Policy Forum 05-01A: Welcome to Capitalism, North Korean Comrades

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Welcome to Capitalism, North Korean Comrades

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Welcome to Capitalism, North Korean Comrades

By Andrei Lankov

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I. Introduction

Andrei Lankov, senior lecturer at the Australian National University, writes: "the North Korean economy has indeed come a long way from its Stalinist ways. Now the government has neither money nor support nor the political will to revive the Stalinist-style central economy. There is no way back, only forward. Stalinism is dead. Welcome to capitalism, comrades!"

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II. Report by Andrei Lankov

-i§Welcome to Capitalism, North Korean Comradesi¨
by Andrei Lankov

A creeping revolution, both social and economic, is under way in North Korea and it seems there's no turning back. For decades, the country served as the closest possible approximation of an ideal Stalinist state. But the changes in its economy that have taken place after 1990 have transformed the country completely and, perhaps, irreversibly.

For decades, Pyongyang propaganda presented North Korea as an embodiment of economic self-sufficiency, completely independent from any other country. This image sold well, especially in the more credulous part of the Third World and among the ever-credulous leftist academics. The secret of its supposed self-sufficiency was simple: the country received large amounts of direct and indirect aid from the Soviet Union and China, but never admitted this in public. Though frequently annoyed by such "ingratitude", neither Moscow nor Beijing made much noise since both communist giants wanted to maintain, at least superficially, friendly relations with their small, capricious ally.

But collapse of the Soviet Union made clear that claims of self-sufficiency were unfounded. From 1991, the North Korean economy went into free fall. Throughout 1991-99, the gross national product (GNP) of the Democratic People's Republic of Korea (DPRK) nearly halved. The situation became unbearable in 1996, when the country was struck by a famine that took, by the best available estimates, about 600,000 lives. The famine could have been prevented by a Chinese-style agricultural reform, but this option was politically impossible: such a reform would undermine the government's ability to control the populace.

The control on daily lives was lost anyway. What we have seen in North Korea over the past 10 years can be best described as collapse of what used to be rigid Stalinism from below. In the Soviet Union of the late 1950s and in China of the late 1970s, Stalinism-Maoism was dismantled from above, through a chain of deliberate reforms planned and implemented by the government. In North Korea the same thing happened, but the system disintegrated from below, despite weak and ineffectual attempts to keep it intact.

In the 1960s, North Korea was unique in being the only nation in the world where markets were outlawed. The retail trade in a strict sense almost ceased to exist since virtually everything, from socks to apples, was distributed through an elaborate public distribution system with money payments being rather symbolic. The rations depended on a person's position in the intricate social hierarchy, which eventually became semi-hereditary. In Kim Il-sung's North Korea, there was almost nothing that could be sold on market since production outside the state economy was almost non-existent.

Unlike governments of other communist countries, until the late 1980s the North Korean government did not even allow its farmers to cultivate kitchen gardens - the individual plot was limited to merely 20-30 square meters, hardly enough to grow enough chili pepper. This was done on purpose. In many other communist countries, farmers had bigger plots and made their living from them, ignoring their work obligations to the state-run cooperative farms. Without their own plots, farmers would work more for the state - or so believed the North Korean government. In the utopia constructed by Kim Il-sung, every single man or woman was supposed to work for the state, and was rewarded for his and her efforts with officially approved rations and salaries.

In 1969, Kim himself admitted that the anti-market policy had been a failure. Thus private markets were gradually legalized, but remained small and strictly controlled. However, as late as late 1980s, markets were still considered inappropriate for a "socialist paradise". They were something to be ashamed of, so they were pushed to the margins of the city. Until the early 1990s, most markets were in places more or less hidden from view, inside residential blocks and behind high concrete walls. In Pyongyang, the main city market was set up under a huge viaduct at the easternmost part of the North Korean capital, as far from the city center as possible.

However, the economic disaster of 1991-95, and especially the subsequent famine, changed the situation. Markets began to spread across the country with amazing speed. From 1995-97, nearly all plants and factories ceased to operate. The rations were not issued anymore: in most areas people still received ration coupons but these could not be exchanged for food or other rationed goods. Only in Pyongyang and some other politically important areas did food continue to be distributed. But even there, the norms were dramatically watered down. In such a situation, the ability and willingness to engage in some private business became the major guarantee of physical survival.

