THE LEGACY OF EX extractive INSTITUTIONS

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The legacy of extractive political and economic institutions of the USSR paved the way for development in Asia. Today this has revealed that in countries like Uzbekistan, where the president has been in office for twenty-five years gaining more and more power as if no replacement would be possible, the exercise of total control is a true phenomenon. In North Korea, where a hereditary communist dynasty has shown the very worst in how a centralized government’s greed and power benefits no one but itself. How these policies have affected countries and neighboring regions has changed the political and economic landscape and rules of international relations. The policies created more pluralistic institutions and thus have changed the course of history—the objective of this report.
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INTRODUCTION

Illustration 1: Map of USSR

Source: Minionuoua

This is an analysis of the arrival of the political and economic institutions of Post Soviet Union countries, in particular, analyzing those countries with an authoritarian government. One can observe that since the collapse of the USSR, in Uzbekistan total control is exercised by a single, powerful family. This family eagerly perpetuates this power in order to only satisfy their personal interests. As this situation effects the entire economic state and societal well-being of this country, the rights of the populace are practically nulled. The citizens are stuck in what would call a relic of the past. The next topic to be focused on is the small differences between quite similar societies that have diverged from one another towards an institutional transition. This is the case of The Republic of Georgia where the population has had the opportunity of choice and democratic elections under a sought after type of government. Its economy has advanced, albeit slowly, allowing it to approach that of the rest of Europe.

Following this first comparison, where those who have grown up and lived in a democracy would lead one to believe that living in a country such as Uzbekistan would be cruel, this paper will show the other side which proves that it can be far worse. This will be shown using the Stalinist era of the Soviet Union as a model to demonstrate that in the 21st century North Korea is the world’s most isolated country. This is a country where a whole society has no rights and are not fought for since the citizens are
intimidated with fear. North Korea will later be compared to its sister country, South Korea, which despite having also suffered through decades of authoritarian rule one could argue is one of the world’s richest countries.

In this study the institutions of the aforementioned countries will be analyzed and how the respective evolution of its economy has evolved as to give an idea how one lives in such a society. In order to observe that history repeats itself, especially the draining economic institutions and absolute political institutions, as is already known for every leader in power who benefits from draining his/her country there will always be another ready and willing to take his place. For this reason comparisons between The Republic of Georgia and South Korea can prove that at times history does not repeat itself and can in fact be altered and lead to enormous differences.

The focus of this paper centers on all of these cases by first shedding light on some of the most relevant dates of the county on hand and then observing the political situation since the fall of the USSR. Comments regarding the economic state will follow and the data used in order to assess the current state of the country will be shared before drawing appropriate conclusions by considering more current events.

Historical legacy and institutional differences are crucial for understanding a county’s development. Therefore, it is important to concentrate this analysis on countries in Asia, for as one will see there are different circumstances that have developed from within this continent that have directly influenced and affected Europe and the rest of the world. This is topic that one hears little of in mainstream media but this paper seeks to share this interesting history.
Illustration 2: Map of Uzbekistan

Source: The Asia-Pacific Journal

Situated in Central Asia, bordered on the north to the northeast by Kazakhstan, the southeast by Turkmenistan, the south by Afghanistan, the southeast by Tajikistan, and the northeast by Kyrgyzstan.

Uzbekistan has a privileged commercial location where the ancient Silk Road had rambled through it as well as a strategically close to Afghanistan. Despite, optimal location this country is considered by leading international human rights organizations (Human Rights Watch, 2011) as one of the most repressive countries in the world right behind Burma and North Korea, both of which will be discussed below.

Uzbekistan is the country with the greatest population in Central Asia with a total population of 30.24 million inhabitants (The World Bank, 2014). From the point of view of a developed country, the majority of the people still live in what appears to be a relic of the past which goes to show that policies and burdening economic institutions can adopt extreme forms.

To explain why this is so, this paper will expand upon the most relevant political and economic variables and how these variables affect society.
THE POLITICAL SITUATION

Uzbekistan formed part of the Soviet Union and had a one-party political system dominated by the Communist Party until 1990. With an absolutist political institution capable of establishing extractive economic institutions, the party in power was able to enrich and increase its power at the expense of the country’s citizens and welfare.

In 1991 the country declared independence and in 1992 adopted a constitution which declared itself a multiparty democracy and independent republic. However, the vicious cycle was not broken and even today there is an authoritarian presidency in existence.

Despite the constitutional ban of taking on more than two consecutive terms, the president of the republic, Islam Karimov (who was the Secretary General of the Communist Party of Uzbekistan), has held his position since he won the elections twenty-five years ago. This hold of power has been accomplished through referendums and suspicious elections using force, exile, and harassment to prevent the emergence of an opposing party. This is not surprising since extorting political and economic institutions support themselves and tend to endure long periods of power.

THE ECONOMIC SITUATION

At the end of the Soviet Union Karimov proposed to his people that quick changes should not be taken, citing the cases of other countries who destabilized at the end of the long communist regime. The president suggested that Uzbekistan should work towards a “slow adaptation to the new realities of the world” (Cardenas, E., 2005).

Taking advantage of those who grew up under the shadow of the Soviet Union with its fear of insecurity, Karimov centralized the economy practically around himself and made all the fundamental state decisions. Uzbekistan is frozen in the past and without a doubt this influences the standard of living. The sharp increase in the income gap has hurt the lower classes of society which is divided into the poor and the privileged elite who hold the power and are immensely rich in comparison. The president’s own daughter holds a suspect position in the industrial and commercial empire and leads a market consortium in the country. This covers oil, cotton exportation, the Coca-Cola Company, mobile telephones as well as her own brand of clothing and jewelry (Carlin, 2010). This gross corruption affects politics and the global market.
The government’s trade policies are very restrictive and these barriers are discouraging for companies and investors. Although trade relations seem to be improving, much remains to be done.

**VARIABLE EVOLUTION**

One is not able to make a precise evaluation of the economy because either the data has not be published or the information is not considered fully reliable (The World Bank, 2014).

**Gross Domestic Product (GDP) and Annual Average Rate of Growth**

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Domestic Product (GDP), at constant 2005 prices - US Dollars</th>
<th>Gross Domestic Product (GDP), Annual Average Rate of Growth - Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>14,985,943,512,5057000000</td>
<td>7,0000000347</td>
</tr>
<tr>
<td>2006</td>
<td>15,446,846,304,8726000000</td>
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</tr>
<tr>
<td>2007</td>
<td>16,914,296,713,0646000000</td>
<td>9,5000000598</td>
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<tr>
<td>2008</td>
<td>18,436,583,417,4678000000</td>
<td>9,0000000013</td>
</tr>
<tr>
<td>2009</td>
<td>19,929,946,659,0438000000</td>
<td>8,0999999174</td>
</tr>
<tr>
<td>2010</td>
<td>21,623,992,131,8453000000</td>
<td>8,5000000340</td>
</tr>
<tr>
<td>2011</td>
<td>23,418,783,475,5461000000</td>
<td>8,2999999850</td>
</tr>
<tr>
<td>2012</td>
<td>25,336,123,733,9163000000</td>
<td>8,2000000144</td>
</tr>
<tr>
<td>2013</td>
<td>27,118,479,545,6720000000</td>
<td>7,0221675972</td>
</tr>
</tbody>
</table>

**Table 1: Domestic Product (GDP) and Annual Average Rate of Growth**

**Graphic 1: Gross Domestic Product (GDP) and Annual Average Rate of Growth**

Source: United Nations Statistics Division 2013
In recent years a growth rate of 7% has been seen, reaching 9.5% in 2007 and dipping slightly to about 8% up until 2012. This makes Uzbekistan one of the ten countries that has experienced the highest growth rate over the past decade according to ____ (IMR, 2014).

