

**Record: 1**

**Title:** Through a glass, darkly.

**Source:** Economist; 3/13/2004, Vol. 370 Issue 8366, p41-43, 3p, 1 map, 3 color

**Document Type:** Article

**Subject Terms:** KOREA (North) -- Economic conditions  
ECONOMIC reform  
REFORMS  
TRANSITION economies  
KOREA (North) -- Economic policy  
ECONOMIC policy  
STRUCTURAL adjustment (Economic policy)  
INVESTMENTS, Foreign  
COMMUNISM  
MONETARY policy  
KOREA (North) -- Politics & government

**Geographic Terms:** DEVELOPING countries  
KOREA (North) Report Available

**Abstract:** Communist North Korea has started to experiment with economic reform. The July 2002 reforms were ground-breaking for North Korea: the first real step away from central planning since the dawn of communism there in 1945. The government announced that subsidies to state-owned enterprises were to be withdrawn, workers would be paid according to how much they produced, farmers' markets would become legal and state enterprises would be allowed to sell manufactured products in markets. Almost two years on, the climate of secrecy makes it deeply frustrating to assess the success or failure of these reforms. The indications are that the reforms are having a big impact. Foreign money is part of it. Diplomats and aid workers say many new enterprises seem to have opened over the last year. Nominally they are state-owned, but sometimes they have a foreign partner. Reform has plainly made life easier for many. But rescuing the North would take large amounts of foreign money, as well as measures more far-reaching than have yet been attempted.

**Lexile:** 1020

**Full Text Word Count:** 2266

**ISSN:** 00130613

**Accession Number:** 12515720

**Database:** MAS Ultra - School Edition

**Section:** Asia  
North Korea

**Through a glass, darkly**

**So far as a visitor can tell in this secretive land, North Korea's economic reforms are starting to bite. But real progress will require better relations with the outside**

Dateline: PYONGYANG AND PUKCHANG

Communist North Korea has started to experiment with economic reform, and opened its door a crack to the outside world. Though its culture of secrecy and suspicion stubbornly persists, it was deemed acceptable for your correspondent to visit Pyongyang's Tongil market last week. Here, stalls are bursting with plump vegetables and groaning with stacks of fresh meat. You can even buy imported pineapples and bananas from enthusiastic private traders.

But how about a photograph? Most foreigners think of North Korea as a famished nation, and the authorities are evidently keen these days to tell the world about the great strides their economy has made since reforms were introduced in July 2002. Logic might seem to suggest that a snap showing the palpable result of the reforms would be acceptable too. But it is not. The officials were friendly but firm: no pictures of fat carrots.

The July 2002 reforms were ground-breaking for North Korea: the first real step away from central planning since the dawn of communism there in 1945. The government announced that subsidies to state-owned enterprises were to be withdrawn, workers would be paid according to how much they produced, farmers' markets, hitherto tolerated, would become legal and state enterprises would be allowed to sell manufactured products in markets. Most of these enterprises, unless they produced "strategic items", were to get real autonomy from state control.

Almost two years on, how to assess the success or failure of these reforms? That climate of secrecy makes it deeply frustrating. Even the simplest of statistics is unavailable. Li Gi Song, a senior economist at Pyongyang's Academy of Sciences, says he does not know the rate of inflation. Or maybe he is not telling. After all, he says, "We can't publish all the figures because we don't want to appear bare before the United States. If we are bare then they will attack us, like Afghanistan or Iraq." So what follows can be little more than a series of impressions.

The indications are that the reforms are having a big impact. For a start, North Korea has recently acquired its first advertisement (pictured above)--for foreign cars, assembled locally by a South Korean majority-owned company. Or, to be more basic, take the price of rice, North Korea's staple. Before the reforms, the state bought rice from state farms and co-operatives at 82 chon per kilo (100 chon make one won, worth less than a cent at the official exchange rate). It then resold it to the public through the country's rationing system at eight chon. Now, explains Mr Li, the state buys at 42 won and resells at 46 won.

North Korea's rationing system is called the Public Distribution System (PDS). Every month people are entitled to buy a certain amount of rice or other available staples at the protected price. Thus most North Koreans get 300g (9oz) of rice a day, at 46 won a kilo. According to the UN's World Food Programme (WFP), that is not nearly enough. Anything extra has to be bought in the market.

