Challenges in Expanding Regional Cooperation in Northeast Asia

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Key messages

- 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
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

- 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

- 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
Origins

- 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

metric tons '000s

Aid
Imports
Domestic production
Adjusted Total Demand

Haggard-Noland-Weeks Estimate
UN System Estimate
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 16th.
8. 06/30/2008: Arrival of first aid shipment
Evidence III: Qualitative

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

- **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
Thank you for your attention
For further information:

- 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)