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Famine and the Market: North Korea Meets Keynes

Anna Fifield and Ruediger Frank

We present two articles on the market response to North Korean famine.

Selling to Survive: on the North Korea-China Border

By Anna Fifield

Pak Hyun-yong was, by North Korean standards, an entrepreneur. Too much of an entrepreneur. During the famine that ravaged the country in the late 1990s, Mr Pak watched his family die of starvation – first his younger brother, then his older sister's children. Then, eventually, his sister too.

Somehow he pulled through this period, dubbed by the regime as "the arduous march", and was spurred into taking some very non-communist, almost subversive action. He began selling noodles.

Every day he would take 10kg of "corn rice" – a poor North Korean imitation in which dried kernels are fashioned into grains – and turn it into noodles. Then he would get on his bicycle and pedal around his home town of Hamhung on the east coast, bartering the noodles for 12kg of corn rice: 10kg for tomorrow's noodles and 2kg for his remaining family.

North Korean Refugees in China. Andrew Natsios

"The police would come by and try to persuade me not to sell the noodles, saying that I should not succumb to capitalism and that the Dear Leader would resolve our food shortages," says Mr Pak, who escaped from North Korea a year ago and is upbeat and energetic considering the hardships he has endured.

Now 32, he is in hiding in a bleak, remote village in northern China not far from the North Korean border, together with his wife, with whom he escaped, and their new baby. They live in a one-room house with no bathroom – protected by locals who are helping them settle.

"The [North Korean] police even threatened to imprison me if I didn't stop selling. Suddenly I realised that North Korea was a country

where they would stop people's efforts to survive," he says, sitting on the warm floor of his house, still dressed in the apron he wears to work in a nearby butchery.

China

"I heard that China was a rich and modern country – that they had tractors and that people could eat rice every day, even in rural areas," he says, shaking his head. "Chinese dogs wouldn't eat our rice – they would ask for better."

In almost 20 interviews along the border with China, ethnic Koreans born in China and North Korean escapees, some of whom had been in the isolated state as recently as two months ago, describe a country where change is taking place from the ground up rather than under the direction of its leader, Kim Jong-il.

North Korean soldiers on China's border. Nataliee Ehring

North Korea remains the most tightly controlled state in the world. But recent escapees tell of the changes that are being driven by necessity in areas near China, especially in the cities of Rajin and Hoeryong in the north and Sinuiju at the southern end of the border.

While it would be an overstatement to say that this represents the type of nascent transition to free-market reforms that has occurred in countries such as Russia and China, the worsening state of the North Korean economy is leading to widespread trading and the emergence of a fledgling merchant class crossing into China, the escapees say.

Some agricultural markets – rather than just state markets – were permitted during the "economic improvements" of 2002, but ad-hoc markets have since sprung up around the country with the tacit approval, if not the encouragement, of the regime. These markets are now the backbone of North Korea's creaking economy as the regime provides almost nothing by way of rations any more.

The parlous state of the economy is probably the driving factor behind Mr Kim's decision to roll back his nuclear programme. The six-party denuclearisation talks are making surprisingly good progress, analysts say, as his regime seeks heavy fuel oil for its rusting industries and an end to economic sanctions.

Certainly, recent escapees from North Korea describe a desperate situation inside the country. Somewhere between 10,000 and 30,000 North Koreans are thought to be living in hiding in the north-eastern provinces of China, especially in Jilin and Heilongjiang, areas considered backward by Chinese standards.

The Financial Times travelled throughout this region to meet North Koreans while seeking to avoid endangering their lives. (North Koreans who are repatriated from China face detention in labour camps or worse, and even those who are not caught put the lives of family members at risk by talking to journalists. For that reason, names have been changed.)

"In Rajin, all the factories have stopped," says Oh Man-bok, a 22-year-old who escaped in September from the city near the borders with Russia and China, considered relatively prosperous because it is one of the North's main trading channels. "The men still have to go to work and have their name checked off but there is nothing to do. Sometimes they sit around and sometimes they go home. They don't get paid but sometimes, in a good month, they get 15 days' worth of corn in rations," he says.

That means women are increasingly becoming the breadwinners, going to the mountains to collect edible plants or to the market to sell home-made snacks. "People survive by selling. They do whatever they can to earn money – selling fried dough sticks or repairing shoes and clothes," Mr Oh says. "But it's very difficult to earn enough to survive and even in Rajin, many people have to eat porridge made from the whey left over from making tofu."

Rajin and Sinuiju, as the main thoroughfares for trade with China, have been more open than the rest of North Korea for some time, but the experiment with capitalism that has been taking place in these two cities now appears to be expanding to Hoeryong.

Sinuiju from the Yalu river

The city of Hoeryong can be clearly seen from the Chinese side of the border, which is marked by a shallow river only 20 metres wide in places. On the bridge between the two countries, the Financial Times watched North Korean trucks trundle into China and dozens of Chinese – and a few North Koreans wearing badges stamped with the image of Kim Il-sung, Mr Kim's late father and founder of the state – lug bags across.