Breaking down GDP, one can analyze the causes for increases or decreases by using the expenditure method:

**GDP Breakdown**

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>7,673,995,152,352</td>
<td>2,533,685,882,273</td>
<td>2,646,831,786,909</td>
<td>5,449,475,522,178</td>
<td>4,126,045,850,805</td>
</tr>
<tr>
<td>2006</td>
<td>8,674,884,820,770</td>
<td>2,747,492,031,612</td>
<td>2,899,267,964,226</td>
<td>5,638,317,829,924</td>
<td>4,780,448,594,547</td>
</tr>
<tr>
<td>2007</td>
<td>10,023,092,151,778</td>
<td>2,824,687,551,774</td>
<td>3,535,088,023,549</td>
<td>6,709,954,573,720</td>
<td>6,178,525,587,111</td>
</tr>
<tr>
<td>2010</td>
<td>10,373,421,644,600</td>
<td>5,034,268,392,362</td>
<td>5,340,845,266,266</td>
<td>6,846,070,525,953</td>
<td>6,165,674,715,321</td>
</tr>
<tr>
<td>2011</td>
<td>12,163,007,158,717</td>
<td>5,316,064,036,544</td>
<td>5,509,410,781,222</td>
<td>7,750,300,234,802</td>
<td>7,319,997,825,444</td>
</tr>
</tbody>
</table>

**Table 2: GDP Breakdown**

Source: United Nations Statistics Division 2013

**Gráfico 1: GDP Breakdown**

Source: United Nations Statistics Division 2013
By looking at pie chart it is even easier to appreciate the distributions:

**Graphic 2: Most relevant sectors in terms of GDP percentages**

In general, all bodies of GDP have increased in the period under view, so each in turn will be separately analyzed:

In regards to household consumption, the data collected has seen positive increase every year apart from 2008. This expense mainly corresponds to the consumption of basic goods and expenses of the Uzbek people (including those Uzbekistani who work outside the country) as established by the (Secretary of State for Foreign Trade, 2010).

In order to get a better idea of household consumption and quality of life GDP per capita will be fixed:

**Per capita income**

<table>
<thead>
<tr>
<th>Year</th>
<th>Per capita income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>552.75</td>
</tr>
<tr>
<td>2006</td>
<td>629.75</td>
</tr>
<tr>
<td>2007</td>
<td>838.36</td>
</tr>
<tr>
<td>2008</td>
<td>1,097.34</td>
</tr>
<tr>
<td>2009</td>
<td>1,135.65</td>
</tr>
<tr>
<td>2010</td>
<td>1,423.87</td>
</tr>
<tr>
<td>2011</td>
<td>1,618.82</td>
</tr>
<tr>
<td>2012</td>
<td>1,801.87</td>
</tr>
<tr>
<td>2013</td>
<td>1,977.25</td>
</tr>
</tbody>
</table>

**Table 3: Per capita income**

Source: United Nations Statistics Division 2013
As one can observe, per capita income would currently be close to 2,000 dollars per year, but this figure is obtained by dividing GDP by the population. With consideration to the standard of living, this relationship is called Purchasing Power Parity (PPP) which takes into account what it costs for a representative basket of goods. Uzbekistan finds itself ranked 129 of 180 countries that analyzes the (IMF, 2014). 2014 GDP and PPP would be estimated to reach $3,536 annually.

As this data does not take into consideration whether or not income distribution is equitably divided one must use the Ginni Index where the last coefficient is calculated from 2003 (World Bank, 2014) and was 0.367 points. The United Nations purports that when the Ginni coefficient is greater than 0.40 it is cause for alarm since it could lead to antagonism between social classes and spark social discord and unrest.

Similar to the those other countries that were alarmed by the recent worldwide economic crisis, in 2008 the Uzbek government launched an anti-crisis program in which funds were invested in public infrastructure, tax relief was given to exporters and small and medium enterprise (SME’s), increases of salary in the public sector, and the recapitalization of commercial banks (Secretary of State for Foreign Trade, 2010).

With respect to government consumption, the mining sector has received significant levels of public investment (Secretary of State for Foreign Trade, 2010) and in 2011 two Talgo trains were put into operation for 50 million euros (BBC, 2011) which explains the record high of government expenditures during this year.

Business investment consumption in Uzbekistan corresponds almost entirely to foreign investment and had experienced an increase from 2008-2012 (Secretary of State for Foreign Trade, 2010). The automotive industry has enjoyed tax cuts and foreign investment due to the Daewoo plant in Andizhan which in the last few years has received funds from an intended $200 million investment from South Korea. In addition, it has received Russian foreign investment in the communications industry. However, the principal investor is Switzerland owing to the fact that Uzbekistan’s largest company (which is conveniently owned by President Karimov) is headquartered in Switzerland. The country has also received about $300 million in order to rehabilitate the tobacco industry “British American Tobacco” and another $150 million from the American mining company, Newmont Gold Processing. This mining company is on the receiving end of several foreign investors and has reported more than $500
million in inputs. Agriculture has also experienced continuous investment due to the importance of the country's cotton production.

Imports have maintained an upwards trend since 2009, representing 19.17% of the GDP as noted in the above chart. Countries who invest in Uzbekistan are Russia, China, Korea, Ukraine, and Germany. The country produces machinery and equipment, chemicals, agricultural products, services, ferrous and non-ferrous metals, energy resource and other goods (Secretary of State for Foreign Trade, 2010).

In recent years certain exports have been favored, such as the increases in international cotton prices, gold (the states retains control of the supply and demand), and gas. The principal partners in these trade areas are Ukraine, Russia, Turkey, Kazakhstan, and Bangladesh (Secretary of State for Foreign Trade, 2010).

EVOLUTION OF THE MOST RELEVANT SECTORS

![Value Added, Percentage of US dollar GDP](image)

**Graphic 3: Value Added, Percentage of US dollar GDP**

Source: United Nations Statistics Division 2013
In 2013 agriculture accounted for 20% of the GDP, and as one can see from the above chart, has decreased since the beginning of this study’s period, though, the existence of a black market cannot be ignored. The agricultural sector employs about one third of the workforce and its main crops are cotton, wheat, raw silk, and karakul.

According to the data provided in the (Secretary of State for Foreign Trade, 2010) Uzbekistan is looking to transfer ownership of agriculture fields, but this is “still in study”. Mining is most important sector based on GDP percentages, and Uzbekistan is amongst the world’s leading producers of gold and uranium which are respectively the second and third greatest export of the country. Along with these, Uzbekistan also mines copper, molybdenum, and gas (Secretary of State for Foreign Trade 2010). Cotton production has also been rising in recent years and construction has experienced some growth in 2009 driven by fixed capital investment. Trade accounts for 10% of GDP and the service sector is basically comprised of gas and telecommunications (Secretary of State for Foreign Trade, 2010) which have experienced increases in 2008 as depicted in the graph and have remained stable over a long period.

What is happening in Uzbekistan?

More than a quarter of the population lives below the poverty line (World Bank, 2014) providing that in some urban areas poverty affects nearly one of every two citizens. As a result, living conditions for children are dreadful and given no respect for their basic human rights. The infant mortality rate for children under five years old (World Bank, 2014) was recorded at 43% (or 43 of every 1,000) in 2013. It is clear that this rate is extremely high.

As mentioned above, cotton is a valuable export and for a number of years farmers had received only a small fraction of world market prices for their crops because the government would appropriate the rest. Because of this, no farmer in his/her right mind would have grown cotton for the prices they received—and so were forced to do so by the government.

In his book, (Acemoclu, D. and Robinson, J. 2012, p.457) include a letter from a mother who reflects upon the situation:

“When the school year begins, around the beginning of September, all the classes were suspended. Instead the going to school the children go to pick cotton. No one asks for the parents’ consent. Children do not have weekends free (apart from the harvest season). If for some reason a child stays home, the teacher or monitor
goes and reports the parents. Children from rural areas who are fortunate enough to be assigned to nearby farms can return home, but those from urban areas must sleep in sheds or warehouses with the machines and animals. There are no toilets nor kitchens. The children must bring their own food.”

The TBM is an indicator measuring school enrollment (World Bank, 2014):

**Primary School Enrollment (% Gross)**

![Graphic 4: Primary School Enrollment (% Gross)](image)

Source: The World Bank 2014

As one can observe from the above graph, there are Uzbekistani children that do not attend school. Even though Uzbekistan has ratified its conventions on the prohibition of child labor the practice is far from abolishing. In fact, was one can see it is fully rooted in the country’s traditions.

