



## Elusive Economic Reforms in North Korea: Part I

*Marcus Noland assesses the latest confusing reports that North Korea may be pondering market incentives in food and industrial production. Tomorrow: Why basic economic reform is pursued and then abandoned by North Korean leaders.*

*Transcript of interview recorded September 25, 2012 . © Peterson Institute for International Economics.*

Steve Weisman: Mixed reports are coming out of North Korea about reform in the economic and agriculture's sphere. Marcus Noland, deputy director of the Peterson Institute for International Economics, Senior Fellow, and premier North Korea watcher, is here to tell us about recent developments, including a meeting of the legislative body in Pyongyang. Mark, tell us what you know that North Korea is doing, what reforms it's adopting or is not adopting that people thought were going to be adopted.

Marcus Noland: I wish I knew. For weeks if not months, stories have been coming out of North Korea -- and I emphasize the word 'stories.' These are usually second hand accounts of briefings done by government officials. There's a little bit of documentary evidence, but not much. But anyway, stories have been coming out about economic reforms: in the agricultural sector, in the industrial sector, with respect to prices, with respect to mining, all sorts of economic reforms.

And the expectation among many observers was [over] the meeting of the rubber stamp, and I underscore rubber stamp, the Supreme People's Assembly, which is an unusual meeting that is not normally held. Everyone was expecting some big announcement to come out, which would clarify exactly what they're doing on the economics front. What happened was the SPA met, they issued a report that tweaks the public education system. In fact, it tweaks it in a completely non-credible way, and not a word about economics. People are again scratching their heads [over] exactly what the North Koreans are trying to do.

Steve Weisman: Do you think this is a sign of discord internally in that North Korea is in the middle still of its first stages of transitioning to a new leadership?

Marcus Noland: That's certainly a possibility. But if we think back to 2002 when they did another set of reforms, it's interesting. The information back in 2002 also came dribbling out. The Supreme People's Assembly met and they didn't issue any great proclamation. In that sense, the current event was not that inconsistent with the past and maybe it was our expectations that were really misplaced, not the actual behavior. It could be that they felt they needed to call everybody together to talk about these issues and then they simply put this edict [out] about education to give an excuse for the meeting. It's very hard to know what they're actually doing and in fact, the moves that they seem to be doing are actually somewhat contradictory.

Steve Weisman: When you speak of reforms, what are we talking about -- more incentives for private markets and for individual initiative?

Marcus Noland: Let's start with the agricultural sector, because that's important and that's where we have what appears to be the best information. A few weeks ago stories came out about reforms in agriculture that were supposed to be done on a pilot project basis in three counties: in Ryanggang Province, which is about as far away from anything that you can get. It would be the North Korean equivalent of Maine. It was quite striking that these reforms were not going to be done in the breadbasket, rice-growing areas.

This weekend both Reuters and AP had stories. In the case of Jean Lee's story from AP, she actually interviewed farmers in the North Korean equivalence of Iowa and Illinois, who said that yes, they had been told about these reforms. The reforms would reorganize the state farms. Food in North Korea is grown on these large state farms called co-ops, though they're not cooperatives in any real sense. The work teams there are about 100 people.

The reforms would have pushed this down to 4, 6, 8, 10 people and give these much smaller work teams great autonomy and decision making. It's not clear if they would be able to choose their own crops, but at least they'd have some greater autonomy and there would be a kind of sharecropping arrangement, a fixed rate tenancy to be precise, in which, once those farmers made their quota, they would be able to keep everything else after that for their own disposal.

That's a significant reform, especially if it's applied nationwide. So in the agricultural sector at least, there seems to be serious reform going on. [There are] similar stories about the industrial sector allowing state owned enterprise managers more autonomy, allowing them to retain a certain amount of their revenue for their discretionary use and so on. But it's really unclear exactly what the rules are and how they're being rolled out.

The final point, and this was really critical in respect to agriculture. All the circumstantial evidence suggests that things are going badly. They've had bad weather. This harvest is expected to be relatively small. Food prices are skyrocketing. I estimate in the last three months the annualized rate of inflation for rice has been a thousand percent or more. That may represent a spike, not a sustained increase, but nevertheless things look like they're going badly.

Ever since the founding of North Korea in 1948, once a decade they've had urban food shortages. The regime's response in each episode has been to send the army into the co-ops and forcibly seize grain. The question now is, if they're doing these reforms in agriculture, which sound really quite constructive, and conditions continue to deteriorate, will they have the patience and the political will to stay the course on the reforms? Or will they revert back to their old tactic of simply sending the army in and seizing grain?

Steve Weisman: I'm going to stop there for Part I of this interview. We'll pick up on Part II to amplify some of what you just said.

