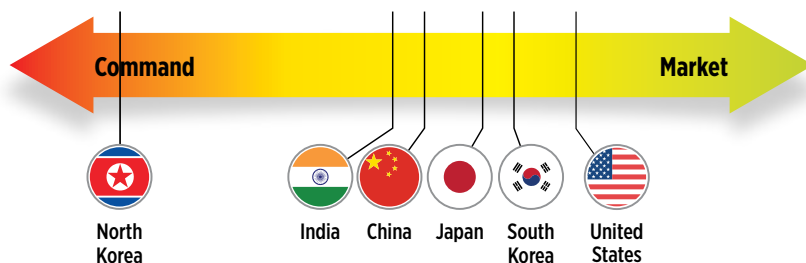
The Democratic People's Republic of North Korea has one of the least open and most government controlled economies in the world today. The Communist Party controls the government and the economy, though the ultimate power rests in the hands of the "supreme leader." North Korea's economy is a **command economy**. The government owns all the land and the factories, and the government decides what jobs will be done and who will do them.

Agriculture in North Korea does not produce enough to feed the population. Farms are organized into cooperatives that are owned by the government. A **cooperative farm** is organized as a unit and worked by a community under state supervision. The farmers are told what to grow, though some do manage to have small gardens. In the 1990s, North Korea had several years of poor harvests. As a result, thousands of people faced starvation. The government would not take aid from the countries in the West. Their main trading partner had been the Soviet Union. When that country was no longer able to help them, the people of North Korea had nowhere else to turn. As a result, the people of North Korea experienced a famine (an extreme scarcity of food) that killed an estimated 3 million people.



**Figure 16.2**

Economic Systems in Southern and Eastern Asia



In March 2016, the North Korean government warned its citizens to prepare for another famine after the UN Security Council voted to enforce stricter sanctions on North Korea after several missile and nuclear tests. North Korean citizens were told they needed to show their loyalty to the supreme leader, Kim Jong-un, by donating about two pounds of rice to the state warehouse every month.

Severe flooding in parts of North Korea in 2007 only made the suffering worse. In recent years, leaders of the country have tried to build up North Korea's industry. The country does have some rich mineral resources like coal and iron. Steel production and the manufacture of machinery are leading industries in the country, as well as some production of textiles. The government has also worked in recent years to develop nuclear power plants.

One reason for the difficulty in correcting many of the economic problems facing North Korea is that the government has spent millions on the military rather than investing the money in other aspects of the North Korean economy. Because of autocratic rule, the economic situation in North Korea is likely to remain difficult. Another reason North Korea faces economic problems is that so few countries are willing to trade with it.



### Type of Economy: South Korea

Since the late 1970s, South Korea has experienced economic growth that led to the development of a high-tech industrialized economy. In the 1960s, GDP per capita was similar to that of the poorer countries of Africa and Asia. By 2004, however, South Korea had joined the “trillion-dollar club” (countries that have a GDP greater than \$1 trillion). A system of close government and business ties made this success possible. The government promoted importing raw materials and technology, instead of consumer goods, and encouraged personal saving and investing instead of spending.

South Korea's export-focused economy was hit hard by the 2008 global economic crisis, but quickly rebounded by 2010. Between 2012 and 2014, the economy did not grow very much as a result of low consumption and investment within South Korea. The government is now facing the challenge of balancing South Korea's heavy reliance on exports with developing new areas, like services. Today, South Korea has a growing and developing market economy.



**Top:** Flooding ruined these North Korean homes in 2012. **Left:** Food available in this street market in Daegu, South Korea, shows that food is readily available for consumers.

## DID YOU KNOW?

The Kaesong Industrial Complex (KIC) was created in 2003 as a special zone just inside the DMZ. At the KIC, 125 South Korean companies employed over 50,000 North Korean workers. The KIC was closed in 2016 by South Korea in protest of North Korea's weapons testing.