Corruption is a reality that continues to grow each day in Uzbekistan. Harassment, torture, intimidation, and imprisonment wait those who contradict the government. The president has denied the existence of political prisoners in its jails, but a report of (Human Rights Watch, 2014) purports otherwise. The non-governmental organizations (NGO’s) note that among these prisoners are activists, journalists, and government critics who have fought for democratic reform or have led changes in the cultural, artistic, religious, and philosophical roots. Today these prisoners live in appalling conditions where some have attested in interviews that prison security guards have suffocated them with plastic bags and gas masks, have been terrorized with threats of
harm to their families, denied access to food and/or water, humiliated, sexually abused, and tortured with electrocution.

According to data taken from the (Transparency International Organization, 2014), in 2014 the country occupied the 166th position of 174 countries that have analyzed such statistics. A group of experts assigned score of 0 (countries with gross corruption) to 100 (countries with low levels of corruption).

Uzbekistan has received a ranking of 18 points—being one of the most corrupt countries in Asia and the world, only surpassing their neighbor Turkmenistan with 17 points, Iraq with 16 points, Afghanistan 12 points, and North Korea 8 points. Thus, Uzbekistan ranks as one of the most corrupt countries in the region.

Even though Uzbek law guarantees freedom of expression according to the (Embassy of Uzbekistan in the Kingdom of Spain, 2013) the country is a “…secular state, religion is separated from state, the form of government is a mixed republic with strong presidential power and a bicameral parliament. The constitution of the country guarantees equal rights to all people, regardless of nationality, gender, or religion.”

In recent years the greatest violation of human rights took place. May 13, 2005 marked the “Andijan massacre” where a protest against President Karimov took place in the southeast. People protested in a central square of the Andijan and the president responded by closing entrances and exits, disrupting communications, and giving ‘free rein’ to the military. Tanks and trunks blocked the surrounding streets to the plaza and snipers on rooftops, without warning, open fired the few armed men, women, and children. According to a testimony gathered by (Human Rights Watch, 2005) the outcome was a slaughter where 700 are said to have been killed, though an exact count is unknown.

Due to criticism, this event marked a turning point in the relations with the United Stated and the European Union (although still maintaining the Uzbek border with Afghanistan). The country’s proximity to Russia and China offered protection over its trade relations because of its energy sources.

At this point the near future of Uzbekistan is uncertain as the president’s age could present a critical moment which could disturb political balance since seventy-seven-year old Karimov’s succession is not spoken of.

Analysts have reviewed possible scenarios—which are publicized—that provide for a transition that will be almost unchanged. A new leader without morals will take over,
because for every elite that benefits from the replacement, there is no one that would want to be the proxy of the decomposition of the regime. This is because there will likely be strong political and social turbulence with the Islamist forces taking a central role.

As is widely known, the Central Asian regimes have a kind of Islamic movement in Uzbekistan (IMU). At present there are Uzbeks fighting in the ranks of the Islamic state Syria and the MIU have increased its activity in northern Afghanistan. Yet its true ability to penetrate Central Asia and its role in the post-withdrawal of US and NATO forces in Afghanistan remains to be seen (De Pedro, N. 2015).

“There is little doubt towards the will of the Jihadists to seize the critical link that represents a hypothetical succession process. Although its date is unknown, it is critical for the stability of the whole od Central Asia.”
Georgia is located on the boundary between Asia and Europe and is bordered on the north by Russia, the south by Turkey and Armenia, and the southeast by Azerbaijan. Georgia is a key country because it is situated on the fuel transit routes and is strategically set in the South Caucasus. Its deposits of natural resources gives it great potential. In addition it is the only former Soviet Union country, together with Moldova, that appeared in a report prepared by Freedom House that was considered partially free (Deutsch, K. and Dunham, J., 2014). It was also the only country in a report of economic freedom (Miller, T. and Kim, AB., 2015) to be considered ‘mostly free’.

For these reasons it appears to be appropriate to pay attention to the Uzbekistan state where The Republic of Georgia similarly began to shift towards an institutional transition.

Georgia has a population of 4.47 million people (World Bank, 2014) and an area of 69,700 km².
After the collapse of the Soviet Union the first president elect in Georgia was Zviad Gamsakhurdia, a leader of the National Liberation Movement. However, his tenure was interrupted by a 1991-1992 coup which sparked a civil war that lasted for three years. After this war in 1995 Eduard Shevardnadze became president. Shevardnadze was the former USSR Minister of Foreign Affairs and led the country until 2003 when he was accused of corruption, inefficiency, and ineffectiveness in nearly all the branches of government and for not meeting basic ministerial obligations (Ortiz, R., 2003). This marked a turning point for when the Georgian population turned its back and began what is known as the revolution of colors which was discussed in the previous chapter. Revolutions, often taking on a specific color or flower as a symbol, began in the three former Soviet states of Georgia, Ukraine, and Kyrgyzstan but then spread to other surrounding countries. Protestors used nonviolent resistance to protest against authoritarian governments and to demand democracy.

2003 marked Georgia’s “Rose Revolution” that ousted President Shevardnadze and put in place Mikhail Saakashvili, a revolutionary leader who’s presidency spanned ten years. In 2008, Georgians had a brief war with Russia which derived from the frozen conflict between the pro-Russian republics of South Ossetia and Abkhazia. This conflict was linked with the Georgia’s intentions to join NATO as well as other problems with these two regions.

The clashes began when Saakashvili ordered troops of the Ossetian territory— independent since 1992 but not recognized internationally. Russia immediately retaliated and attacked. After much strain and economic consequences the conflict finally ended with peace treaty proposed by the European Union.

2013 marked the beginnings of a new era with the election for Girogi Margvelashvili whose election was said to be “clean”, “positive”, and “transparent” according to democratic quality standards by OSCE observers.

Margvelashvili stated that his objective would be to “consolidate democracy and political development that would empower his country to become a true European state.” (Ortiz, R., 2013).
VARIABLE EVOLUTION

The chart below depicts the GDP of the actual production of goods and services valued in constantly at 2005 based prices.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Domestic Product (GDP) at constant 2005 prices - US Dollars</th>
<th>Gross Domestic Product (GDP), Annual Average Rate of Growth - Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>6,410,935,461,680</td>
<td>9.593</td>
</tr>
<tr>
<td>2006</td>
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<td>2007</td>
<td>7,877,751,498,494</td>
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<td>2008</td>
<td>8,660,025,875,091</td>
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<tr>
<td>2009</td>
<td>7,755,697,516,088</td>
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<td>2010</td>
<td>8,240,663,421,563</td>
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</tr>
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<td>2011</td>
<td>8,831,806,750,462</td>
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<td>2012</td>
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</tr>
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<td>2013</td>
<td>9,676,578,942,402</td>
<td>3.186</td>
</tr>
</tbody>
</table>

Table 4: Gross Domestic Product (GDP) and Annual Average Rate of Growth

Graphic 5 Gross Domestic Product (GDP) and Annual Average Rate of Growth

Source: United Nations Statistics Division 2013

In recent years there has been a decline in GDP growth rates, in contrast to 2008’s that even reached growth rates as high as 12%. As mentioned earlier, 2008 marked a period when the economy was disrupted by war and aggravated further by the worldwide financial crisis. The effects of which are reflected in the negative growth rates of 2009.
It is evident that Georgia’s positive growth occurred in the earlier years of the period this study is examining. This growth was contributed to the construction, financial services, communication, and manufacturing sectors which in turn increased governmental spending as well as financed the government with increased taxes that were distributed to education and health and social services (WTO, 2010).

Despite this growth, however, the 2008 conflict caused great conflict in the country, halting any previous growth. The following graph breaks down GDP using the expenditure method in order to analyze the causes for increases or decreases.

