

# Challenges in Expanding Regional Cooperation in Northeast Asia

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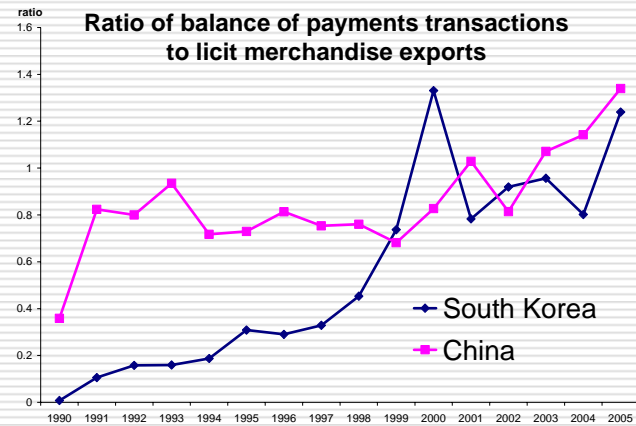
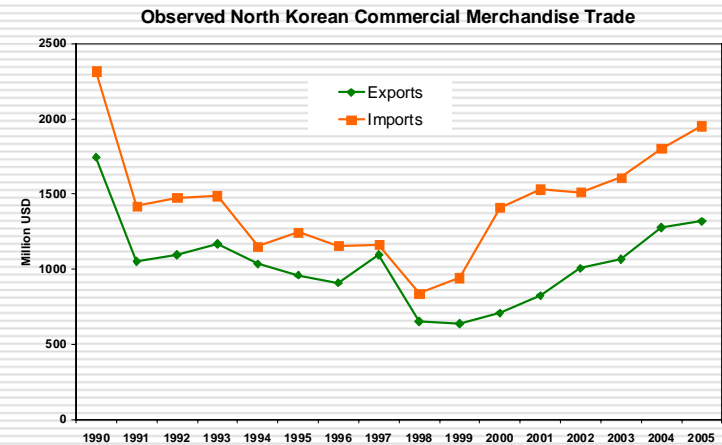
# Key messages

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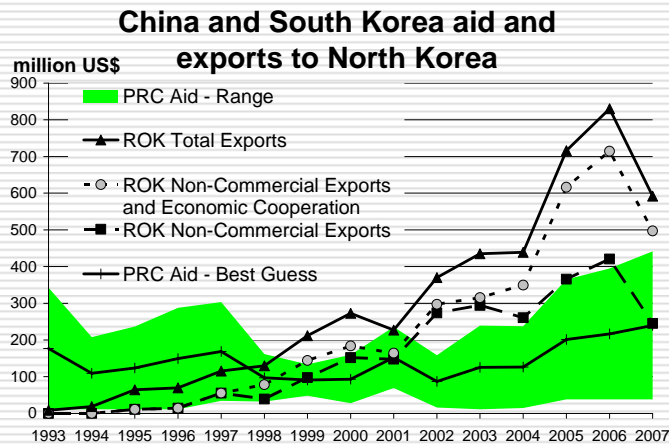
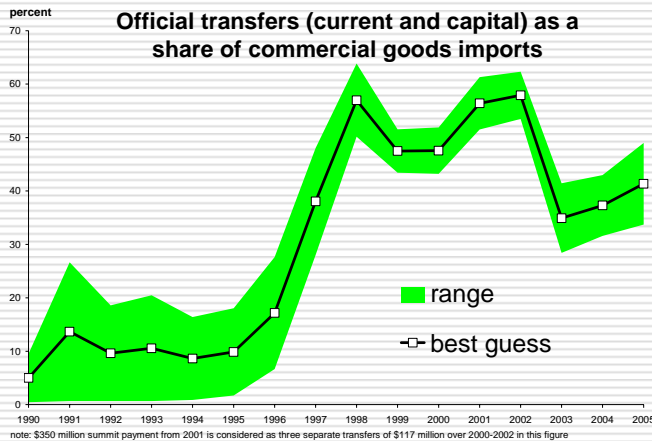
- Transformation better understood as an unintended response to state failure than as a top-down reform.
  - Policy has been ambivalent—at times ratifying (2002) and at others reversing this process (2005),
  - Again on the precipice of a humanitarian disaster.
  - Outcomes conditional on external relations
    - Nuclear, aid deals linked, like it or not
    - Greater external security could encourage reform
    - Six Party Talks, NEAPSM, and the economic component
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# Decline and recovery

- ❑ Economy bottomed out late 1990s
- ❑ Grassroots marketization
- ❑ Growing external trade, increased integration with China and South Korea.
- ❑ Chronic deficits.