A Chinese border official says that about 100 a day cross the bridge from the Chinese side, mainly going to visit family members, although in summer as many as 300 go on tour packages to the beach on North Korea's east coast. About 10 North Koreans a day

cross into China for trading or to see their relatives. "With Rmb1,000 [$135, £65, €92] they can come to China even if they don't have family here. So they often borrow money to come here and buy things for trading in the market in Hoeryong," the official says.

Bribery appears to be becoming more widespread as trade and travel increases – from a few cigarettes needed to pass through internal checkpoints to the few hundred renminbi expected at border crossings. "Everyone wants to be a border guard these days," says one Chinese-Korean trader. "They don't explicitly say, 'Give me money' – they just keep going through your paperwork and asking you questions until you offer them money."

Again, Pyongyang seems to be aware that this is happening and allows it as a way to keep people happy – rotating border guards every six months to give officials from around the country a chance to earn extra money, according to escapees.

In Hoeryong, the market used to be beside the bridge on the outskirts but this year it was moved to a school building right in the centre of town. Its 180,000 residents enjoy a relatively privileged existence because Kim Jong-il's late mother was born there.

The market has become central to the city and to people's lives, driven by grassroots demand, says Song Mi-ok, an ethnic Korean living in China who has made several trips to the city recently. She has gained access by visiting fake relatives, a family to whom she pays Rmb1,000 every time she pretends to visit them.

"You can find everything there," she says of the market, which opens at 7.30am and closes at dusk. "People usually start by selling food that they have grown or made, using the profits to move into goods trading."

North Koreans say one can buy everything in the markets "except cat horns", as their expression has it. Rice given as aid from South Korea is on sale and people even display the bag – even though they risk having it confiscated by the authorities – because people know that South Korean rice is of high quality, Ms Song says.

One kilogram of rice in Hoeryong market costs 900 North Korean won – a huge amount in a country where the average wage for a government employee is about between 3,000 and 4,000 won a month, or slightly more than one US dollar.

"There are a lot of people buying and it's all money trade; there's no bartering now," Ms Song says. "North Koreans are poor, so it's quite surprising to see people with a lot of money. They don't receive money from the state – it's all money they have made themselves."

One Korean-Chinese man who visited relatives in Hoeryong last year also describes an increasingly active drug trade. It is not uncommon, he says, to be approached by people in their twenties or thirties selling a white narcotic called "ice" – probably a form of crystal methamphetamine. The drug fetches 20 times the North Korean price in China, making smuggling a lucrative business, but the punishment for drug trafficking in China is so severe that Hoeryong dealers try to sell it to visiting Chinese.

The markets are thriving thanks to new border regulations. While the number crossing illegally has dropped because of tighter restrictions in both countries, the number of North Koreans who are allowed to cross into China legally has steadily increased, according to several Korean-Chinese who help those who make it across the border.

North Koreans with relatives in China but not in South Korea are allowed to apply for passports to cross the border. This is creating a new group of migrant workers – those who are legal but working for themselves and their families rather than for the state. "Young people come here to work for one or two months and earn some money – they're coming from Pyongyang as well as the regions," says Ri In-chol, an ethnic Korean missionary from China who supports border crossers, legal or otherwise.

"They pay Rmb300-Rmb400 to get a passport and then they can cross. There is now a much freer flow because Kim Jong-il realises that this is the only way to keep the people alive. They take back money, used sewing machines and used clothes from their relatives that they can sell in the markets," Mr Ri says.

Although Chinese clothes are most prevalent, North Koreans prefer South Korean products for their higher quality. "The labels have to be cut out of South Korean clothes, so if they don't have a label then people assume that they're South Korean and they like them more," says another Chinese-Korean who has recently visited Rajin.

Indeed, Mr Ri says that North Korean officials are picky about what they will let through. "When North Koreans come to China they are allowed to take used clothes back. But when Korean-Chinese people want to give clothes to their relatives in North Korea, they have to be new because otherwise the officials think they are being looked down on," he says. (Jeans and short skirts, seen as representative of American immorality, are still not allowed.)

The economic changes – particularly the lessening dependence on the state – are potentially destabilising for Mr Kim's regime because they weaken the tools of control. That means that there is a fine line between what is permissible and what is not. "Kim Jong-il is tolerating this much openness because people need to survive, but if he wakes up one morning and sees capitalism is spreading too far, he will order it all to be stopped," says Gao Jingzhu, professor of Korean studies at China's Yanbian University, near the border.

Children of Pyongyang receive rations

"North Korea is small, so if there is too much change it will threaten the sustainability of the regime and it will collapse," Prof Gao says. "North Korea is in a dilemma."

Good Friends, a Seoul-based civic group that monitors life inside North Korea, this month said Pyongyang was cracking down on women working in street markets. "The authorities have judged that female merchants have reached a point that threatens the country's government," Good Friends quoted a North Korean official in China as saying.