### GDP Breakdown

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>4,292,106,590,536</td>
<td>1,111,038,825,492</td>
<td>2,146,847,955,094</td>
<td>2,163,579,900,4234</td>
<td>3,305,973,851,3523</td>
</tr>
<tr>
<td>2006</td>
<td>5,520,538,884,060</td>
<td>1,076,047,925,296</td>
<td>2,169,538,830,919</td>
<td>2,304,709,369,033</td>
<td>3,996,317,096,313</td>
</tr>
<tr>
<td>2007</td>
<td>5,569,284,248,407</td>
<td>1,723,482,243,889</td>
<td>2,525,278,125,640</td>
<td>2,458,302,477,585</td>
<td>4,565,191,293,453</td>
</tr>
<tr>
<td>2009</td>
<td>6,138,318,909,125</td>
<td>1,897,084,964,809</td>
<td>1,010,261,793,187</td>
<td>2,306,504,613,961</td>
<td>3,795,193,271,901</td>
</tr>
<tr>
<td>2010</td>
<td>6,168,445,072,487</td>
<td>1,736,454,855,112</td>
<td>1,778,138,457,789</td>
<td>2,880,205,203,625</td>
<td>4,348,141,909,427</td>
</tr>
<tr>
<td>2011</td>
<td>6,536,724,007,208</td>
<td>1,607,367,485,826</td>
<td>2,310,261,965,743</td>
<td>3,200,860,817,722</td>
<td>4,837,539,916,071</td>
</tr>
<tr>
<td>2012</td>
<td>6,764,559,269,954</td>
<td>1,660,190,217,008</td>
<td>2,714,859,873,767</td>
<td>3,577,682,141,555</td>
<td>5,420,211,955,573</td>
</tr>
</tbody>
</table>
| 2013 | 6,873,350,576,562                               | 1,615,601,508,256                               | 2,359,900,667,017                               | 4,232,339,629,919                               | 5,581,605,984,532                               

**Table 5: GDP Breakdown**

![Graphic 6: GDP Breakdown](image)

**Source:** United Nations Statistics Division 2013
By looking at a pie chart it is even easier to appreciate the distributions:

**Most relevant sectors in terms of GDP percentages**

 ![Pie chart showing GDP percentages]

**Graphic 7: Most relevant sectors in terms of GDP percentages**

Source: United Nations Statistics Division 2013

As reflected in the above graphs, Georgia sustained economic growth until 2008 after which clears demonstrates a sharp drop in government spending and importation. Although, it should be noted that exports have always been lower to imports. More specifically, household consumption currently amounts to 33.05% and have remained more or less stable since 2008. Yet, if one analyzes per capita income a significant increase is seen.
As one can observe, the per capita income today would nearly be $3,800 a year, but if one uses the Ginni Index the last coefficient calculated from 2012 increased by 0.41 points, which is greater than the 0.4 that highlights the differences between social classes.

It is important to highlight that even though the country has progressed economically, nearly one-third of the population continues to live below the poverty line. Many Georgians live in rural areas that have not benefited from the country’s growth in the last few years.

In regards to government consumption, it can be noted that since 2008 there has been practically zero growth. It is known that Georgia had dedicated 6.71% of public spending to education and 5.59% 9.55% to health and defense, respectively (Data Macro, 2014).
Georgian governmental consumption on education and health remains to be one of the most deplorable and is considered to be in critical condition for these sectors. Recently, taxes have been on the decline and Georgia has opted for taxing personal income at a flat rate.

Business consumption is one of the few areas that has experienced growth in Georgia since 2008 and its position has served as a bridge between Europe and Asia. A series of economic reform policies have been implemented in recent years, such as removing significant trade obstacles, the privatization of many state-owned companies, and enhanced domestic as well as international investment. Such privatization has converted institutions such as the electric supply, ports, postal services, 100,000 hectares of farmland, and a handful of airports.

It could be added that The Republic of Georgia sits at the 15th position in the ranking of 189 countries in the index (Doing Business, 2015) prepared by the World Bank. This reiterates that there is much remains to be improved and the government is carrying out serious reforms in order to transform and encourage investment.
The area of exports and imports has also received much attention in order to achieve freer trade with the intention of reducing economic distortions and opportunities for corruption. Again, it is stressed that imports have exceeded exports during the period being reviewed. Imports have been mainly composed of hydrocarbons, automobiles, electronic equipment, computer products, and wheat. One-third of Georgia’s foreign trade has its origin from/destination to The Commonwealth of Independent States (CIS). Georgia is working to find alternative markets for exportation, which in the last decade has shifted from a focus on agricultural products to natural resources. The country has been favored for its infrastructural projects for the transport of hydrocarbon between Azerbaijan and the Mediterranean, an area where its interests are consistent with the EU’s desire to diversify its sources of hydrocarbon supply and alleviate its heavy dependence on Russia (Sokullu, S., 2015).

Looking at the latest Competitiveness Index of the World Economic Forum it is noted that Georgia is the 69th of 144 countries (World Trade Organization, 2015):

**Graphic 8: Competitiveness Index**


The largest gaps can be seen in Georgia’s limited capacity of innovation, insufficient research and development and business sophistication in small markets, need for
technical preparation, lack of higher education/training, development of financial markets, and the want for efficiency in the labor and goods markets.

In respect to health care Georgia has made great strides and has been one of the government’s priorities. However, due to the vast geography health services are not a guarantee for all citizens.

EVOLUTION OF THE MOST RELEVANT SECTORS

Value Added, Percentage of US dollar GDP

[Graph showing Value Added, Percentage of US dollar GDP over time]

Graphic 9: Value Added, Percentage of US dollar GDP

Source: United Nations Statistics Division 2013

Georgia’s agriculture sector is varied and has crops, such as fruit vegetables, livestock, dairy products and tea. Even so, agricultural productively is low according to (WTO, 2010) standards and generates a relatively low income which in turn contributes to poverty—especially those rural areas of the country.

The mining and manufacturing sectors contribute to the processing of agricultural and energy products. These sectors are also the fastest growing after the service sector
which has experienced rapid growth since 2009, especially in business and financial services (WTO, 2010). Of course much remains to be accomplished, but at least there is one sector that has seen positive, sustainable growth.

Transportation has also seen improvement and is considered a key sector given that Georgia is considered a transit route for trade. Construction, although had experienced growth in 2007 was one of the sectors most affected by the conflict in 2008. By looking at the above graph one can determine how the growth once again started in 2012.

What is happening in The Republic of Georgia now? The income gap is very wide and the affects vary according to the region. Those citizens living in urban areas are very poor and although Georgian child labor is not government imposed, as in it is in Uzbekistan, there are families that necessitate the income and therefore they are forced to place their children into the labor market. Nearly twenty percent of children work (Umanium, 2015). By studying the school enrollment one can see that the rate has been on the decline since 2008 (World Bank, 2014).

The infant mortality rate for children younger than five-years old (World Bank, 2014) was recorded to be thirteen percent (13 of every 1,000) in 2013.

According to data provided by the (Organization of International Transparency, 2014) the country has occupied the 50th position of 174 countries with a score of fifty-two points, an index of perceived corruption. This ranking has greatly improved as indicated by the chart below:

### Index of Perceived Corruption

<table>
<thead>
<tr>
<th>Year</th>
<th>Ranking</th>
<th>Corruption Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>84th</td>
<td>23</td>
</tr>
<tr>
<td>2002</td>
<td>85th</td>
<td>24</td>
</tr>
<tr>
<td>2004</td>
<td>133rd</td>
<td>20</td>
</tr>
<tr>
<td>2006</td>
<td>124th</td>
<td>19</td>
</tr>
<tr>
<td>2005</td>
<td>130th</td>
<td>23</td>
</tr>
<tr>
<td>2004</td>
<td>133rd</td>
<td>20</td>
</tr>
<tr>
<td>2003</td>
<td>124th</td>
<td>19</td>
</tr>
<tr>
<td>2002</td>
<td>85th</td>
<td>24</td>
</tr>
<tr>
<td>2006</td>
<td>99th</td>
<td>28</td>
</tr>
<tr>
<td>2007</td>
<td>75th</td>
<td>34</td>
</tr>
<tr>
<td>2008</td>
<td>66th</td>
<td>41</td>
</tr>
<tr>
<td>2010</td>
<td>68th</td>
<td>38</td>
</tr>
<tr>
<td>2011</td>
<td>64th</td>
<td>41</td>
</tr>
<tr>
<td>2012</td>
<td>51st</td>
<td>52</td>
</tr>
<tr>
<td>2013</td>
<td>55th</td>
<td>49</td>
</tr>
<tr>
<td>2014</td>
<td>50th</td>
<td>52</td>
</tr>
</tbody>
</table>

Table 7: Index of Perceived Corruption

Source: Datos Macro
Yet the constant changes in the government and the recent problems from the separatist regions have placed the country in a difficult crossroad: on one side a demand for accession from the European Union and on the other pressure to accede to Russian interests. These recently formalized Russian interests have been considered a disguised annexation of South Ossetia in order to liquidate the borders. It seems that the end of the USSR represented a loss of great power and status.