# Chronic balance of payments deficits increasingly financed by aid

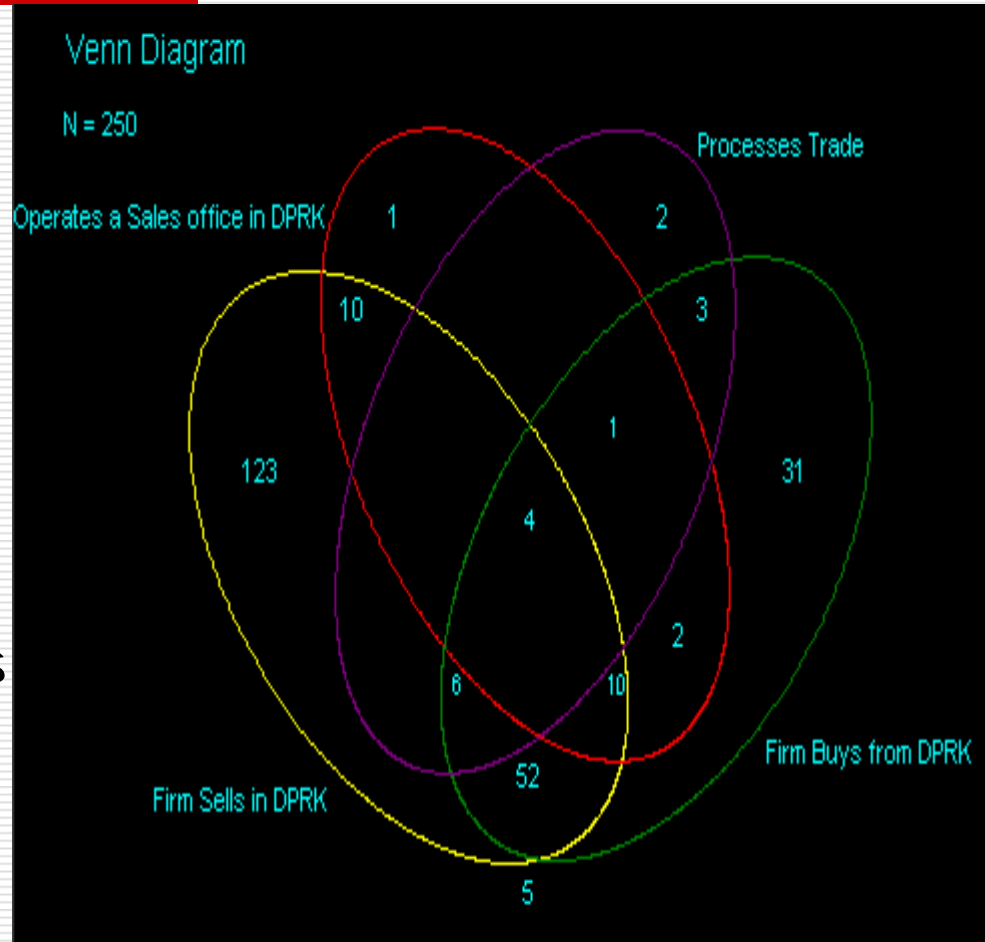


□ South Korean assistance has exceeded China's since 1999; Lee government may represent real break

□ Role of illicit exports probably exaggerated in public discussion

# Survey of Chinese firms doing business in North Korea

- Mix of activities, sectors
- Differing types:
  - Some large SOEs, most small private
  - Most began with DPRK 2002 or later
  - Most from bordering provinces
  - Some withdrew
  - Control group



# Some snapshot results

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- Financing tight, most settlement in dollar or yuan
  - Most counterparts are SOEs
  - Unhappiness with dispute settlement
  - Business environment:
    - Cell phone ban 87
    - Changing rules 79
    - Infrastructure 79
    - Regulations 70
  - DPRK reputation deters involvement
  - Expropriation risk deters investment
-

# Re-emergence of pre-famine conditions

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- Origins
  - Evidence
    - Quantity
    - Price
    - Direct observation
  - Conclusions
    - Hunger-related deaths are occurring
    - Dynamic in motion to carry crisis into 2009
    - Should not grow into 1990s-style famine
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# Origins