In theory, even in the market the price of staples is limited. Last week, the maximum permitted rice price was marked on a board at the entrance to Tongil as 240 won per kilo. In fact, it was selling for 250. WFP officials say that in January it was selling for 145 won, which points to significant inflation, for rice at least. This is not necessarily a bad thing, since it means that the price is coming into line with the market.

The won's international value is also adjusting. Since December 2002, the euro has been North Korea's official currency for all foreign transactions. In North Korean banks, one euro buys 171 won. In fact, this rate is purely nominal. A semi-official rate now exists and the price of imports in shops is calculated using this.

Last October, according to foreign diplomats, a euro bought 1,030 won at the semi-official rate. Last week it was 1,400. A black market also exists, in which the euro is reported to be fetching 1,600 won--which implies that the won is approaching its market level. It also means, however, that imported goods have seen a big price-hike. For domestically-produced goods, like rice, prices may well go on rising for a good while longer.

What about earnings? Before the 2002 reforms, most salaries lay in the range of 150-200 won per month. Rent and utilities, though, were virtually free, as were (and are) education and health care. Food, via the PDS, was virtually given away. Now, pay is supposed to be linked to output, though becoming more productive is not easy for desk-bound civil servants or workers in factories that have no power, raw materials or markets.

Rents and utilities have gone up, though not by crippling amounts. A two-bedroom flat in Pyongyang including electricity, water and heat costs just 150 won a month--that is, about a tenth of a euro.

Earnings have gone up much more: a waitress in a Pyongyang restaurant earns about 2,200 won a month. A mid-ranking government official earns 2,700. A worker at a state farm earns in the region of 1,700, a kindergarten teacher the same, and a pensioner gets between 700 and 1,500. A seamstress in a successful factory with export contracts can earn as much as 5,000 won a month. Since that seamstress's pay equates to barely three euros a month, wages still have a long way to adjust.

The prices of food and other necessities, to say nothing of luxuries, has gone up much more than rent has. According to the WFP, some 70% of the households it has interviewed are dependent on their 300 gram PDS ration, and the WFP itself is targeting 6.5m vulnerable people out of a total population of some 23m. Not all suffer equally: civil servants in Pyongyang get double food rations from the PDS.

There are some encouraging stories. In Pukchang, a small industrial town 70km (40 miles) north-east of Pyongyang, Concern, an Irish aid group, has been replacing ancient, leaking and broken-down water pipes and pumps, and modernising the purification system. This has pushed the amount of clean water available per person per day from 80 to 300 litres. Kim Chae Sun is a manager at the filtration plant, which is now more efficient. Before July 2002 she earned 80 won a month. Afterwards she earned 3,000 won. Now she earns 3,500.

As Mrs Kim speaks, three giant chimneys belch smoke from the power station that dominates the town. All workers have been told they can earn more if they work harder, but certain groups have been told they will get even more money than everyone else. In energy-starved North Korea these include miners and power workers. Mrs Kim says her husband, who works in the power plant, earns an average of 12,000 won a month. Her rent has gone up from eight to 102 won a month, and in a year, she thinks, she will be able to buy a television or a fridge.

A lot of people, in fact, are buying televisions. The women who sell the sets from crowded Tongil market-stalls get them from trading companies which they pay after making a sale. The company price for an average set is 72,000 won, the profit just 1,000 won. After they have paid for their pitch, the traders can expect an income of 10,000-12,000 won a month.

### [Mystery sales](#)

Which makes for a puzzle. Who can afford a good month's salary for a locally made jacket in Tongil, costing 4,500 won? How come so many people are buying televisions, which cost more than two years of a civil-servant's pay? How come the number of cars on the streets of the capital has shot up in the past year? Pyongyang still has vastly less traffic than any other capital city on earth, but there are far more cars around than a year ago. Restaurants, of which there are many, serve good food--but a meal costs the equivalent of at least a white-collar worker's monthly salary. Many of these restaurants are packed.