President Giorgi Margvelashvili maintains the complete ideology of full political autonomy and aims to reduce tensions and increase dialogue as much as possible with Russia. Georgians have been able to democratically elect their leader, which is within itself a breakthrough for a country in this region.

Despite the positive developments of the political and economic institutions that allow the consolidation of a virtuous cycle upwards and despite all the military problems the country has suffered since its independence and how the country carried on, there are much larger obstacles that escape Georgia’s reach. The constraints due to multiple interests and geostrategic-military warfare has left Georgia in the middle of what could be likened to a game of chess; the country could directly impact the European Union by not placing such heavy dependence on Russian gas acquisition (the country is already underway with the Natural Gas Pipeline Trans-Anatolian (TANAP) project which began last March with the inauguration by the presidents of Turkey, Azerbaijan, and Georgia).

However, it is unlikely that Russia will rest on its laurels while the construction of this pipeline continues. Within this web of conflict of interest one cannot simply accept that Georgia will be completely free in their decision processes.

Finally, it is important to that this section has introduced that despite the living conditions in Georgian society they cannot be compared to those suffered in Uzbekistan. This contrast is due to the critical moments at the collapse of the Soviet Union which allowed some companies the opportunity to sue other institutions. Such opportunity was present in Uzbekistan because the influence of all-powerful institutions is highly coveted and such leaders will cling to power even if means impelling political instability in order to retain control. In Georgia the non-consolidation of such a government coupled with the Rose Revolution marks a small difference where similar societies diverge from one another.

It is impossible to see the future, but predictions can be cast as to what will become of Georgia. Will the country become a member of the EU or will there be yet another rapprochement from Russia. At least one can say with confidence that either outcome will be a major change for Georgia.
DEMOCRATIC PEOPLE’S REPUBLIC OF KOREA

North Korea has a population of 24.9 million (World Bank, 2013), and is located in the Far East bordering China and sharing a peninsula with its neighbor South Korea.

In a report issued by Freedom House, *Freedom in the World*, shows North Korea ranked as one of the country’s with the least freedom on the planet (Deutsch, K. and Duham, J., 2014). It is also considered by leading international human rights organizations (Human Rights Watch, 2011) as the most repressive state and the most corrupt according to data from the (Organization Transparency International, 2014).

All of this data offers little encouragement and the country can be defined as an anachronistic relic of the Cold War era. North Korea’s hereditary, communist dynasty portrays the worst version of a legacy of enervating institutions.

The ruling Kim family has based its government on two ideologies, the first being the Juche Doctrine of national self-sufficiency which still exists after sixty years. The Juche Doctrine was introduced by Kim Il Sung and it was centered on the anti-communist, anti-Japanese dogma what was present in South Korea at the end of WWII. It followed the idea that the country was negatively at the disposal of great powers (Kim Il Sung, 1986). In his memoirs, Kim Il Sung reveals that during the revolutionary struggle the words “doctrine” and “creed” were called *iminwichon*, which meant that the people were the center of everything. The basic principal of the Juche doctrine was the populace is the master of their own world and their own destiny, arguing that since colonial times.
many countries had been dominated and plundered by ambition and greed. The end of WWII marked the push towards freedom in choice and independent development. This turned into a movement for independence against imperialism and an ideology of national self-sufficiency, defined as “humanist” (Kim II Sung, 1994).

The second ideology of the Kim family was the Songun Principle. This praised the primacy of the army as it was the backbone of the regime and the recipient of the majority of the nation’s scarce resources.

Analyzing the political and economic situation, one can better access the implementation of the Juche Doctrine and Songun Principal.

**POLITICAL SITUATION**

In order to explain how and why the Soviet Union served as a model for the Democratic People’s Republic of Korea, one must look back at the Stalinist era.

Kim II Sung was the founder and ruler of The Republic in 1948 and was known as the “Supreme Leader” and Eternal President. Sung was captain of the Red Army back in the 1940s when the Japanese surrendered at the close of World War II. With the help of the USSR it did not take long for North Korea to position itself in power and form the Worker’s Party of Korea. In 1950 there was an attempt to unify the country, leading to what was called the Korean War that lasted until 1953 where the two parts of the peninsula were divided definitively.

Following this war, the government’s economic developments plans modeled those of the Soviet Union. North Korea’s focus on agriculture, the extraction of raw materials, and advancement of its military was isolating itself from the rest of the world.

Kim II Sung died in 1994 to be seceded by his son Kim Jong II, the new “The Great Leader.” Jong maintained firm control over the totalitarian country, indoctrinating its citizens. This control encouraged cults with extreme beliefs and punished those who had the slightest sign of disagreement, whether true or not, by placing dissenters in concentration camps, torturing, and even executing them.

Kim II Sung’s seventeen years in power can be described as a roller coaster. At times there were periods of diplomatic hope and positivity with a future disarmament and
reunification. These attitudes would suddenly turn belly-up and all the statements and commitments were rubbed out and nuclear threats re-launched.

The negotiations that South Korea and The United States have managed to make have not been substantial. The same four proposals have been introduced for the past 60 years which comprise a peace treaty to end the Korean War, reunify the country, and end the US occupation of South Korea. If this proposal were to be accepted it would suspend the drills and bilateral negotiations between Washington, D.C. and Pyongyang (Smith, JA., 2013).

Keeping on these matters in consideration, the military maneuvers, spies, nuclear weapons, missiles, prohibitions, shootings, deaths, threats, and the North Korean leader resorting to nuclear blackmail, it has become more than complicated for the two countries to reach an agreement. The results have only been more sanctions and further international isolation.

The lack of peace treaties implies that war can resume at any time and the end of US troop occupation would entail not exerting pressure on the world’s most isolated country—a county which has nuclear weapons. It is evident that this situation causes much insecurity to this region of Asia.

In 2001 Kim Jong II and was succeeded by this youngest son, Kim Jong Un. Since this succession the international scene has become even more hostile. The launch of rockets, nuclear tests, and threats to US military bases has declared a state of war with its southern neighbor, South Korea.

At present Washington D.C. has imposed sanctions over North Korea, including the registration of ships that enter/exit North Korea’s ports that are suspected of containing nuclear products, banning all weapon sales expect small arms, freezing much of the funds North Korea holds abroad, and suspending all suspect trade (Caño, A., 2009).

**ECONOMIC SITUATION**

During the last years of Kim Il Sung’s rule North Korea had serious financial problems. For practical purposes the Juche Doctrine led to the near-complete elimination of trade with China, Russia, Vietnam, and Cuba. Then with the fall of the USSR in 1991 the country became even more isolated from the world and the economy became further paralyzed.
Kim Jong II inherited a difficult international environment and large economic imbalances caused by the economic blockade and massive military spending that accumulated over the decades (which the government justified as the only means to guarantee its power). This debt led to the failure of agricultural collectivization (the forced consolidation of individual peasant households into collective farms) and the distressing shortage of foreign trade. Conditions worsened even more due to natural disasters from massive deforestation and floods between the years 1995-1997, leading to a serious food crisis and famine where the exact scale of victims has been difficult to quantify.

To address the lack of foreign trade Kim Jong II collaborated with South Korea by creating the Kaesong Industrial Complex. This complex runs on South Korean funds and technology and North Korean labor and virtually represents North Korea’s only source of income. The complex generates 90 million dollars in salaries annually which is paid directly to the North Korean state agency that is in charge of its administration (EL MUNDO, 2013). This fact, however, signifies that North Korea chooses what to pay its workers, which can be well below a living wage. Meanwhile, North Korea can pocket a valuable revenue stream by appropriating any undisclosed salaries from its citizens who work in Kaesong.

