

Challenges in Expanding Regional Cooperation in Northeast Asia

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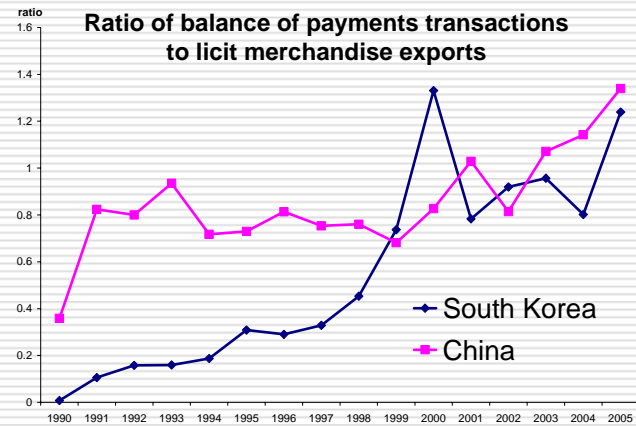
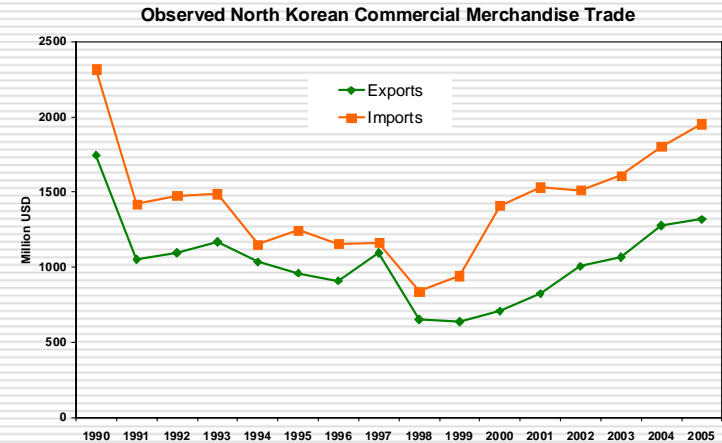
November 2008

Key messages

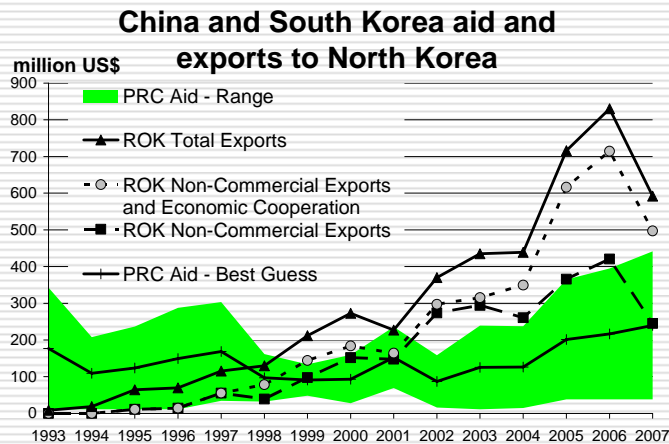
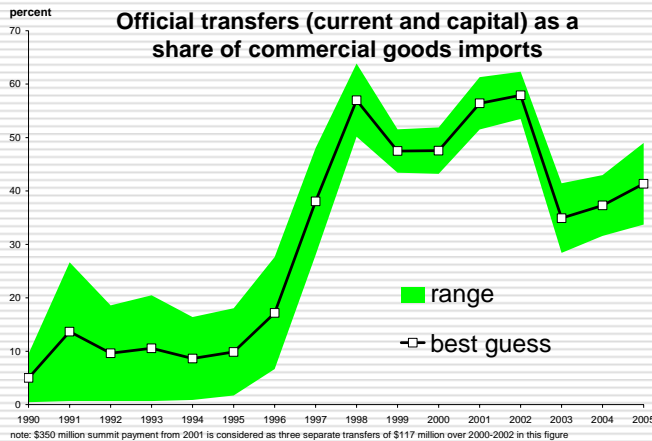
- Transformation better understood as an unintended response to state failure than as a top-down reform.
 - Policy has been ambivalent—at times ratifying (2002) and at others reversing this process (2005),
 - Again on the precipice of a humanitarian disaster.
 - Outcomes conditional on external relations
 - 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

