



## Democratic People's Republic of Korea could become a market economy in 20 to 25 years

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The People's Republic of China's integration into the global economy and East and West Germany's reunification show the Democratic People's Republic of Korea — or the DPRK — how it might become a market economy within 20 to 25 years.

Naoyuki Yoshino, dean of the Asian Development Bank Institute, told the Foreign Correspondents Club of Japan that the DPRK could also look to the success of other Asian countries in using domestic savings to kick-start growth. Other key ingredients for a successful transition would be infrastructure development, education and training, as well as the promotion of student and worker exchanges between the DPRK and other countries.

The country could start with a postal savings network similar to those used in Japan and China, which would help start the process of building a financial system. From that, insurance and pension funds could be developed. The money that was deposited could be used for economic development, Yoshino explained.

**The growth of Asian countries after the Asian financial crisis came from the accumulation of domestic savings. Most Asian countries have a very high savings rate and that has changed a lot of the financial conditions in Asia because money keeps circulating within the domestic market. And that is key. So even for the DPRK, in the first several years, they will have to bring money from outside. However, when development starts, they have to find out how to circulate their savings within the country.**

Infrastructure development would promote growth. It could be funded by bonds that could be purchased by government and the private sector, with investors seeing profits

over 15 to 20 years as growth picked up pace.

Developing transportation links from China through the DPRK to the Republic of Korea would speed economic progress. Spillover effects from the construction and operation of these transport networks would multiply the gains, as areas surrounding the development would benefit, as would farmers, for example, who could use the networks to get their goods to market.

Infrastructure is very important—infrastructure that can create economic activities along the roads and highways. Spillover effects are very large. So, I propose that railways and highways be connected from the Republic of Korea to the DPRK to China. It should be a complete connection between China and the Republic of Korea. Then people in the DPRK can import various products. At the same time, they can export their own products to the Republic of Korea and China and other countries. Connectivity of infrastructure is very important.

The transport gains provided by linking up the three countries would be one benefit, but the construction would also promote other activities within the DPRK, Yoshino said.

Spillover economic effects are very important. Railways and highways have to bring private business into the region, new apartments and residential areas have to be developed, employment will be created, and hotels and restaurants can be developed. Farmers can sell their products to the Republic of Korea and China if infrastructure connects all the way.

To promote the growth of a business culture, local communities could pool funds to start small businesses. Workers in large government companies could be encouraged to become more productive by giving bonuses to those who worked hardest, he said.

Those who work very hard should receive a higher bonus and that will create a very good incentive mechanism for them, so that companies will become much more efficient.

But education would be most important in encouraging people in the DPRK to adjust to a market-based system and promote economic growth. Yoshino said he visited schools in the former East Germany just after reunification and found that students and teachers had little understanding of how market economies worked. They needed an influx of West German teachers, mixed with some East German students moving elsewhere for school, to bring them up to speed. China is another example where students needed to quickly learn how market economies operated.

Nowadays many Chinese go to the US, Europe, and so on, and they come back to China and they are dominating classrooms and publications. I think that is very important. At the same time, teachers in the DPRK have to be re-educated: they may have to go to Western universities, high schools, and so on, and then come back to the DPRK. Education will be very important, and after 10 years, 15 years, it will completely change. That is the experience from East Germany.

Western countries could help the DPRK's transition by welcoming students and others who were interested in exchanges, whether cultural or educational.

That is another role for many advanced nations—they should invite those scholars and students. China's reform was completed because so many countries absorbed Chinese students.

Yoshino said the DPRK could see a successful transition to a market economy, just as China did, with the correct investment, training, and incentives.

If we look at the Chinese economy now, 25 years later, it is almost the same as Western nations. My expectation is, if economic development goes well, 20 years later, 25 years later, the DPRK will be the same as other regions.

That was Naoyuki Yoshino, dean of the Asian Development Bank Institute, speaking to the Foreign Correspondents Club of Japan.

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