**EVOLUTION OF VARIABLES**

Using the estimated GDP for the actual production of goods and services valued in constant terms, at prices from the base year 2005:

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Domestic Product (GDP)</th>
<th>Annual Average Rate of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>13.031.196.785.044</td>
<td>3.760</td>
</tr>
<tr>
<td>2006</td>
<td>12.897.591.039.614</td>
<td>-1.025</td>
</tr>
<tr>
<td>2007</td>
<td>12.744.545.020.745</td>
<td>-1.187</td>
</tr>
<tr>
<td>2008</td>
<td>13.139.409.017.784</td>
<td>3.068</td>
</tr>
<tr>
<td>2009</td>
<td>13.019.973.171.049</td>
<td>-0.909</td>
</tr>
<tr>
<td>2010</td>
<td>12.958.493.345.224</td>
<td>-0.472</td>
</tr>
<tr>
<td>2011</td>
<td>13.061.805.993.415</td>
<td>0.797</td>
</tr>
<tr>
<td>2012</td>
<td>13.232.711.771.451</td>
<td>1.308</td>
</tr>
<tr>
<td>2013</td>
<td>13.333.884.046.244</td>
<td>0.765</td>
</tr>
</tbody>
</table>

*Table 8: Gross Domestic Product (GDP) and Annual Average Rate of Growth*

Source: United Nations Statistics Division 2013
Analyzing the tremendous decline in North Korea’s economy is quite complicated since the information differs from one source to another. This is because data that is obtained by estimates and the country does not publish economic data and international bodies lack the means to do so.

For this reason, this report will refrain from making certain comments that do not have substantial backing or have disparity in sources.

From the GDP growth, one can see that the average GDP growth in the period of analysis is very low, illustrating the negative behavior of its economy. If one tried to breakdown the GDP it would be impossible for there is no data surrounding only imports and exports, which from this point of view represent the expenditure method:

**GDP Breakdown**

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports of goods and services, at constant 2005 prices - US Dollars</th>
<th>Imports of goods and services, at constant 2005 prices - US Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>712,799,251,856</td>
<td>1,370,099,201,705</td>
</tr>
<tr>
<td>2004</td>
<td>771,680,286,586</td>
<td>1,376,049,298,363</td>
</tr>
<tr>
<td>2005</td>
<td>775,844,376,809</td>
<td>1,443,841,799,027</td>
</tr>
<tr>
<td>2006</td>
<td>758,092,424,027</td>
<td>1,450,475,179,809</td>
</tr>
<tr>
<td>2007</td>
<td>757,384,761,469</td>
<td>1,413,910,025,148</td>
</tr>
<tr>
<td>2008</td>
<td>772,029,195,026</td>
<td>1,463,739,673,326</td>
</tr>
<tr>
<td>2009</td>
<td>761,623,441,049</td>
<td>1,453,046,723,012</td>
</tr>
<tr>
<td>2010</td>
<td>763,175,152,437</td>
<td>1,442,472,254,792</td>
</tr>
<tr>
<td>2011</td>
<td>766,933,173,402</td>
<td>1,455,594,074,028</td>
</tr>
<tr>
<td>2012</td>
<td>776,786,914,016</td>
<td>1,474,808,292,358</td>
</tr>
<tr>
<td>2013</td>
<td>783,639,234,882</td>
<td>1,485,419,028,123</td>
</tr>
</tbody>
</table>

Table 9: GDP Breakdown
Since 1991 Russia has cut off trade credit to North Korea and the trading volume has fallen to such an extent that the 2004 figures remain below those of 1979. In any case, foreign trade is in the hands of the government officials.

The main relations of North Korea, in this order, are China and South Korea. It is noted that the North Korea’s total external trade clearly represents a deficit balance. According to a report published by the Economic and Commercial Office of Spain, in Seoul Chinese exports are heavily subsidized and practically everything is considered aid. South Korea acknowledges that is most of its exports are food aid (Secretary of State for Foreign Trade, 2012).

The key imports are the food commodities flour, sugar, corn oil, wheat, and soy (FAOSTAT, 2011). Other imports are mechanical machinery, mineral fuels, and electricity that maintains its weakened industrial sector.

North Korea’s exports are composed of minerals, metallurgical products, manufacturing, textiles, and agricultural and fishing products (The Bank of Korea, 2013).

<table>
<thead>
<tr>
<th>Year</th>
<th>Per capita income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>547.86</td>
</tr>
<tr>
<td>2006</td>
<td>574.50</td>
</tr>
<tr>
<td>2007</td>
<td>596.85</td>
</tr>
<tr>
<td>2008</td>
<td>550.75</td>
</tr>
<tr>
<td>2009</td>
<td>494.88</td>
</tr>
<tr>
<td>2010</td>
<td>569.84</td>
</tr>
<tr>
<td>2011</td>
<td>637.70</td>
</tr>
<tr>
<td>2012</td>
<td>643.12</td>
</tr>
<tr>
<td>2013</td>
<td>621.49</td>
</tr>
</tbody>
</table>

Table 10: Per capita income

Source: United Nations Statistics Division 2013

From the above chart one can see that the income per capita of North Korea has risen slightly in the past few years. There figures place the country among the world’s poorest. North Korean families spend 43% of their expenses on food, 23% to energy,
12% for clothing and shelter, 11% for housing costs, and 11% on other costs (Alvarez, V., 2014).

EVOLUTION OF MOST RELEVANT SECTORS

Graphic 11: Value Added, Percentage of US dollar GDP

Source: United Nations Statistics Division 2013

Industry makes up 40% of the GDP, followed by services accounting for 30%, agriculture at about 23%, and construction does not even hit 7% of GDP.

The principal industries are engaged in military products, construction machinery, chemicals, mining (which receives the majority of the electricity generated by coal), textile, metallurgy, and food processing.

In respect to industry, as mentioned above, almost all plants are located in the Kaesong industrial complex. In 2013 all activities were suspended for five months due to the nuclear tension between North and South Korea. Fortunately, activities resumed
and the complex is currently in operation, appearing to be the only sign of cooperation between the two countries. As for agriculture, the lack of fertilizers, natural disasters, inefficiencies, poor storage conditions, and inadequate food transportation has only been a detriment for the country’s self-sufficiency. North Korea has depended on outside humanitarian aid for many years. From the above chart one can see that agriculture has been declining in the period this report is reviewing. This figure does not appear to be very favorable, especially since four years ago North Korea was categorized as being in a “food crisis” by the World Food Program (WFP). This study estimated that 6 million people were in need of food aid and that one in three children were chronically malnourished or stunted. It was also revealed that 70% of families had a poor diet, 20% were malnourished, and only 5% consumed adequate food (ONU, 2011).

Although the situation has somewhat improved, North Koreans are currently still enduring the rationing program what was put into place in the 1940s. This program fails to reach all areas of the country and will continue to need humanitarian aid that at times serves to feed the army that appears to take precedence over the rest of society’s survival (POBREZA MUNDIAL, 2009).

This precarious situation has driven the population to try to survive via the market. However, upon this market, which wanted free trade, in 2009 the North Korean government implemented a monetary reform in which it decided to remove two zeros from its currency, stating that the old 100 wones amounted to 1 new won. At first glance this may have been thought of as a method to regulate inflation, however it Kim Jong II commanded that the exchange of currency had to be completed within a week and the maximum one could convert was 500,000 won, so in one stroke huge fraction of the private wealth of its citizens was lost. This was a scheme in order to keep the citizens poor and ensure power (Acemoclu, D. and Robinson, J., 2012, p.454).

As one can see, the consequences of the Kim ideology has caused the North Koreans to suffer from being prisoners of their leaders’ neglect. The elite live in seven-story palaces equipped with bars, karaoke machines, cinemas, swimming pools with man-made waves used for bodysurfing and have exquisite culinary tastes with a collection of luxury vehicles.

This past year, while Russian cooperation was hampered due to the Ukrainian conflict, North Korea reached out to Russia. This act has helped Russia forgive part of North Korean debt, which is worrying to the USA (EL PAIS, 2015).

This and many other unknowns leave a difficult outcome for North Korea as it does not appear that the situation will change in the near future. The unknowns could be whether or not the sanctions and aid work adequately for this type of government.
North Korea may very well be the most pernicious regime the today’s world has seen, but the only hope is that the regime will soon collapse. The Kim family clings to power despite the severe economic sanctions, therefore the only possibility is that the government opens up to negotiation—not confrontation—although this may prove to be a long wait.

The foreign-aid topic is a very sensitive, moral issue. It is hoped that all find it logical to give help to those people who are suffering. Yet this leaves the debate open that if one provides aid and help, it also increases the chances of the Kim family staying in power. Even though this humanitarian relief is obviously necessary, it can also be interpreted as a form of blackmail.
Like its northern neighbor, South Korea is located in the Far East south of China and has a population of 50.22 million (World Bank, 2013).

