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Scenarios for a Transition to a Prosperous Market Economy in North Korea

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Abstract

We examine in detail two possible scenarios for a transition to the market economy in North Korea. In the first scenario, we explore a transition path of North Korea to the market economy following a regime collapse. In the second scenario, we explore a transition path that would be chosen by the North Korean leaders, following the experience of China and Vietnam. While these scenarios have common features, they also involve important differences.

Keywords:

North Korea | South Korea | transition | reforms | unification | integration

JEL CLASSIFICATIONS :

P3 | P31 | P36 | P37

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Notes

[1]In the case where the administration system is not functioning anymore, distribution mainly via market locations or food depots should be considered. However, we believe that South Korea can and should act fast before North Korea's administrative system is completely out of operation.

[2]This is a somewhat delicate issue as this may prevent property from being used as collateral. We discuss some details below.

[3]The Grameen Bank reports that the average size of loans is US$389.69. North Korean GDP per capita is not so different from that in Bangladesh.

[4]Kim (2012) argues that any method to estimate the equilibrium exchange rate between South Korean won and North Korean won is likely to be grossly inaccurate, and proposes the market-based approach as in this paper.

[5]If necessary, North Koreans' savings under a certain limit can be exchanged at an exchange rate favorable to North Koreans. However, it is doubtful whether such a measure will be necessary given the asset distribution and entrepreneurship loan program we propose.

[6]One indirect piece of evidence is that the level of education in North Korea plays an insignificant role in determining the probability of North Korean refugees' job findings and wage level in South Korea (Yu et al., 2012).

[7]Some estimates suggest there are 43 kinds of natural resources that can be developed and sold in the world markets. The value of iron ore, the reserves of which amount to 1–

2 billion tons, is estimated to be 1.3 billion dollars.

[8]The name of ‘8.3 workers’ originated from the fact that on 3 August 1984 Kim Il-sung made a spot visit to one factory that used by-products and wastes from factories to produce consumer goods. He instructed other factories to follow this example and produce consumer goods in a self-reliant way.

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