

**Name of Researcher**

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**Title of Research**

Economic Reforms, Performance and the Environment of North Korea

**Purpose of Research**

The economy and the environment of North Korea have been in serious condition since early 1990s. Poor economic performance and environmental degradation are closely linked. External diseconomies of them are many: growing number of refugees from the North, increasing amounts of fake money, drug trafficking, selling of mass destruction weapons, trans-boundary pollution, and threats. Some effects of persisting famine and poverty, and of environmental degradation are irreversible or very costly to cure in later days. Many things can be done to prevent catastrophic situation in Northeast Asia as well as in North Korea.

After the successful completion of current six-party talks on the nuclear weapons program of North Korea, major countries of the world and international organizations will need to collect detailed information, analyze economic and environmental situations and designs for economic reconstruction and environmental restoration in North Korea. This paper aims at analyzing the economy and the environment of North Korea, and suggesting economic policies for transition to a market economy.

**Content/Methodology of Research**

Content:

1. Overview
2. Evolution of planning system and reform efforts in 1980s and 1990s: industry, agriculture, commerce
3. Reforms since July 2002: price, wage exchange rate and rationing. Business management and farm reform, special economic zones, comprehensive markets, issuance of state bonds
4. Economic performance: overview, economic growth and industrial structure, public finance, finance and inflation, international trade, food and famine, social overhead capita (energy, railroad)
5. Inter-Korean economic relations: trade, investments, other economic cooperation

6. International economic cooperation
7. Environmental degradation: air, soil and water pollution, deforestation, interaction of poverty and environment
8. Economic policies for transition to a market economy
9. Summary and policy implications

Methodology:

Collection of data and data analysis, literature survey, analysis of economic and environmental situations, suggestions of economic policies for transition to a market economy and international economic cooperation

**Conclusion/Observation:**

North Korea is not likely to collapse while Kim Jung-Il is alive due to the extreme kind of personal cult, strong control of the populace by the state and large aid from China and South Korea.

A high percentage of the population is suffering from famine, malnutrition, disease and do not have minimum necessities such as shoes. After the severe famine period of 1994 to 1997, North Korea seems to have survived due to large and increasing foreign aid and net imports, issuance of fake money, drug trafficking and selling of missiles since 1998.

Famine, poverty and environmental degradation are closely linked. Trees are scarce on the mountains and hills. Pollution of air in the mining and manufacturing areas, pollution of soil and rivers, and trans-boundary pollution are serious. Some effects of famine and environmental degradation are irreversible. Environmental contamination is very costly to be cleared. Thus humanitarian aid such as food and fertilizer should continue. International cooperation needs be taken for environmental restoration in North Korea as soon as possible even before conclusion of the six-party talks. The environment can not improve significantly without economic reform and opening. Development aid, however, should be provided, matching the pace of economic opening and reform after the successful completion of the six-party talks.

After July 2002 reform, North Korea is suffering more from hyperinflation than before. Some workers cannot receive wages. An export-oriented development strategy should be taken as soon as possible, and many free economic zones need to be established to attract foreign direct investments especially from South Korea, China and Japan. In order to induce inflows of large foreign direct investments, it is required that economic reforms and opening take place, and North Korea abides by global standards and market principles. Economic reform should start with far-reaching deregulation of prices of goods and services, liberalization of trade and enterprises, and foreign exchange rate. For economic stabilization,

industries and firms should be restructured, and subsidies such as price, trade and enterprise subsidies should be abolished, and military industries and expenditures should be curtailed substantially. At the same time privatization should be launched, starting from small businesses and farms.

Countries in the northeast Asia need to start cooperation in the areas of energy, transportation and environment for North Korea and the northeast Asian region.