Like North Korea, South Korea faces economic challenges. Some of the long-term challenges facing South Korea include a rapidly aging population, an inflexible labor market, the dominance of large business, and the heavy reliance on exports, which comprise about half of GDP. Only about 50 percent of GDP comes from households in South Korea purchasing goods and services produced in the country.

### Trade in the Koreas

Trade in North and South Korea is very different. There are very few countries in the world today that will trade with North Korea due to ongoing embargoes. North Korea's largest trading partner, by far, is China. The goods that North Korea exports to China include minerals (mainly coal), manufactured goods, textiles, and agriculture products. The major imports include petroleum, coal, machinery and equipment, and grain. In order to trade, countries must change their currencies. North Korea's currency is called the **North Korean won**. Exchanging currency in North Korea is complicated. There are special currencies for foreigners and those using electronic payments such as debit cards. In 2017, by one estimate, 1 US dollar could be exchanged for 900 North Korean won.

The United States imposed an almost complete economic embargo on North Korea in 1950 when North Korea attacked the South. Over the years, some US sanctions (economic punishments) were eased, but others were imposed. The United States imports no goods from North Korea; however, it has exported goods such as food and emergency relief supplies. In 2014, exports from the United States to North Korea totaled about \$24 million. After North Korea's cyberattack targeting Sony Pictures Entertainment, the United States imposed new sanctions against the government of North Korea and the Workers' Party of Korea. The United States has added new restrictions as a result of North Korea's testing of missiles and nuclear weapons. In 2016 and 2017, the United States exported only about \$100,000 in goods to North Korea.

South Korea has benefited significantly from free trade. In fact, it is the sixth-largest exporter in the world. Some of South Korea's top export partners include China, the United States, Japan, and Vietnam. Their top exports include semiconductors, automobiles and auto parts, wireless communication equipment, flat display screens, computers, electronics, and plastics. To make up for their lack of natural resources, South Korea must import crude oil and petroleum products, as well as coal and natural gas. Other imports include chemicals, computers, and textiles. The top countries that export goods to South Korea are China, Japan, the United States, Germany, and Saudi Arabia. In order to trade, South Korea must change its currency to other countries' currencies. South Korea's currency is called the **South Korean won**. In 2017, 1 US dollar could be exchanged for about 1100 South Korean won.

**Right:** The Friendship Bridge across the Yalu River connects North Korea with its largest trading partner, China.



The state of Georgia has no trade connections with North Korea but has many with South Korea. Governor Nathan Deal traveled to South Korea in 2011 and 2013 to promote trade and investment relationships. First Lady Sandra Deal visited schools and met with social organizations in South Korea. In 2014, Georgia exports to Korea totaled \$1.24 billion. South Korea is the 9th-largest export market for Georgia. Top exports from Georgia to South Korea include civilian aircraft, engines and parts, gas and vapor turbines, wood pulp, electric machinery, and plastics. In 2014, Georgia's imports from South Korea totaled slightly more than \$6.2 billion. The country is the 3rd-largest import market for Georgia. Top imports from Korea include motor vehicles, tractors, bulldozers, plastics, and articles of iron or steel.

## Natural Resources in the Koreas

The Korean Peninsula does not have large amounts of natural resources. The few resources available include coal, lead, tungsten, graphite, and hydropower. In North Korea, there are also deposits of minerals, like zinc and copper. Arable land is an important and scarce resource in North Korea. Since very few countries will trade with North Korea, the people must grow enough food to feed themselves or face starvation.

