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Viewing cable 10SHENYANG20, PRC-DPRK BORDER: CURRENCY REFORM UPDATES

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10SHENYANG20	2010-02-12 10:00	2011-08-30 01:44	CONFIDENTIAL	Consulate Shenyang

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E.O. 12958: DECL: TEN YEARS AFTER KOREAN UNIFICATION  
TAGS: CH ECON EFIN EIND EMIN KN KS PGOV PREL  
SUBJECT: PRC-DPRK BORDER: CURRENCY REFORM UPDATES

REF: SHENYANG 4

Classified By: Consul General Stephen B. Wickman. For Reasons 1.4 (b) and (d)

¶1. (C) SUMMARY. February meetings with DPRK border contacts took the pulse of post-currency reform cross-border trade and investment. Contacts doubted the accuracy of reported widespread starvation and large-scale unrest. Urban-dwellers lost the most during the revaluation. DPRK children rely on rice for sustenance with little protein, and medical supplies are needed. While foreign direct investment and trade suffered in December and much of January, signs of pre-reform trade have begun to return to the border. For DPRK leaders, the negative fallout from the currency program was more widespread than reported in the press. End Summary.

Everyone Suffers, Some More than Others

¶2. (C) During February 3-11 meetings with ConGenOffs, DPRK border contacts in Shenyang, Dandong, and Yanbian noted that the North Korean currency reform has had a negative short-term effect on the distribution and supply of basic goods and foodstuffs. However, they expressed doubt as to whether this short-term event was accompanied by the starvation and unrest reported by several South Korean and Japanese media outlets in the few months since the reform was initiated. At issue is who is suffering the ill effects. According to Liu Chensheng, Board Director of Shenyang North Korean Trade and Investment Consulting Company and member of the Liaoning Entrepreneur Association North Korea Department, rural residents suffered much less from reform than their urban counterparts. Liu told ConGenOff that farmers only receive official payment once a year, usually in December, and this payment was made in the new currency. Urban workers who already had money prior to reform, and who were receiving regular paychecks, lost a considerable amount converting their old currency to the new currency and bear the brunt of various restrictions on trade.

¶3. (C) A contact in Ji'an, a Sino-Korean hospital director who has made frequent personal and professional visits to Pyongyang and Manpo, Ji'an's sister city across the border, told ConGenOff that the outside world's fixation on "rice aid" and other grain exports to North Korea has distorted the reality of the poor nutrition situation. He recalled that three of his relatively young DPRK uncles and aunts (including one in Pyongyang) had suspiciously passed away in the same year in the late 1990s and suspected that they had

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*courage is contagious*

died from starvation or one of several mass floods. In recent years, his direct though limited experience suggested many DPRK children had sufficient carbohydrates, even a full bowl of rice to eat each day. However, their dietary deficit of fats, oils, protein, and limited fruits and vegetables had led to an overall decrease in their well being. He characterized the typical meal for these children as a full bowl of rice and a small, inadequate serving of pickled vegetables. A Dandong NGO contact bristled that it was an oversimplification to reduce the DPRK population to rice- and corn-poor hungry people. The DPRK has many other more pressing needs, such as a dire shortage of key medical supplies, he said.

**A Return to Normalcy?**  
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¶4. (SBU) Traders in Dandong and Yanbian told ConGenOff that before the currency reform they were willing to accept small amounts of North Korean won with the understanding that their DPRK partners would eventually settle in RMB, euros, and/or dollars. While not large sums at each go, the transactions would accumulate and be settled in tradable currency. However, the revaluation made settlement of these amounts impossible and left them (along with their DPRK partners) holding the bag.

¶5. (SBU) Liu Chensheng, who just returned from Dandong this week, told PolEconChief that border trade has already picked up (to a degree) in the last two weeks, and business is being done with foreign currencies again. This is in contrast to his December trip which saw a halt in cross-border activity. North Korean counterparts remain fearful, though, that this relaxation of the no forex policy could be reinstated and that once again trade volumes would fall. (NOTE: According to Liu, the DPRK won exchange rate is back to pre-reform levels due to continuous sharp depreciation. End Note) As a result of the revaluation and the ensuing uncertainty, Liu said

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foreign direct investment from such countries as China, Thailand, and Malaysia had come to an almost complete standstill. However, he fully expects investment flows to recommence in March 2010. Liu plans to return to DPRK in early March for meetings and to assess investment activities.

**Fallout for the Leadership**  
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¶6. (C) Liu, who previously characterized the currency reform as, in part, an effort by Kim Jong-Il to help poorer people who had no access to foreign exchange, also noted the negative collateral effects surprised the DPRK leadership (REFTEL). Liu said that Kim Jong-Il's heart had been in the right place but that the implementation was awful. The third son (Kim Jong-Un) definitely had a hand in the policy, but the decision was not his alone. Several officials had lost their jobs as a result of the currency reform, and not just the Finance Minister, as reported in the press. Liu mentioned to ConGenOff that the head of a major DPRK bank was among those sacked, but did not detail which one.

WICKMAN