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200018311

United States Department of State

Washington, D. C. 20520

October 19, 2000

INFORMATION MEMORANDUM 00 10/19/00
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DECL: 1.6X1

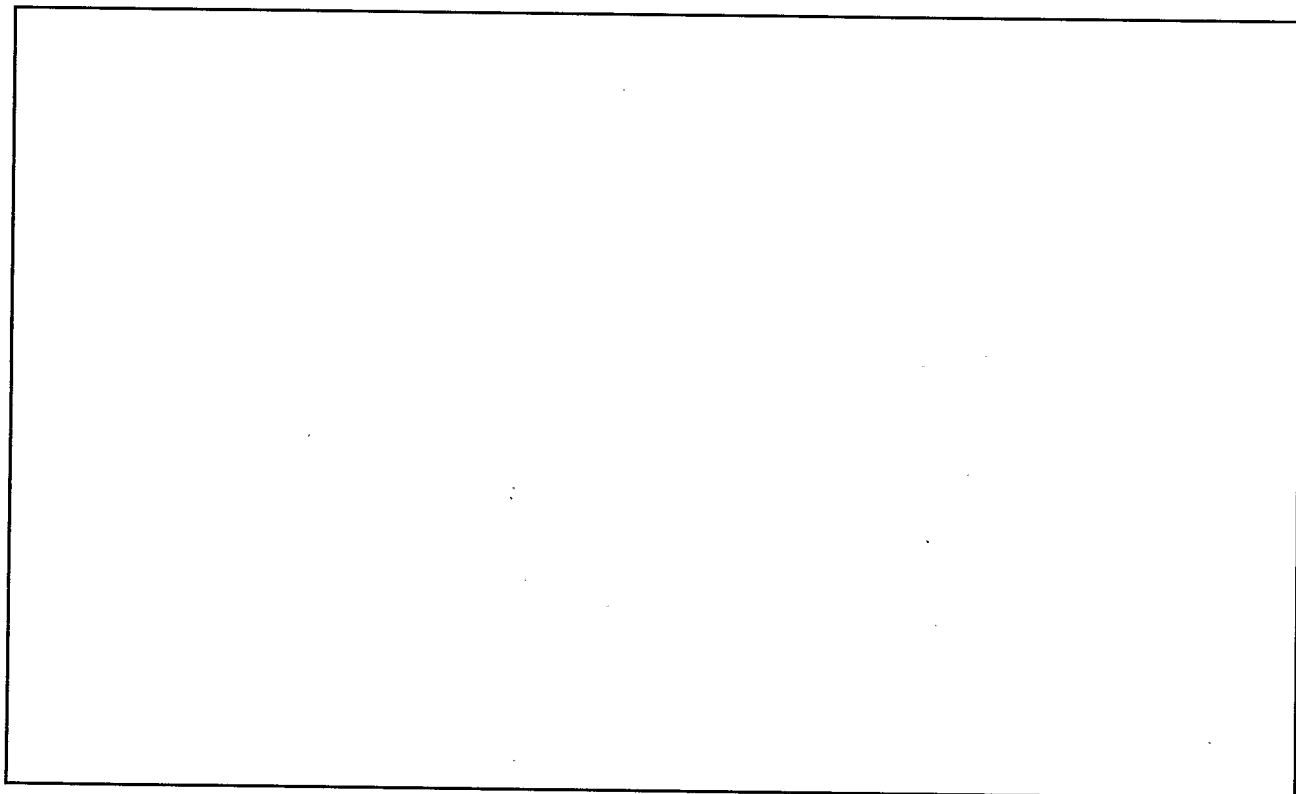
DECAPTIONED

TO: The Secretary
FROM: INR - Donald W. Keyser, Acting *Don K*
SUBJECT: North Korea--Assessing the Economy (U)

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OCT 19 2000

To successfully recover and rebuild from a devastating decade of decline, North Korea's leaders must make gut-wrenching decisions on the scope and pace of reform, transparency, and the opening of the economy. The attached analysis examines the plight of and outlook for the North's economy. (U)

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Attachment: As Stated.

