

# **North Korean Trade Policy Constraints and Options**

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# Overview

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- Domestic constraints.**
  - International constraint (nuclear issue).**
  - Preparing the opening of the economy.**
  - Closer relations with South Korea.**
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- Background paper: P. Messerlin and S.P. Hong, North Korea Trade Policy: Constraints and Options, 2013. Mimeo. Available on <http://gem.sciences-po.fr>**

# Domestic constraints

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- ❑ **Caveat: very limited knowledge. But a few key unusual features:**
- ❑ **A closed economy: exports and imports represent 9 and 12 % of domestic GDP (three times less than equivalent economies).**
- ❑ **An economy dependent from very few partners (China, South Korea).**
- ❑ **A fragmented economy: odd structure of (relative) prices is generated by relatively unconnected and small domestic markets.**
- ❑ **A distorted economy: rents are prevailing everywhere, and getting them require “real resources” (time, money, goods and services) → a drag on the real economy.**
- ❑ **A lack of strong institutions.**

# International constraints

- ❑ **Nuclear issue closes the door of the World Trade Organization .**
- ❑ **Stage 1. No emerging solution to the nuclear issue: unilateral liberalization.**
  - **China of the 1980s-2001.**
- ❑ **Stage 2. Emerging solution to the nuclear issue: bilateral trade treaties with key partners as a preparation to the accession to the WTO.**
  - **The Vietnam case**
- ❑ **Stage 3. Negotiations for accession to the WTO.**
- ❑ **Stages 2 and 3 are also difficult: North Korea should put itself in the position of not to be too much pressured by the partners.**

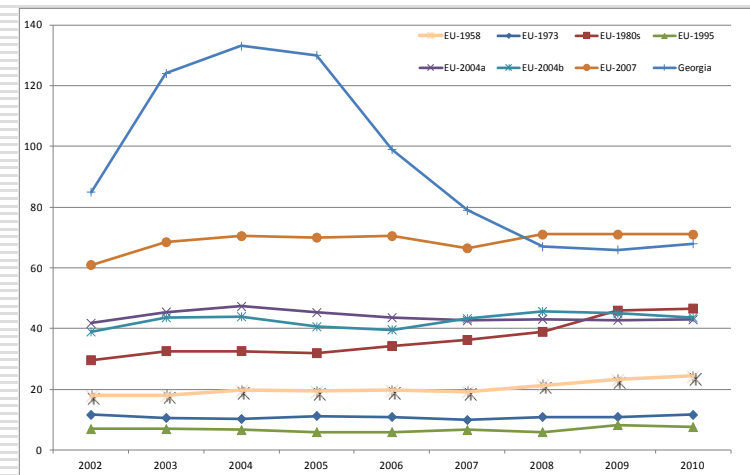
1989	May	First discussions on normalization of bilateral ties
1991	April	US "roadmap" plan for phased normalisation of Vietnam-US ties
1994	February	US lifts its trade embargo on Vietnam
1995	January	Vietnam's formal request for WTO accession
1996	May	US presents Vietnam with trade agreement blueprint
1997	April	Vietnam-US agreement on providing legal protection for copyrights owners
1998	March	Presidential waiver of the Jackson-Vanik agreement on Vietnam
1999	July	Principle of a bilateral trade agreement (BTA) signed
2000	July	Conclusion of the Vietnam-US BTA (three years)
2001	November	BTA ratification by Vietnam's National Assembly
2001	December	BTA entry into force
2002	June	First major US antidumping case against Vietnam (catfish)
2003	July	Vietnam-US Garment and Textile Agreement signed
2004	January	Second major US antidumping case against Vietnam (shrimp)
2004	December	BTA renewed by the US
2006	May	Vietnam-US agreement on Vietnam's WTO accession
2006	November	Ratification of Vietnam's WTO Accession Protocol by Vietnam's National Assembly
2006	December	US Congress passes US law granting PNTR to Vietnam.
2007	January	Vietnam becomes the 150th Member
2007	March	Vietnam-US Maritime Agreement signed
2007	June	Vietnam-US Trade and Investment Framework Agreement

# Preparing the opening the economy

- ❑ Key problem: an ocean of “rents” generated by a non-functioning state economy and a fragmentation of risky domestic markets.
- ❑ A lot of resources devoted to “do things”: in other words, rents are “dissipated”.
- ❑ Unifying markets will free massive resources “invested in getting” rents: the case for an uniform tariff (calculations for Iran: left table).
- ❑ Additional advantage: eliminating corruption (Transparency International for Georgia: right diagramme).
- ❑ To be combined with Free Economic Zones.

Change (%)	Tariffi- cation	Tariffication & maximum 25% tariff	Tariffication & uniform 15% tariff	Exchange rate unification
Nat. income	3.4	4.1	5.5	6.9
By type of household (1=poorest)				
Rural 1	23.3	15.6	20.2	72.0
Rural 10	1.1	2.6	3.6	-0.4
Urban 1	11.1	8.3	10.9	32.0
Urban 10	0.9	2.4	3.5	-0.7

Source: Jensen and Tarr



# Closer relations with South Korea

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- **Don't look to Eastern Germany, but to the Baltic countries (Estonia, Latvia and Lithuania).**
  - **GDP per capita difference: East G: 43 % West G in 1990; NK: 6 % SK today.**
  
- **Option 1: Free Trade Agreement with South Korea**
  - **The most flexible option: goods, norms, services, etc... a lot of degree of freedom and timing.**
  - **A flexible and balanced common way to negotiate together with third partners.**
  
- **Option 2: Customs Union with South Korea**
  - **More demanding for North AND South Korea (for instance, the South Korean tariff structure may not be the best for revealing North Korea's comparative advantages ).**
  - **This option imposes a lot of efforts on South Korea (unilaterally liberalize for the benefit of North Korea).**

# Thank You for Your Attention

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