

AVOIDING THE
APOCALYPSE
THE FUTURE OF THE
TWO KOREAS
IS
MARCUS NOLAND

INSTITUTE FOR INTERNATIONAL ECONOMICS
WASHINGTON, DC
JUNE 2000

Contents

Preface	xi
Acknowledgments	xv
1 Introduction	1
Divergent Paths	3
Three Crises	4
Prospects for the Future	7
Tour de Horizon	11
2 The South Korean Economy until 1997	15
Economic Policy in the 1960s	16
Economic Policy in the 1970s	19
Economic Policy under President Chun	22
The Democracy Pledge and Twenty-five Years of Development	24
Pre-Crisis Economic Policy, 1987 to 1997	29
Conclusions	57
3 The North Korean Economy	59
Organization of the North Korean Economy	61
Statistical Comparison of the North and South Korean Economies	73
Crisis Response	82
International Economic Relations	87
Current Reforms	133
Conclusions	140
4 The Nuclear Confrontation	143
The Energy Situation	143

The Nuclear Program	145
The Agreed Framework	151
The Suspect Site and the Missile Test Evaluation	158 166
5 The Slow-Motion Famine in the North	171
The Food Balance	180
Food for Peace	182
The People's Republic of Misery	191
6 The Financial Crisis in the South	195
Financial Frugality	199
The Bubble Story	203
The Crisis	208
Post-Crisis Developments	221
Recovery	247
Conclusions	249
7 The Prospect of Successful Reform in the North	251
Reform in the North	252
A General Equilibrium Perspective on Reform	266
The Likelihood of Reform	281
8 The Implications of North Korean Collapse	285
The German Experience	286
Relevance to Korea	295
A General Equilibrium Perspective on Collapse and Absorption	301
Conceptualizing the Costs and Benefits of Unification	307
Dynamic Results	310
Policy Lessons of the German Experience for South Korea	318
Thinking Beyond the German Case	320
9 Can the North Muddle Through?	323
Socialism in One Family	324
Muddling Through in Our Own Style	333
Sustainability	342
10 Conclusions	347
North Korea	348
South Korea	352
Other Actors	367
Final Thoughts	375

References		377
Appendix		401
Index		405
Table:		
Table 2.1	South Korean tariff rates	40
Table 2.2	Estimate of tariff-equivalents of Korean agricultural NTBs, 1992	41
Table 2.3	Producer subsidy equivalents, 1997	43
Table 2.4	Effective and nominal rates of protection, selected sectors, 1990	44
Table 3.1	North Korea's central plans	66
Table 3.2	Composition of output, 1992-96	69
Table 3.3	Government budget balance	70
Table 3.4	General government revenues, 1996	71
Table 3.5	Socioeconomic indicators, 1992	74
Table 3.6	Educational attainment rates	75
Table 3.7	Distribution of labor force at time of reform	76
Table 3.8	Capital stock and GDP regressions	77
Table 3.9	International income and capital stock comparisons, 1990	78
Table 3.10	Ratio of South Korean to North Korean GDP per capita income, 1990	79
Table 3.11	North Korean trading partners, 1997	91
Table 3.12a	North Korean exports by largest commodity groups, 1997	92
Table 3.12b	North Korean imports by largest commodity groups, 1997	92
Table 3.13	Aid from the USSR	96
Table 3.14	Aid balance sheet	122
Table 3.15	Estimated remittances	132
Table 4.1	KEDO contributions	155
Table 5.1	Food balance estimates	173
Table 5.2	Rice and corn per capita daily rations	179
Table 5.3	Food for talks	188
Table 6.1	Volatility of macroeconomic indicators and banking aggregates	200
Table 6.2	South Korean banks	224
Table 7.1	Alternative reform scenarios	260
Table 7.2	Actual and "natural" North Korean trade shares, 1990	262
Table 7.3	^Prospective sectors of comparative advantage	263
Table 7.4	Prospective sectors of comparative advantage	264
Table 7.5	Prospective sectors of comparative advantage	265