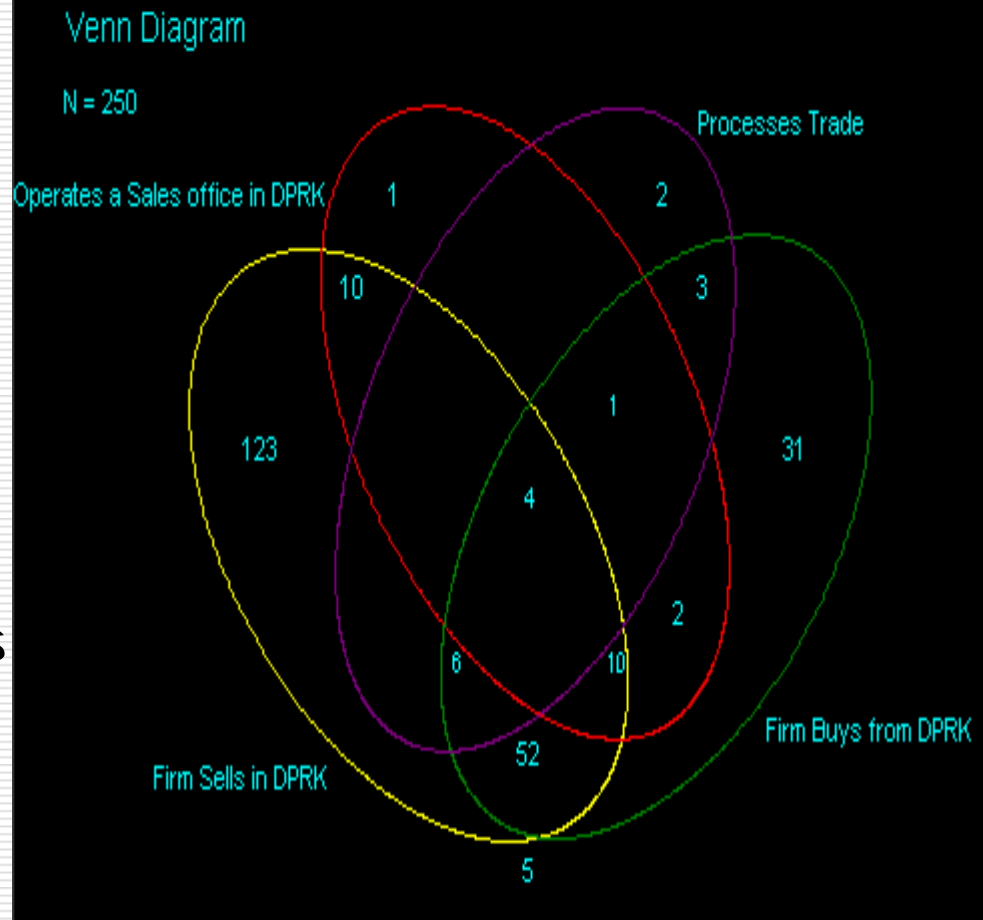


□ South Korean assistance has exceeded China's since 1999; Lee government may represent real break