Foreign money is part of it. Diplomats and aid workers say many new enterprises seem to have opened over the last year. Nominally they are state-owned, but sometimes they have a foreign partner, often an ethnic Korean from Japan. The majority are in the import-export business. Some have invested in restaurants and hotels and some in light industry. Thanks to the 2002 reforms, these firms have a degree of autonomy they could not have dreamed of before. An unknown number of people also receive money from family abroad, but there are still no North Korean-owned private companies.

Farmers are among the other winners: they can sell any surpluses on the open market. But two out of three North Koreans live in towns and cities, and only 18% of the country is suitable for agriculture. The losers include civil servants, especially those outside Pyongyang who do not get double food rations and have no way to increase their productivity.

Factory workers have it the hardest. A large proportion of industry is obsolete. Though Pyongyang has electricity most of the day, much of the rest of the country does not. Despite wild talk of a high-tech revolution, the country is not connected to the internet, though some high-ups do have access to e-mail service. In the east of the country lies a vast rustbelt of collapsing manufacturing plants.

Huge but unknown numbers of workers have been moved into farming, even though every scrap of available land is already being cultivated. The extra workers are needed because there is virtually no power for threshing and harvesting and no diesel for farm vehicles. This requires more work to be done by hand. Ox-carts are a common sight.

### The innocent suffer

Markets are everywhere. But this does not mean that there is enough food everywhere. In Pyongyang, where there are better-off people to pay for it, there is an ever-increasing supply. Outside the capital, shortages are widespread.

No one knows how many died during the famine years of 1995-99; estimates range from 200,000 to 3m. In Pukchang, officials say that 5% of children are still weak and malnourished. In Hoichang, east of Pyongyang, schools and institutions tell the WFP that about 10% of children are malnourished. Masood Hyder, the senior UN official in North Korea, says that vulnerable households now spend up to 80% of their income on food.

And yet some things are improving. Two surveys carried out in 1998 and 2002 by the North Korean government together with the WFP and Unicef showed a dramatic improvement in children's health between those years. The proportion of children who fail to reach their proper height because of malnutrition fell from 62% to 39%, and the figures are thought to be still better now. However, Unicef says that though children may no longer die of hunger, they are still dying from diarrhoea and respiratory diseases--which are often a side-effect of malnutrition.

To a westerner's eye, a class of 11-year-olds in Hoichang is a shocking sight. At first, your correspondent thought they were seven; the worst-affected look to be only five. Ri Gwan Sun, their teacher, says that apart from being stunted some of them still suffer from the long-term effects of malnutrition. They struggle to keep up in sports and are prone to flu and pneumonia. They are also slower learners.

Pierrette Vu Thi of Unicef says that North Korea's poor international image makes it hard for her agency, the WFP and others to raise all the money they need. The country is in a chronic state of emergency, she says, and to get it back on its feet it would need a reconstruction effort on the scale of Afghanistan and Iraq.

Such bleak talk is echoed by Eigil Sorensen of the World Health Organisation. He says that health services are extremely limited outside the capital. Medicines and equipment are in short supply, large numbers of hospitals no longer have running water or heating and the country has no capacity to handle a major health crisis.

None of this is likely to change very fast. With no end yet to the nuclear stand-off between North Korea and the United States, American and Japanese sanctions will remain in place. And nukes are only part of it. Last week the American State Department said it was likely that North Korea produced and sold heroin and other narcotics abroad as a matter of state policy. North Koreans who have fled claim that up to 200,000 compatriots are in labour camps. North Korea denies it all.

Reform, such as it is, has plainly made life easier for many. But rescuing the North would take large amounts of foreign money, as well as measures more far-reaching than have yet been attempted. At present, there is no way for the government to get what it needs from international financial institutions like the World Bank. Such aid as comes will be strictly humanitarian, and investment in so opaque a country will never be more than tentative. Domestic reform on its own cannot fix an economy wrecked by decades of mismanagement and the collapse of communism almost everywhere else.

MAP: NORTH KOREA

PHOTO (COLOR): Oh for a tractor

PHOTO (COLOR): North Korea's 11-year-old victims

PHOTO (COLOR)

---

Copyright of The Economist © 2004 is the property of Economist Newspaper Limited and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use. All rights reserved. Users may not save or store any or all of the content on their own systems or distribute any of the content on a local area or wide area network (such as corporate intranets or networks).