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CLASSIFIED BY: Donald W. Keyser, INR A/S, Acting
E.O. 12958 Reason: 1.5(c) and (d)

UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: THEODORE J HEAVNER
CLASSIFICATION: ~~SECRET~~-REASON: 25X1, 25X6
DATE/CASE ID: 28 MAR 2006 200302375

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Secretary's Outbox

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Drafted: INR/EC/WNewcomb/x79768

Cleared: INR/EC/JDanylyk/x78082
INR/EC/DMoran/x72215
INR/EAP/RCarlin/x74766

*All OK
Resub For*

Approved: INR/DKeyser/x77826

OK

File Name: dprk economy 101820

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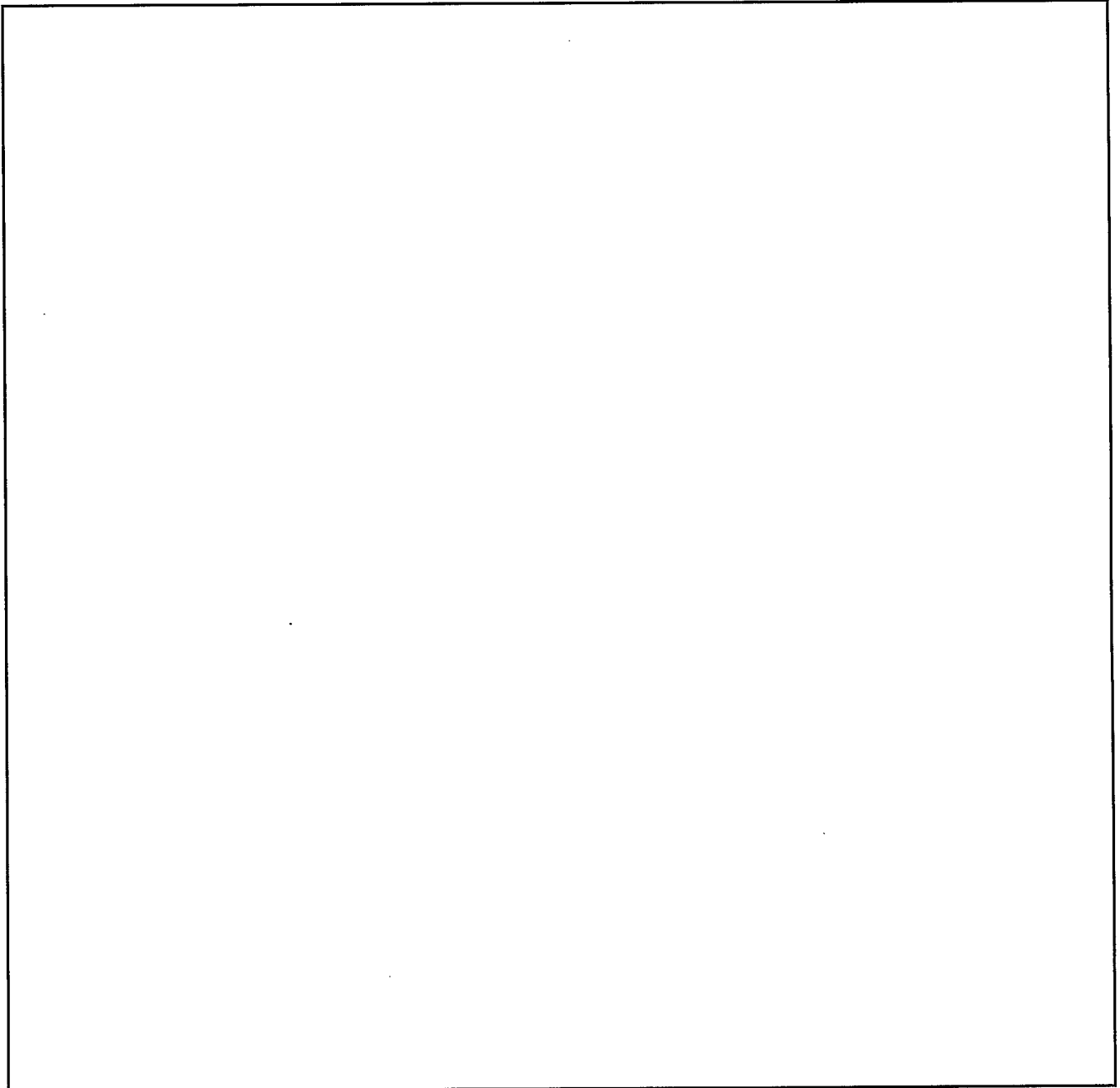
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US Department of State
Bureau of Intelligence and Research
Intelligence Assessment
10/19/2000

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B1, 1.4(C), 1.4(D)

North Korea: Assessing the Economy (U)