The government also relaxed the restrictions on domestic travel. Since around 1960, every North Korean who ventured outside his native county was required to have a special "travel permit" (an exception was made for one-day travel to neighboring counties). However, in the mid-1990s, the authorities began to turn a blind eye to unauthorized travel. It is not clear whether it was a deliberate relaxation or just inability to enforce regulations when the state bureaucracy was demoralized. After all, a bribe of some US$5 would buy such a permit from a police officer.

The tidal wave of small trade flooded the country, which once came very close to creating a non-money-based economy. People left their native places in huge numbers. Many sought places where food was more available while others enthusiastically took up the barter trade, including smuggling of goods to and from China. Women were especially prominent in the new small businesses. Many North Korean women were housewives or held less-demanding jobs than men. Their husbands continued to go to their factories, which had come to a standstill. The males received rationing coupons that were hardly worth the paper on which they were printed. But North Korean men still saw the situation as temporary and were afraid to lose the trappings of a proper state-sponsored job that for decades had been a condition for survival in their society. While men were waiting for resumption of "normal life", whiling away their time in idle plants, the women embarked on frenetic business activity. Soon some of these women began to make sums that far exceeded their husbands' wages.

The booming markets are not the only place for retail trade. A new service industry has risen from the ashes: private canteens, food stalls and inns operate near the markets. Even prostitution, completely eradicated around 1950, made a powerful comeback as desperate women were eager to sell sexual services to the newly rich merchants. Since no banking institution would serve private commercial operations, illegal money lenders appeared. In the late 1990s they would charge their borrowers monthly interests of 30-40%. This reflected very high risks: these lenders had virtually no protection against the state, criminals and, above all, bad debtors.

In North Korea, which for decades was so different, this meant a revolution. The new situation undermined the government's ability to control the populace. People involved in the new market activities are independent from (or inured to) subtle government pressures that had ensured compliance for decades. One cannot promote or demote a vendor, transfer him or her to a better or worse job, nor determine his or her type of residence (though admittedly, most people still live in the houses they received when the old system was still operating).

The growth of new markets also undermined some pillars of old North Korean hierarchy. Of course,

many people who became affluent in the new system came from the old hierarchy - as was the case in most post-communist countries. Officials or managers of state-run enterprises found manifold ways to make an extra won. These managers often sold their factories' products on the market. But many hitherto discriminated-against groups managed to rise to prominence during this decade. The access to foreign currency was very important, and in North Korea there were three major groups who had access to some investment capital: the Japanese-Koreans, Chinese-Koreans and Korean-Chinese.

The Japanese-Koreans moved into the country in the 1960s (there were some 95,000 of them - with family members, children and grandchildren, their current number can be estimated at 200,000-250,000). These people have relatives in Japan who are willing to send them money. Traditionally, the authorities looked at Japanese-Koreans with suspicion. At the same time, since money transfers from Japan have been a major source of hard currency for Pyongyang, their activities were often tolerated. This particular group even enjoyed some special rights, being privileged and discriminated against at the same time. When the old system of state control and distribution collapsed, Japanese-Koreans began to invest their money into a multitude of trade adventures. It did not hurt that many of them still had the first-hand experience of living in a capitalist society.

Another group were people with relatives in China. The economic growth of China meant that the relatives could also help their poor relatives in North Korea. In most cases, this was not in the form of money transfers, but assistance in business and trade. The local ethnic Chinese were in an even better position to exploit the new opportunities. For decades, they have constituted the only group of the country's inhabitants who could travel overseas as private citizens more or less at their will. Even in earlier times, the ethnic Chinese used this unique position to earn extra money by small-scale and part-time smuggling. In the 1990s, they switched to large operations. There is an irony in the sudden economic advance of these groups. For decades, their overseas connections have made them suspect and led to systematic discrimination against them. In the 1990s, however, the same connections became the source of their prosperity.

Until recently, the government did not try to lead, but simply followed the events. The much-trumpeted reforms of 2002 by and large were hardly anything more than the admission of the situation that had been existing for a few years by then. The official abolition (or near-abolition) of the public distribution system did not count for much, since this system ceased to operate outside Pyongyang around 1995.

But the North Korean economy has indeed come a long way from its Stalinist ways. Now the government has neither money nor support nor the political will to revive the Stalinist-style central economy. There is no way back, only forward. Stalinism is dead. Welcome to capitalism, comrades!

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