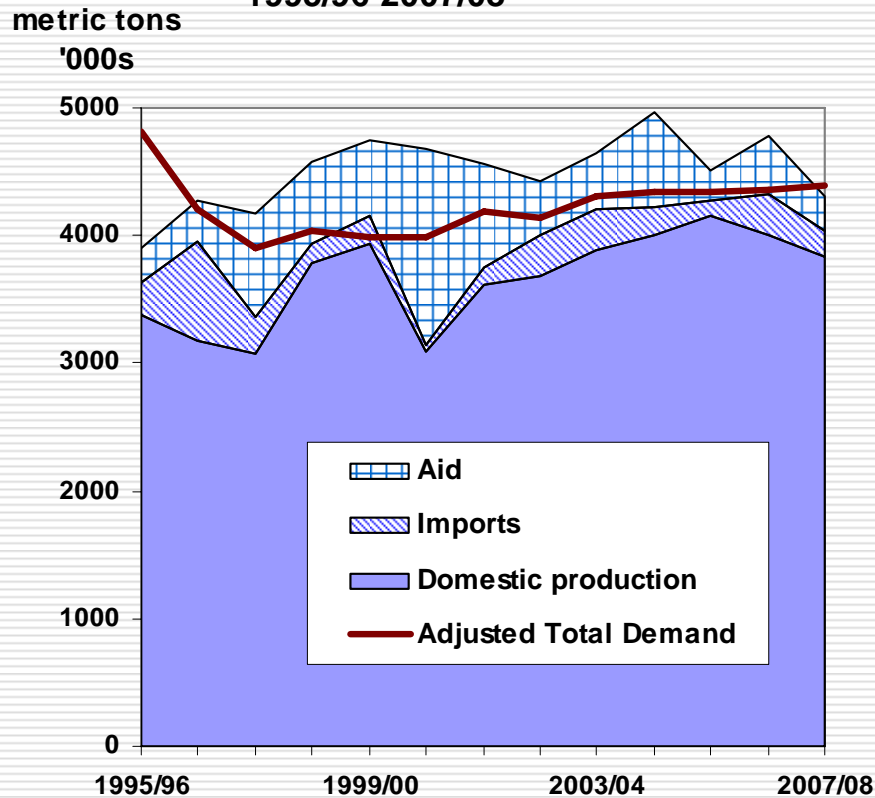
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- ❑ On the back of increasing harvests, rising aid government undertook reckless actions in 2005
- ❑ Internally
  - Banning private trade in grain
  - Seizures in rural areas
  - Shut down of relief agencies in the hinterland
- ❑ Externally: 2006 missile, nuclear tests
- ❑ Bad weather

