

## **WORLD OIL AND GRAIN PRICES UP, DPRK FEELS THE PINCH**

International fuel and food prices are skyrocketing, while the cost of Chinese goods continues to rise, so that this so-called 'triple-threat' is sending shockwaves through the North Korean economy. In this year's New Year's Joint Editorial, North Korea championed the banner of a 'strong and prosperous nation', and declared that this year would focus on the economy, however this 'triple-threat' will likely make it extremely difficult for the North to meet its policy goals.

With oil prices peaking at over 110 USD per barrel, if these high oil prices continue, North Korea, which imports crude and refined oil from China, Russia and other countries, will face a growing import burden. In accordance with the February 13<sup>th</sup> agreement reached through six-party talks, South Korea, the United States and others will provide some heavy fuel oil, and the agreement stipulated the amount of oil to be delivered, rather than the value, so this will not be affected by rising prices. However, this oil does not cover all of the North's needs, and as for the remaining portion, either the amount imported will have to be reduced, or the North will have no choice but to invest considerably more in fuel. In addition, as a large portion of North Korea's oil is imported from China, Pyongyang's trade deficit with its neighbor will also grow.

According to the Korea Trade Investment Promotion Agency (KOTRA), North Korea imported 523,000 tons of crude oil from China in 2005, 524,000 tons in 2006, and 523,000 tons last year, each year accounting for approximately 25 percent of total oil imports. North Korea's trade deficit with China has shown a steadily growing trend, reaching 212,330,000 USD in 2004, 588,210,000 USD in 2005, and 764,170,000 USD in 2006. With grain prices also skyrocketing, and North Korea depending largely on China and Thailand for rice and other grain

imports, the burden on the North's economy is growing, and this is one factor in the instability of domestic prices in the DPRK.

According to the Chinese Customs Bureau, North Korea imported 81,041 tons of rice and 53,888 tons of corn last year, increases of 109.9 percent and 37.4 percent, respectively. North Korea's corn, rice and oil imports from China are subject to market price controls, so that rising international prices directly affect the North's cost burden. Last year, the price of Chinese goods rose 4.8 percent, recording the largest jump in ten years, and this trend extends to a wide variety of goods. 80 percent of disposable goods in North Korea are produced in China, and rising Chinese prices are directly reflected in North Korean import costs, which is passed on to DPRK citizens.

As North Korea emphasizes the building of its economy, it appears unlikely that residents will feel any direct effects of Pyongyang's promise to prioritize the stability of its citizens' livelihoods.