"The men are tied to their workplaces but they don't receive proper rations," the official reportedly said. "This has shifted the men's burden of supporting their families on to the women. With trade directly linked to the people's survival, the crackdown isn't going well."

Indeed, it may already be too late. The increased economic interaction with China means that the flow of information to North Koreans is steadily increasing. "People's awareness and illusions have changed," says one Chinese-Korean who drives trucks into North Korea.

This is just the kind of contact that threatens Mr Kim's regime, which has kept the 23m-strong population under control by cutting off access to the outside world and telling them they live in a socialist paradise. Mr Ri, the missionary, says: "People living in open areas like Rajin and Hoeryong are more exposed to the outside world but that is not the case when you go further into North Korea. So even if it is becoming more open, you never know when that is going to change. They will still come after you if you are involved in political activities."

But recent escapees from North Korea say that people are increasingly discussing – in private – one topic that they say would have been unimaginable until very recently: the eventual death of the Dear Leader. "State control is still as strong as before but now, when people gather together as families, they say that the system is really wrong. That never used to happen before," says Mr Pak, the man who left Hamhung last year.

"Kim Jong-il always says he will feed the people and make them happy, but that has not happened. There are many people who hope that Kim Jong-il will die soon," he says, shrugging his shoulders. "I have to admit it: the state is already kind of breaking down."

Anna Fifield is a correspondent for The Financial Times.

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North Korea Meets Keynes: Demand and Supply in Our Style Socialism

Ruediger Frank

The Financial Times recently ran an excellent piece by Anna Fifield on the economic difficulties that North Koreans are facing in their everyday fight for survival. The article confirmed that despite the government's reservations and occasional counter-measures, in general we can observe a major shift in the way the domestic economy is run and how individuals adjust to the new conditions. As a result, eventually an alternative, non-state related path to advance in North Korean society will emerge, seriously challenging the legitimacy and the power monopoly of the current leadership. In Eastern Europe, similar developments took decades to result in changes; so while nothing is impossible, we might have to expect a long process. However, there are also more immediate conclusions to be drawn.

The article quoted a North Korean saying that "The men still have to go to work and have their name checked off but there is nothing to do... They don't get paid but sometimes, in a good month, they get 15 days, worth of corn in rations". The man continues to explain how North Koreans get along: "People survive by selling. They do whatever they can to earn money selling fried dough sticks or repairing shoes and clothes."

What is the message behind these quotes? Obviously, the state is not able to pay the workers. The role of women in society is substantially upgraded since they became the principal breadwinners. And the only way to survive for many is to sell something on the markets. These are the facts, but what is missing in this picture?

A deal always needs two sides: the one who sells, and the one who buys. This is no rocket science. John Maynard Keynes became one of the most prominent economists in Western history after claiming, in a nutshell, that the demand side matters and that economic policy should be aimed at strengthening this factor to overcome or prevent economic crises. The one-million-Dollar question now is: If the men don't receive any salary, then who are their wife's customers? Who makes the families survive by purchasing the vendor's products? In other words: Where does demand on North Korea's markets come from?

The one obvious answer is China, where North Koreans either sell their labor power or products. The FT article mentions narcotics, but one could also think of more legal goods such as fur, gold or ingredients for oriental medicine. Another source of purchasing power is selling political or administrative favours, also known as corruption. A third and vital origin of income are foreign aid and assistance, especially if they are diverted, as odd as this may sound. Not every North Korean factory or office is closed, so there is some state-fed liquidity on the market. Finally, at a price of 900-1200 Won per kilogram of rice, the lucky ones who are producers of agricultural goods also have a good chance to generate handsome revenue that they will eventually spend as consumers. On a side note, let's also not forget that rather than investing or saving, the lower income brackets usually spend a higher percentage of their resources, mostly on daily necessities including food.

Implications are manifold. But since the outside world keeps asking what could be done to improve the livelihood of the North Korean population, one lesson should be emphasized that is both obvious and important: If the purchasing power of the economy as a whole is increased, i.e., the demand side strengthened, it won't be long until this trickles down to the lowest income levels of society. As long as a market mechanism is in place - and that seems to be the case despite all fears of an eventual government crackdown and the recent limitations of tradable goods and regulations on trader's minimum age - any measure to strengthen demand in North Korea will be equivalent to a Keynesian economic policy and, en passant, help resolve the difficult situation of ordinary North Koreans.

Aid, corruption and narcotics are not universally welcome and can only function as a short-term remedy. For a sustainable solution, demand must be strengthened by legal domestic means, including enablement of North Korean factories to pay their worker's salaries again. They can't do so because of an inefficient economic system, but also because there is a strong investment deficit, infrastructure is in a sorry condition, and external trade is seriously limited. The current South Korean efforts at the rehabilitation of the North's economy and transportation networks, combined with a future relaxation of international trade and investment restrictions and a relaxed, open-minded government in Pyongyang might be just what the trading women at North Korea's markets need when they are praying for more customers.

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