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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

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Notes

¹In 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.

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

³The 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.

⁴Kim (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.

⁵If 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.

⁶One indirect piece of evidence is that the level of education in North Korea plays an

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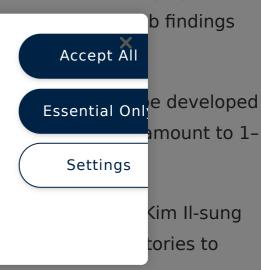
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produce consumer goods. He instructed other factories to follow this example and produce consumer goods in a self-reliant way.

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