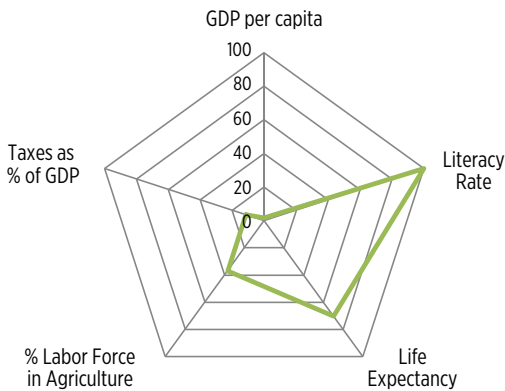
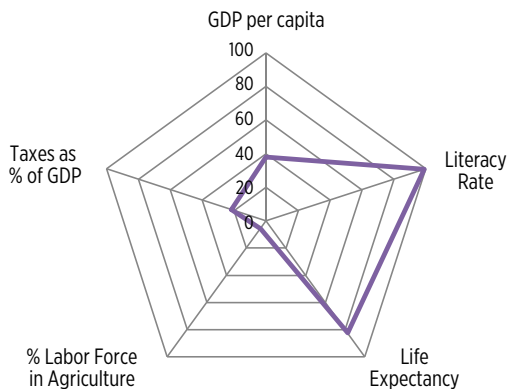
South Korea has similar natural resources to North Korea. South Korea, however, is able to benefit from trade with countries around the world to make up for their lack of natural resources. In fact, some of their most important imports include petroleum, coal, and natural gas.

## Human Capital in the Koreas

Investment in human capital is an important part of economic growth. Since North Korea is virtually shut off from the rest of the world, it is very hard to know what investments in human capital the government is making. According to the North Korean government, the literacy rate in North Korea is 100 percent, and students attend school for twelve years. However, there is no real way of knowing if this is accurate. We do know that North Korea's government controls everything inside the country including information from the outside world, which means that whatever education the people are receiving is very biased and limited. The Internet is unavailable to most people in North Korea. One of the major concerns of reunification of the Koreas is what to do with the people of North Korea who have had little education and no real knowledge of the outside world.



**Top:** In 2017, South Korean car manufacturer Kia announced that its plant in West Point, Georgia, had built its one-millionth Kia Sorento. **Above:** North Korean boys and girls learn to read and write in primary school. The country reports a literacy rate of 100 percent for boys and girls. **Left:** The library at Seoul National University has over 600,000 square feet of space. Such a library is a big investment for the university's 28,000 students.

**Figure 16.3****North Korea Spider Graph****Figure 16.4****South Korea Spider Graph**

On the other hand, South Korea has invested in human capital. The high-tech industries that are the basis of South Korea's economy require highly trained and skilled employees. As a result, South Korea spends almost 5 percent of its GDP on education. Students attend school for seventeen years. The literacy rate is nearly 100 percent. Students are staying in school longer and longer. There are over one million people enrolled in universities found in the major cities of South Korea.

## Capital Goods in the Koreas

Investment in capital goods is important to economic growth. While North Korea wants to have economic growth, it does not always invest in capital goods. Much of the money that the North Korean government spends is on the military and industry that will support the military. If the North Korean government wants to help their economy grow, it should begin to invest in other types of capital goods instead of just those that support the military.

Once again, South Korea is the opposite of North Korea. The government of South Korea has invested in capital goods as part of a push to help its economy grow. The economy is based on high-tech industries so it is important to have up-to-date technology. This investment is one of the reasons South Korea has one of the most stable and growing economies in Asia.

## Entrepreneurship in the Koreas

Entrepreneurship is one of the four factors of production. Once again, the Koreas present a stark contrast. Since North Korea is an autocratic, communist country, entrepreneurship is illegal. The government controls all parts of the economy. Even so, a **black market** has grown there in recent years. A black market is one where goods are illegally traded or sold. Severe punishments are issued to anyone trading on the black market in North Korea.

Entrepreneurship is becoming more and more important and common in South Korea. The government wants to create an economy that relies on the people's creative ideas. However, many businesses that are opening are similar to businesses that already exist. For example, in Seoul, there are eight fried chicken restaurants for roughly every half mile. The government of South Korea needs to help people develop new ideas if they want their economy to continue to grow.

## Reviewing the Section

1. How have economic sanctions hurt North Korea? Why do other countries, like the United States, place sanctions on North Korea?
2. Compare and Contrast: How are the economies of North and South Korea different? Why?