North and South Korea split into separate nations at the end of WWII at which time each took very different paths. Given that during this time period 40% of South Korea's population was illiterate and 80% of its active workforce worked in the primary sector, this study will enable the reader to see the great progress South Korea has achieved. A mere fifty years of different economic policies proves that one of the world's poorest and one of the richest can share the same peninsula.

**POLITICAL SITUATION**

When the two Korea's separated and North Korea became ruled by an autocrat it demonstrates a fundamental theme of this study: despot's always seek to rule mercilessly and with absolute authority. South Korea was no exception. The country's first president, Yi Seng (known as Sygman Rhee), used many kinds of tricks to gain power and once he stepped foot in office he behaved like an autocrat. The excesses in which he incurred eventually led to his downfall and exile to Hawaii. New elections
brought Sun Yun Po into power for only a year as there was a coup that handed over the leadership and power to Park Chung Hee. Hee ruled without interruption for eighteen years by winning the elections, though many question the legitimacy of these elections. Under his rule the country became a strong industrial economy where human rights were completely disregarded. Hee was assassinated in 1979 (Romero, A., 2002).

The military again quickly attempted to seize control but the discount of the people had been simmering for years. When the workers, industrialists, and students took hold of the city Kwangji the military swiftly acted and brutally murdered thousands. After Chun Doo Hwan gained power who also tried to legitimize his rule and disguise his unlawful grip within the government. In 1987 hundreds of thousands of the working population in factory occupations launched strikes in a wave of unprecedented protests. Following Hawn (1979 – 1988) was the ascension of Roh Tae Woo (1988 – 1993). Both were arrested for treason and embezzlement (Romer, A., 2002).

The unrest and protests continued for years but the South Koreans were determined to fight for their rights. They placed hope in international opinion that would force the government to give in. When the vicious cycle of authoritarian governments and extracting legislature finally broke the citizens effectively forced the downfall of the past’s dictatorships.

Kim Dae Jung became the president of South Korea in 1998, winning the Noble Peace Prize in 2000, and deciding to end his rule in 2003. Succeeding Dae was Roh Moo-Hyun who was president for two terms.

Currently in office is President Park Geun-hye who was elected in 2013. Geun-hye’s mandate lasts until 2018 and is the daughter of dictator Chung Hee Park, the first woman to preside over South Korea. She publically apologized for the human rights violations that transpired during her father’s rule. Her government’s proposals focus on economic democracy; reducing the power of large, industrial conglomerates, raising the purchasing power of the middle class, and improving the integration of young people to become productive in the system. Her campaign has promised to “open the Korean peninsula to a new era of strong security and diplomacy based on dialogue” (Ortiz, 2013).
The South Korean economy has traditionally been based on agriculture. However, after WWII the country began to industrialize rapidly, reaching unprecedented economic growth. South Korea effectively rose from being among one of the poorest countries to becoming one of the richest.

Graphic 12: Gross Domestic Product (GDP)

Source: United Nations Statistics Division 2013

Up until the 1960s South Korea’s government strove to promote the economy. Various measures and financial incentives were promoted in order to encourage exports. Although, initially these incentives were not selective and anyone could benefit. It was not until 1970 that government turned its focus on promoting heavy and chemical industry. This promotion caused many problems due to rising inflation, misallocation of resources, and increased income inequality. In 1980 the policies were changed and instead began to encourage private initiatives and the free market. As one can determine in the graph above 1997 marked a period of decline attributed to a financial
crisis. South Korea recovered quickly (CEIC, 2001), and part from this brief dip the growth has been extraordinary.

EVOLUTION OF VARIABLES

If GDP were used to measure the actual production of goods and services, valued in constant terms using the base year 2005 prices, one would get the following:

Gross Domestic Product (GDP) and Annual Average Rate of Growth

Table 11: Gross Domestic Product (GDP) and Annual Average Rate of Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Domestic Product (GDP), at constant 2005 prices - US Dollars</th>
<th>Gross Domestic Product (GDP), Annual Average Rate of Growth - Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>896.137.223.949.0940</td>
<td>3,9237</td>
</tr>
<tr>
<td>2006</td>
<td>944.626.188.194.7040</td>
<td>5,1762</td>
</tr>
<tr>
<td>2007</td>
<td>996.234.861.230.0030</td>
<td>5,4634</td>
</tr>
<tr>
<td>2008</td>
<td>1,024.420.568.815,4000</td>
<td>2,8292</td>
</tr>
<tr>
<td>2009</td>
<td>1,031.668.446.270,770</td>
<td>0,7075</td>
</tr>
<tr>
<td>2010</td>
<td>1,098.693.815,678,5500</td>
<td>6,4968</td>
</tr>
<tr>
<td>2011</td>
<td>1,139.144.300,323,8600</td>
<td>3,6817</td>
</tr>
<tr>
<td>2012</td>
<td>1,165.258,019,659,2200</td>
<td>2,2924</td>
</tr>
<tr>
<td>2013</td>
<td>1,199,879.029,602,7500</td>
<td>2,9711</td>
</tr>
</tbody>
</table>

Source: United Nations Statistics Division 2013
As shown in the graph, South Korea has maintained positive GDP growth throughout 2005-2013.

In 2003 the country’s growth had slowed, inflation had been rising, and there was greater unemployment. From this period a growth modal based on exports and internal market reserves of certain products was applied. With this application the growth rates remained between four percent and five percent by 2008, reaching an accumulation of reserves of two-hundred sixty-two billion dollars.

The international financial crisis affected the country in various ways: exports declined and access to foreign and domestic credit dipped. It is difficult to observe the decline in GDP in 2008 on the above graph, but the growth rate remained at 0.70, being one of only three countries in the OCNE that managed to keep positive figures (Secretary of State for Foreign Trade, 2012).

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>468,862.694,679,968</td>
<td>119,298,322,131,268</td>
<td>288,868,455,742,347</td>
<td>330,601,298,880,163</td>
<td>308,731,524,728,628</td>
</tr>
<tr>
<td>2004</td>
<td>490,568,046,869,660</td>
<td>128,055,339,915,700</td>
<td>303,309,987,343,397</td>
<td>370,551,357,137,045</td>
<td>346,866,305,824,537</td>
</tr>
<tr>
<td>2005</td>
<td>515,355,901,859,198</td>
<td>135,800,184,729,930</td>
<td>317,055,031,002,327</td>
<td>417,410,707,552,850</td>
<td>387,247,349,435,628</td>
</tr>
<tr>
<td>2007</td>
<td>553,711,610,481,553</td>
<td>150,247,571,557,072</td>
<td>328,139,962,284,684</td>
<td>467,023,042,476,629</td>
<td>372,732,219,322,350</td>
</tr>
<tr>
<td>2008</td>
<td>546,123,208,325,870</td>
<td>156,028,727,976,856</td>
<td>332,473,259,719,715</td>
<td>500,075,465,425,480</td>
<td>436,921,822,839,195</td>
</tr>
<tr>
<td>2011</td>
<td>584,039,492,538,285</td>
<td>169,315,947,141,439</td>
<td>336,075,344,843,179</td>
<td>635,892,528,748,352</td>
<td>519,762,427,490,357</td>
</tr>
</tbody>
</table>

Table 12: GDP Breakdown

Graphic 14: GDP Breakdown
It can be noted that exports have grown steadily through the period under study, while imports have had a period of decline in 2008 and 2009 due to the contraction of foreign markets. They recovered after experiencing positive growth partially attributed to the growing importance of foreign trade in South Korea.

In regards to imports, the largest share of the market belongs to the importation of oil and minerals. Exports mainly consist of machinery, appliances, vehicles, and boilers (Secretary of State for Foreign Trade, 2012).

South Korea's main trading partners are China, Japan, European Union, the U.S.A, as well as oil-supplying counties like Saudi Arabia, Gabon, Nigeria, and Angola, and Australia. These trade relations highlight the large dependence on imported raw materials, especially oil and fuel—representing 33% of all imports.

The main industries of the country consist of machinery and electrical machinery, shipbuilding and petrochemicals. Company consumption largely stems from foreign investment as the country grants special tax rebates and various types of trade incentives. The services sector is the largest recipient of foreign investment and within
In this sector it is predominantly the investment in electrical and electronic products in the automotive, chemicals, and oil refining sectors.

