Elusive Economic Reforms in North Korea: Part II

Marcus Noland explains why the North Korean leadership needs to introduce market incentives but inevitably hates the result when it empowers people against the state.

Steve Weisman: This is Steve Weisman with Marcus Noland at the Peterson Institute for International Economics discussing the latest reports out of North Korea suggesting that there is an imminent food crisis. This comes amid talk, but only talk, of reforms. Mark, the North Koreans have had phases in the past, have they not, where they've done at least a head fake toward economic reforms and then they reverse course? Do you think that might be happening?

Marcus Noland: Unfortunately, it may be. The North Korean state has never been comfortable with the market. The way I would characterize their view of the world is: we would like to be modern, we would like to be prosperous, we want it on our own terms. They see the market as threatening, because the market represents personal autonomy from the state. It represents a potential channel to achieve wealth, prestige, status and potentially even political power, independent of the state and its apparatus.

So they've always had an ambivalent attitude towards the market. They want to improve the efficiency of the economy, but they want to do it on their own terms and under strict state control. One of the things that they have done repeatedly, and now the rumor is they're about to do it again, which would be the third time in ten years they've done this, is try to fix prices in the market and at the same time grant workers enormous wage increases.

Stories are coming out that the North Koreans are going to create a list of products that are allowed to be traded in the market. They're going to fix the prices of those products. For example the stories we're hearing is that the price of rice and the price of corn will be fixed below their current market levels. Then workers will be given a wage increase by a factor of ten. What this has done, quite predictably in the past, is set off incredible bouts of inflation, because of all the money chasing the market. But also, it literally leads to the disintegration of markets. The traders all pull back because they don't want to sell their goods at below market prices.

On the one hand the North Koreans seem to be doing some constructive things in terms of agricultural reform. There are stories about reform in the industrial sector, which would also be quite constructive. But at the same time, they seem to be once again undertaking this monetary move that is likely to undercut any good that they do with these other type of sectoral reforms.

Steve Weisman: How do they increase wages by that much? Do they just print the money?

Marcus Noland: Sure. They simply announce that if you were being paid 3,001 a month, you're now going to be paid 30,001 a month and they just print the money. As I said, these are just stories, we haven't seen them do this yet. This will be the third time in ten years they've done this. Each time it's simply unleashed inflation and damaged the institutional infrastructure of the market.

Steve Weisman: When we watched this two or three years ago, Kim Jong-un, who is now the leader of North Korea, was playing an ambiguous role. Some people identified him with the reformers side. Some people identified him with the side that was cracking down on behalf of the State. Maybe he was on both sides of the issue. Do we know anything about that?

Marcus Noland: We know nothing about him and his policy views. The November 2009 currency reform, to which you allude, was rumored to be his -- in some sense, his "domestic policy coming out party." It was a disaster. Two other officials were fingered as the culprits who botched this operation and the rumor has it they were executed.

If I were going to make the case that things will be different this time -- that the nature of economic policy in North Korea will truly be more reformist and constructive -- I would make the following three arguments. Number one is the change in leadership. There are stories that suggest that in 2002, in particular at the end when the regime started down the road of reform and then pulled back, it was literally because Kim Jong-il himself simply wouldn't go down that road. There has been a change of leadership. Kim Jong-un is younger and perhaps even more desperate and so maybe there's a chance that this senior leader will be more willing to see it through.

Second thing is, one of the things that people have pointed to as a positive sign is the fact that some of the people involved in the 2002 reforms have been brought back into the government. Now normally telling me somebody that was associated with a failed reform is being brought back is not an unambiguous signal, a positive signal. But in this case, one has to think that if nothing else, they've learned lessons from that earlier experience about things -- at least of what not to do. So perhaps you have better advisers or at least experienced advisers.

And finally, and this is purely speculation on my part, but one has to believe that China is increasingly frustrated with North Korea and its unwillingness to do economic reform and its continual sticking out the hand and asking for aid. And one has to believe that if the North Koreans showed any sincere sign of trying to reform their economy, the Chinese would eagerly support them with technical assistance, with financing as needed and so on.

So between new leadership, maybe some more experienced technocrats, maybe some more enthusiastic support from China, and then after the December elections, maybe more enthusiastic support from South Korea, hope springs eternal. But one has to say that the current picture emerging from North Korea is a rather confused and contradictory one.

Steve Weisman: China embarked on its reforms in the 1970s and 80s with those first agriculture steps, the responsibility system and all that. Do you suppose China is advising them to take these baby steps at least?

Marcus Noland: We know that North Korean officials are going to China for training. Whether they learn anything or whether, once they get back, anyone pays attention to them, I don't know. What I think we can say is that certainly the sorts of reforms that China tried in the agricultural sector, which are being talked about now in the Korean case, would be desirable. They wouldn't have as big an impact in North Korea.

When China did its reforms in the late 1970s, more than 70 percent of the labor force was in agriculture. For North Korea, as far as we can tell, the figure is roughly half as much,

about 35 percent. You wouldn't get as much bang for the buck with agricultural reform in North Korean as you did in China in the late 1970s. But look, the North Korean economy is in such a bad state, and it's so distorted, that any sorts of modest reforms that improve the incentives for farmers, that improve the functioning of markets, that improve the incentives of state-owned enterprise managers, are a positive step.

Steve Weisman: And absent that, are we looking at another food crisis this winter?

Marcus Noland: I expect we will be looking at a crisis. Now I want to be very clear. I don't think a 1990s style famine can ever happen again in North Korea.

Steve Weisman: Because?

Marcus Noland: For two reasons. Number one, the North Koreans themselves will not allow it. One of the frightening things about the 1990s famine was the slowness of people to react to what was happening and their belief that the state would provide. That belief is gone. People know they're on their own. They act much more entrepreneurially today than they did 15 years ago, so the North Korean people and North Korean officials at the local level will not react the same way now that they reacted in the 1990s.

The second thing is: as closed and opaque as North Korea is today, it's vastly more open than it was 15 years ago. The rest of the world -- China, the United States, South Korea, Japan, news organizations -- there's simply so much more information about North Korea and openness, that the rest of the world won't be caught napping like it was in the 1990s either.

So yes, I expect that it will face serious problems over the next six months. But no, I don't expect the 1990s full blown famine.

Steve Weisman: Mark, thanks very much.

Marcus Noland: My pleasure.