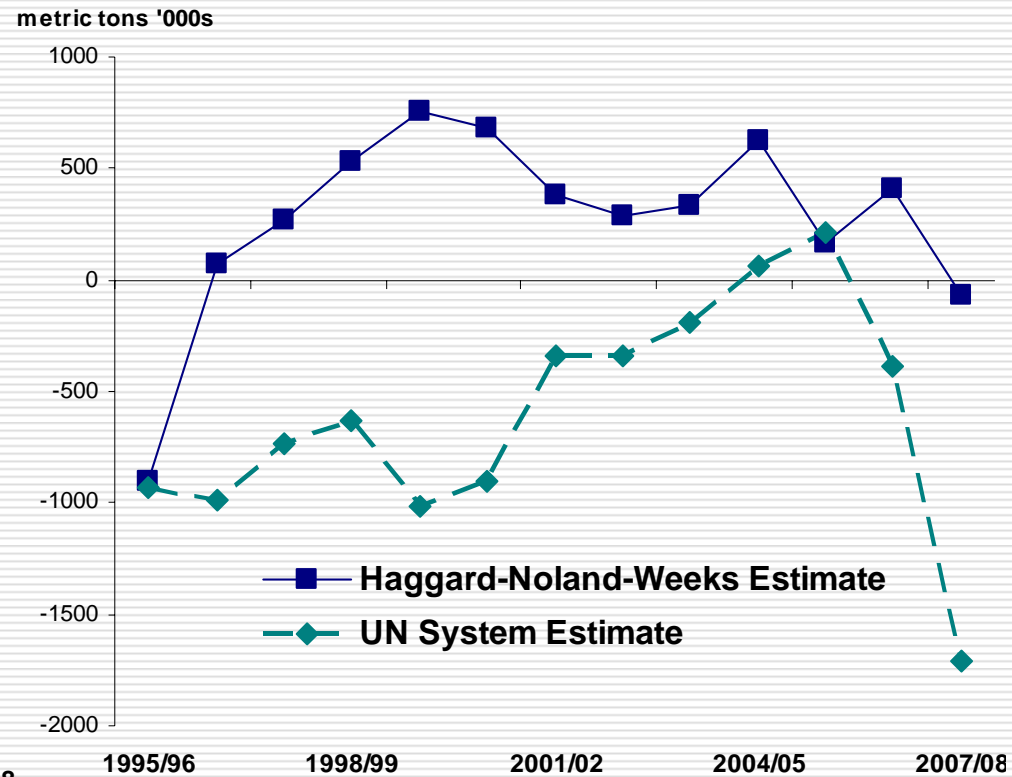


# Evidence I: Quantities

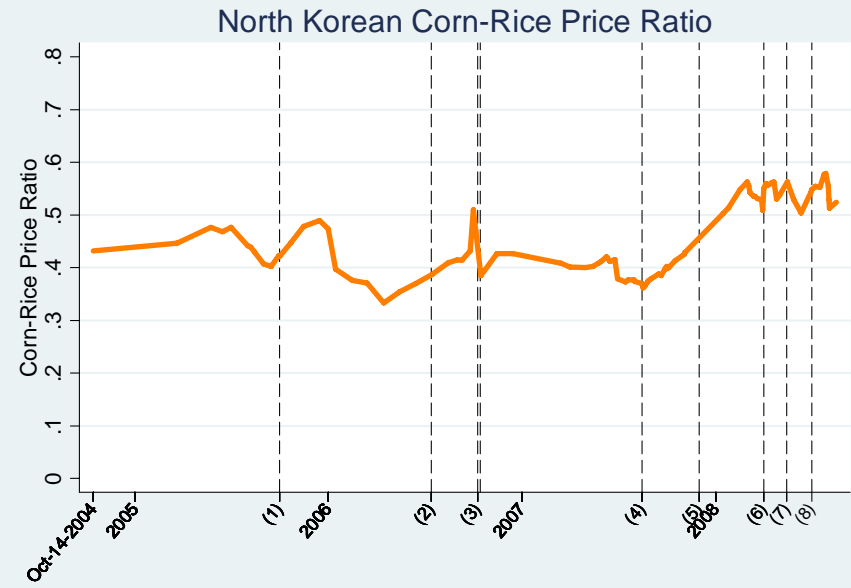
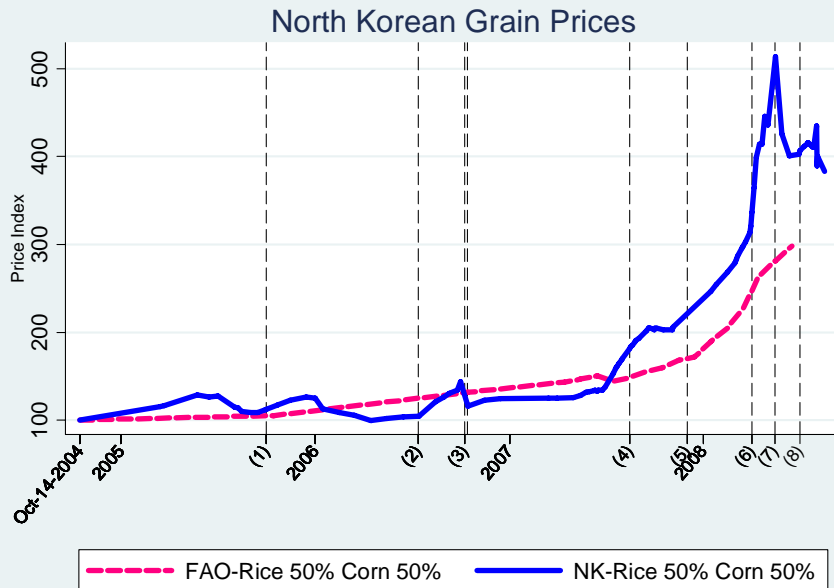
## North Korea Food Balances 1995/96-2007/08



## North Korean Grain Balance



# Evidence II: Prices



1. 10/01/2005: Ban on private trade in grain & revival of PDS
2. 07/14/2006- 07/15/2006: Flood
3. 10/09/2006: Nuclear Test & UN Sanctions
4. 08/15/2007- 08/31/2007: Flood
5. 12/01/2007: Introduction of Chinese Export controls, partial ban on trading activities
6. 04/01/2008: Tightened control on trading activities
7. 05/14/2008: Military stocks reportedly ordered released & US aid announcement on the 16<sup>th</sup>.
8. 06/30/2008: Arrival of first aid shipment

# Evidence III: Qualitative

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- Reported crack down on markets, internally, externally
  - Direct observation documents reemergence of famine-era pathologies
    - Demand side
    - Supply side
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# Options

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- Long-run solution is industrial revitalization
    - Government sensitive to political implications of reform
    - Improved external security could encourage reform; no guarantee, though
    - Six Party Talks, NEAPSM: not all forms of engagement equally desirable
  - Short-run need food and fertilizer and other inputs
    - Aid is welcome but
    - Without fertilizer, coming harvest likely to be low implying continued crisis into 2009
    - Big unknown is size of current harvest
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# Thank you for your attention

## For further information:

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- Haggard and Noland, *Famine in North Korea*—in English and Korean
- Additional tables and figures taken from working papers and policy briefs at [www.petersoninstitute.org](http://www.petersoninstitute.org)