In respect to government consumption, which has not undergone drastic changes, the public debt in 2011 was 35% of GDP. Given the government’s policy of continuing to cut public expenditures, this percentage is expected to continue in its decline in the coming years (Secretary of State for Foreign Trade, 2012). Household consumption is mainly composed of:

### Consumption Expenditures by Product Category 2012

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing, water, electricity, gas and other fuels</td>
<td>5.1%</td>
</tr>
<tr>
<td>Food and non-alcoholic beverages</td>
<td>16.1%</td>
</tr>
<tr>
<td>Transportation</td>
<td>3.3%</td>
</tr>
<tr>
<td>Hotels, cafes y restaurants</td>
<td>6.5%</td>
</tr>
<tr>
<td>Leisure and culture</td>
<td>11.9%</td>
</tr>
<tr>
<td>Education</td>
<td>4.2%</td>
</tr>
<tr>
<td>Health</td>
<td>7.7%</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>6.7%</td>
</tr>
<tr>
<td>Communication</td>
<td>8.1%</td>
</tr>
<tr>
<td>Furniture, appliances, and home maintenance</td>
<td>13.6%</td>
</tr>
</tbody>
</table>

**Table 13: Consumption Expenditures by Product Category 2012**

Source: Santandertrade

It is evident from the above table that the South Korean population spends most on food, followed by household maintenance, leisure, culture, communication, health, and clothing and footwear.

In Table 14 this behavior can be better understood in relation to per capita income:
The per capita income of South Koreans proves to deeply contrast from those previously discussed in earlier sections of this report. The objective is to analyze this country in order to determine precisely the enormous differences that cause the distinct approaches of government.

Since the 1980s there has been a steady increase of income for South Korea’s citizens. In 1985 the income level did not exceed $2,000 per year and one can simply take a quick glance at the data to see that there have been tremendous advances in the standards of living. Within the reporting it can be seen that there has been growth expect in 2008 and 2009 due to the international economic crisis. This decrease not only resulted in a drop in income but also the increase in income equality. Unemployment and salary adjustments mainly affected those in the population who belonged to lower income levels (Secretary of State for Foreign Trade, 2012). In 2014 unemployment stood at 3.1% (Santandertrade, 2014), a relatively low rate.

Studying the most recent Competitiveness Index released by the World Economic Forum South Korea stands at 26 of 144 surveyed countries (World Trade Organization, 2015).

Table 14: Per capita income

<table>
<thead>
<tr>
<th>Year</th>
<th>Per capita income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>19,055.86</td>
</tr>
<tr>
<td>2006</td>
<td>21,384.92</td>
</tr>
<tr>
<td>2007</td>
<td>23,599.29</td>
</tr>
<tr>
<td>2008</td>
<td>20,937.15</td>
</tr>
<tr>
<td>2009</td>
<td>18,725.95</td>
</tr>
<tr>
<td>2010</td>
<td>22,588.45</td>
</tr>
<tr>
<td>2011</td>
<td>24,674.71</td>
</tr>
<tr>
<td>2012</td>
<td>24,953.88</td>
</tr>
<tr>
<td>2013</td>
<td>26,481.58</td>
</tr>
</tbody>
</table>

Source: United Nations Statistics Division 2013
One can note that the only points on the above chart that are somewhat below the average are compared to those of advanced economies. Therefore, points to enhance are the development of the financial markets and the increased efficient labor markets and institutions. Another facet to consider is the index of perceived corruption. According to data collected by the (International Transparency Organization, 2014), the country held the 43rd position in a ranking of 174 countries that were analyzed, receiving a score of 55 points that purports that there is the presence of corruption.
As expected in a developed nation, the agricultural sector has less weight when calculating the GDP. The primary sector has been losing importance in recent years and has reduced to 7.18% with the likelihood to continue this decline. The services sector can be considered the largest in terms of being the principal provider of employment, occupying 75.6% of the active workforce.

Tourism is another sector with more weight. Seoul is the most visited destination spot, followed by the National Park Seorak-san, Gyeongju, and Jeju Island. Transportation and communication are very developed in South Korea and has an extensive network of trains and buses that allow access to any part of the country. The communication sector is comprised by advanced technology with some of the most advanced companies, i.e. Samsung.
Throughout the Republic of Korea’s history there have been more negative periods and more positive period. As in all parts of the world there are individuals who try to perpetuate their power at the expense of society, disregarding human rights and worth of its citizens. However, when South Korea is compared to its sister, the “Democratic” Republic of Korea (North Korea) and other countries this report has analyzed, not all elements are permanently fixed to mediocre technologies as when less-democratic nations see the world changing right in front of them they can also seize change. Today South Korea is the largest manufacturer of mobile phones, tablets, desktop displays, and boats. It is ranked 3rd in the world in the production of computers and is one of the major world powers in terms of exporting. South Korea’s per capita income is forty times greater than its northern neighbors. This emphasizes the stark contrasts that bordering nations can have, all owing to the temperament and methods of its leaders.
CONCLUSIONS

Throughout this study, comparisons were drawn around the legacy that some leaders contributed to world history. Such leaders were inspired by absolutist political institutions, such as the USSR which created and perpetuated political and economic institutions for years that served to only enrich itself. This method of government did not keep in mind that their actions were made at the expense of its people, who were exploited as if they were not human beings but rather slaughtered them like animals. It has been noted that the idea of “human rights” is a concept unknown in the minds of dictators.

The first case that was analyzed was Uzbekistan, where the modal of the “relic of the past” was exhibited. It was demonstrated that there has been little change to the government since the call of the Soviet Union and the economy resolves solely around its president who is virtually the owner of all the country’s industry. This signifies that all profits are managed by the president who even mandates child labor, who are fed and treated like animals, to mine the land’s white gold. The lesson of this study is to portray the discontentment the government has stirred within society, of which some rebels have already joined part of the ranks of the Islamic State in Syria. In addition, the terrorist activity in the country has increased presenting a possible breaking point in the president’s (who is now seventy-seven) rule.

Georgia, also referred to as the “initiation towards change” when the Rose Revolution of 2005 demanded democracy. Since then, economic data has been reported to have improved and recently citizens have been able to elect a president through transparent elections. Currently the Republic of Georgia is stuck in a difficult crossroads because of the conflicting interests of the EU and of Russia who has no plans of losing their powerful status. Due to this it is uncertain that the Georgia people will have free choice in such circumstances, but Georgia is beginning to establish itself as a country with freedoms.

It is obvious that extracting political and economic institutions support themselves and end to last for centuries. The more demanding the government, the less demanding the people become to protest change. As seen in the case of North Korea, “the world’s most isolated country” where technology even does not exist, the people do not see beyond their closed borders as the world follows a different path. If, by some chance, the citizens were able to see what is taking place in the outside world they would not dare to even discuss such notions as the government could immediately throw them
into one of the many prison camps. To migrate could result in the possibility of being killed. These extreme measurements of the government has isolated its people and has turned the country into a bunker, frightening the populace, forcing the people to feign passion and grief, and to mourn when their government is disgraced after threatening the globe with nuclear tests and attacks. The country increasingly isolates itself from the rest of the world and leaves the argument open in regards to whether or not international sanctions work or if international aid should be ceased.

Economic growth is not only a process of building better machines and developing more and better educated people. It is also a transformer and destabilizer that is associated with a generalized creative destruction. Therefore movement for growth can progress only if it is not blocked by those in power who believe they will lose their privileges (Acemoglu, D., y Robinson, J., 2012).

In South Korea’s case, also known as “the small Asian giant,” its rulers were also at one point afraid of losing their privileges. However, economic development had already begun and after years of protests and human rights violations, the people succeeded in forcing the elite to create more pluralistic institutions. This victory demonstrates that changing course is not impossible and once this virtuous path began it created inclusive institutions that not only preserved what had already been accomplished, but also opened the door to progress. As discussed, this was enough to achieve extraordinary results for the South Korean people and the nation.

Those who manage to accumulate enough political and economic power, and happen to be ruthless individuals, can create institutions that ensure their continuity as well as avoid losing their control. This concept is not limited to Asian countries that have been analyzed in this report, the same goes for Latin America, Africa, and other parts of the world.
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