□ 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
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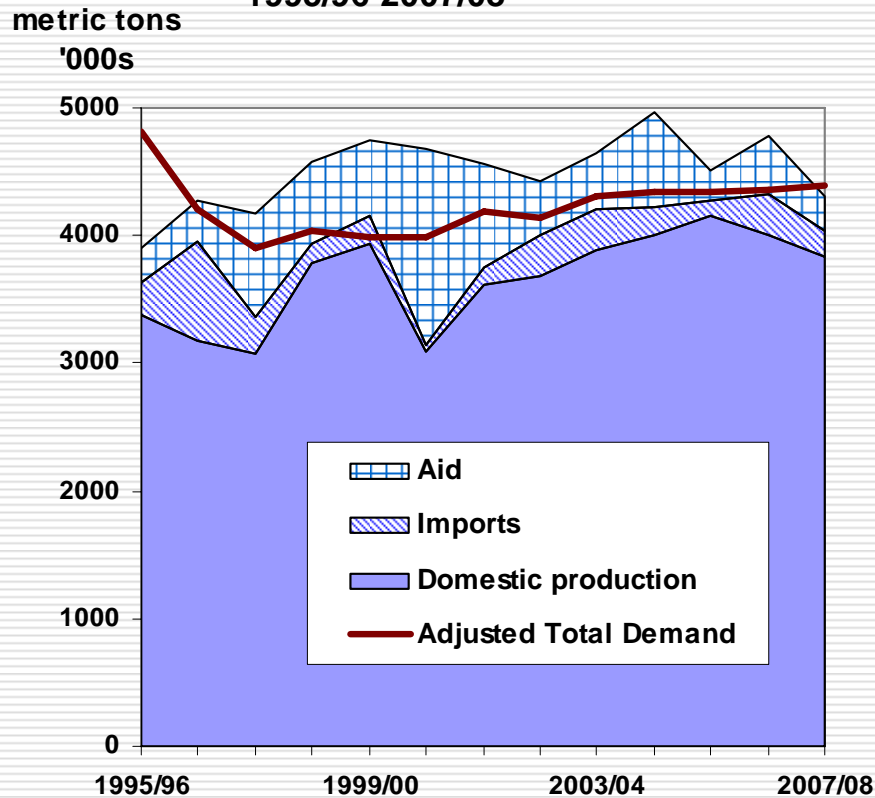
Origins