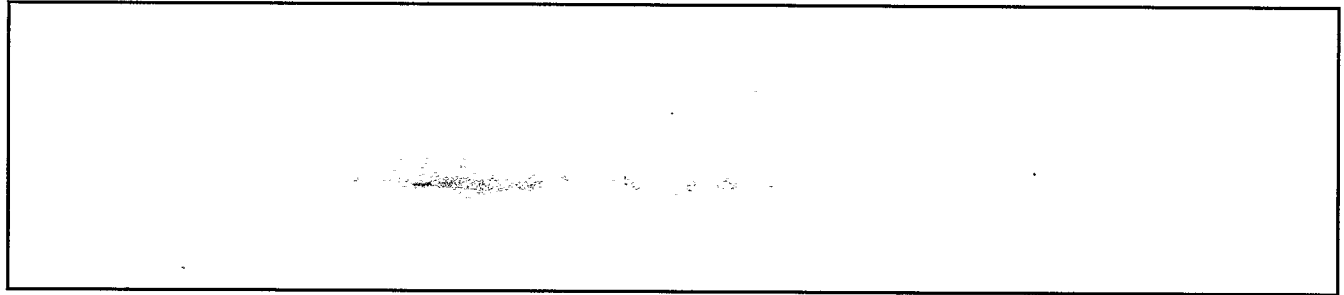


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From the ashes

The collapse of heavy industry was unavoidable due to DPRK dependence on the Soviet Union and Eastern Europe for economic assistance, fuel, inputs, and markets. Output simply was not salable elsewhere at a positive price; Council for Mutual Economic Assistance (CMEA) countries had been almost compelled to accept it. Without the aid of a large sponsor, the DPRK was unable to reorient its industry and revamp factories. Tellingly, North Korea was one of the few nations in Asia that did not benefit significantly from the dramatic growth of the China market. (U)

The closing of factories and idling of workers had two profound consequences. First, the central planning system broke down, because there was increasingly less to allocate among producers and to workers. Second, the dissolution of workplace organizations parted a primary strand for exercising social control over the populace. Hunger then put the unemployed on the move. (U)

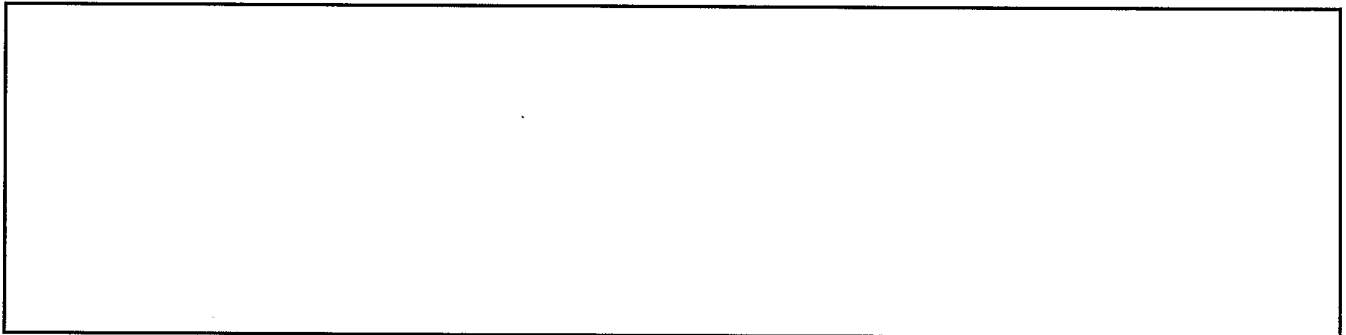


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Paths for economic engagement

The repair, reorienting, and reform of North Korea's economy cannot be accomplished without dealing with two fundamental tasks. First, DPRK leaders must be persuaded to increase transparency. This will be a hard sell because of deep-seated security concerns and decades of practice at concealing the nation's shortcomings. But transparency is vital to aid donors (to help them select projects and evaluate results); a prerequisite for joining the IMF and World Bank (though not the Asian Development Bank--ADB); and important for informing investors and lenders about opportunities and risks. (U)

Second, North Korea's leaders must be convinced about the urgency for rebuilding human capital. Famine has stunted children, made them prey to disease, and interrupted their schooling. The North will be hard pressed to continue its claim of having an educated, hard-working labor force when faced with generational change. The North also needs to develop a cadre of economic officials knowledgeable of Western values and practice, familiar with operations of international institutions, and able to negotiate on behalf of their nation. In the meantime, leaders need access to "hired guns" who can advise them--much as Beijing in the 1980s was coached on General Agreement on Tariff and Trade (GATT) rules by an adviser furnished by Australia. (U)



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Projects that facilitate recreation of the old economy's structure will absorb much more investment per job created than a strategy focused on development of small-scale light industry producing consumer goods for domestic and foreign markets. Investment in food processing and preservation of farm and fishery products, for example, would meet multiple goals of increasing the value-added of output, boosting food stocks through reduced spoilage, and adding to export revenue. Similarly, provision of micro-level finance to cottage industry and collective farms would frustrate central planning efforts, encourage the spread of markets, and help raise incomes in both rural and urban regions. (U)

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For additional analysis related to North Korea, see INR Brief on
"DPRK/Iraq... (title SSI/NF)," October 19, 2000.

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