- ❑ 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

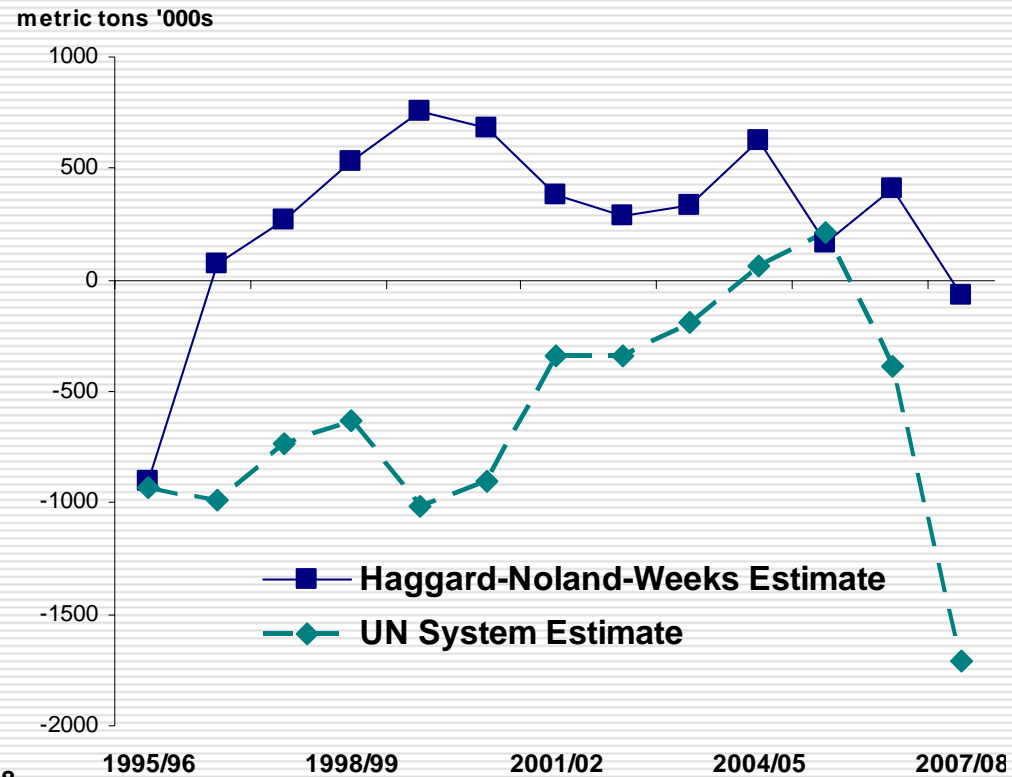


Evidence I: Quantities

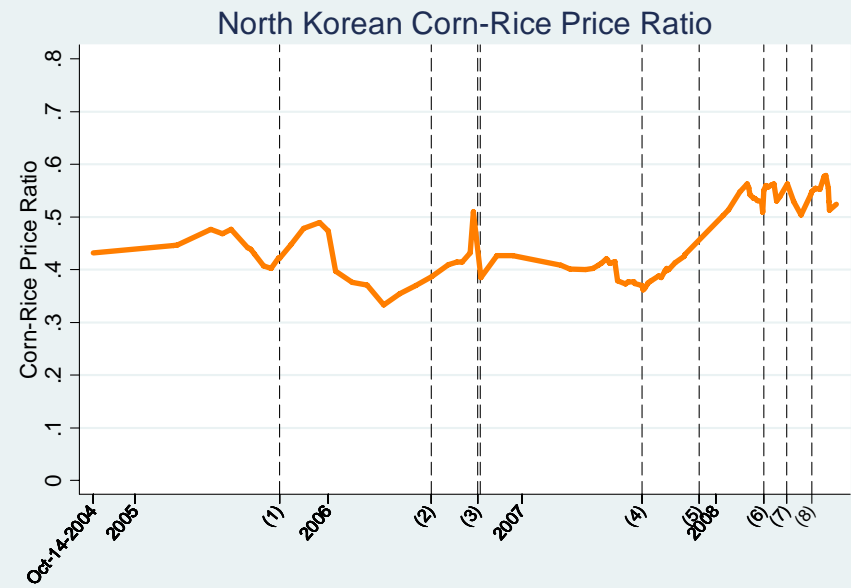
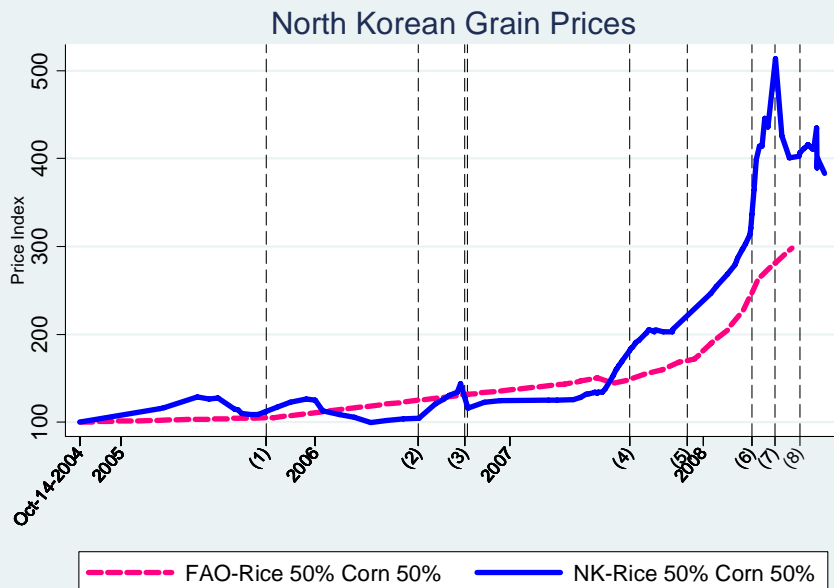
North Korea Food Balances
1995/96-2007/08



North Korean Grain Balance



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
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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
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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

