

# **Policy Forum 05-81A: North Korean Markets and the Reactivation of the Public Distribution System: Dialogue between a Pessimist and an Optimist**



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Policy Forum Online 05-81A: October 6th, 2005

## **North Korean Markets and the Reactivation of the Public Distribution System: Dialogue between a Pessimist and an Optimist**

By Ruediger Frank

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#### **I. Introduction**

Ruediger Frank, a Distinguished Visiting Professor at Korea University, Seoul, writes, "aside from the possibility that this might either be a temporary measure or turn out to be a misunderstanding altogether, such a move calls for some attempts at an interpretation. Would the reintroduction of the 100% PDS coverage be a sign of failure, or of success? Should we be happy or concerned? Here is a fictive dialogue between a pessimist and an optimist to answer these questions."

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#### **II. Essay by Ruediger Frank**

- North Korean Markets and the Reactivation of the Public Distribution System: Dialogue between a Pessimist and an Optimist  
by Ruediger Frank

As the Joongang Ilbo ("UN AGENCY: NORTH CEASES SALE OF CEREALS ON THE MARKET", 2005-10-03) reported based on a WFP report, the DPRK has stopped the sale of cereals on the market; public distribution centers are said to have taken over the country-wide distribution of cereals. A good harvest is given as one of the reasons.

First of all, it is remarkable that this information comes from the WFP, once again highlighting the important access to information provided by this organization. It would be a serious setback if the WFP had to cease its operations in North Korea.

Aside from the possibility that this might either be a temporary measure or turn out to be a misunderstanding altogether, such a move calls for some attempts at an interpretation.

Would the reintroduction of the 100% PDS coverage be a sign of failure, or of success? Should we be happy or concerned? Here is a fictive dialogue between a pessimist and an optimist to answer these questions.

Pessimist: I knew it right away. The reforms have been a failure. They were temporary and are now taken back again, to return to the old system.

Optimist: The very success of the reforms has made this step possible. The leadership is obviously concerned with undesirable and dangerous effects such as inflation, income disparity, poverty and resulting frictions. It nevertheless has learned a lot and might come back with new, but better prepared and backed reforms in the future.

Pessimist: You don't get it. The market in North Korea is dead.

Optimist: Not quite. So far, only cereals are not to be traded on the market anymore. But the number

of those markets has grown over the last years, as did the number of traded goods. I have seen them myself. Vegetables, shoes, clothing, TVs, alcoholic and other beverages... This might well survive. By the way, diversion is now not an issue anymore - there is no place for an organized sale of diverted food, and no demand for it either. No need to worry about monitoring anymore. And the industrial zone in Gaeseong, another aspect of those reforms, has not been closed.

Pessimist: Who said that the true reason really is a good harvest? The Chinese and South Koreans with their massive food deliveries made this possible.

Optimist: That would be against the spirit of chuch'e. Depending on any foreign country will be avoided by all means by the North Korean leadership. Imagine the loss of face if the government had to reduce the ration again after one of the donors refuses to deliver, say, next year. It could rather be that we overestimated the aggregate rice demand in North Korea.

Pessimist: What do you mean? They need wide over 6 million tons of rice or rice equivalent a year; I positively know that from informed sources.

Optimist: One kilogram of uncooked rice contains 3700 kcal. The arithmetic average of gender and workload produces a daily energy requirement of 2540 kcal. In underdeveloped countries, people tend to cover 75% of their energy need with cereals, i.e. 1905 kcal per day. This energy amount is contained in 515 grams of rice. The year in North Korea has 365 days, as anywhere else. This leads to a yearly rice demand of 188 kg per citizen and 4.3 million tons for North Korea's population of estimated 23 millions. You have to add some loss during storage and transportation, of course. But let's wait until we get the estimates for this year's harvest.

Pessimist: You have always emphasized the effects of the markets on the North Korean society and its institutional structure. You went so far as to say that even illegal profits, generated by selling diverted food on the markets, are good profits because they create a vested interest in the market system, lead to the accumulation of wealth, and the creation of a middle class. But this is over now.

Optimist: Not quite. True, it will be harder to make profit by selling cereals. But this will drive people into other sectors. This could be a more sophisticated agriculture, for example. I have seen those green houses outside of Pyeongyang. And haven't we always emphasized that North Korea's comparative advantage is in manufacturing and service? As long as the markets as such are not closed, this step by the North Korean leadership might turn out to be a blessing. Stability is secured by distributing food to the needy, diversion of food aid is not an issue anymore, and entrepreneurial energy will be channeled into more prospective sectors. Think of the village enterprises in China.

Pessimist: But you said months ago, when the daily ration dropped from 300 to 250 grams, that you expected the food ration to be further reduced as the available food supply grows.

Optimist: I have obviously been wrong on that point.

Pessimist: Ha! So all you said today might be wrong too, right?

Optimist: Yes. But that's why we love our freedom so much, don't we? People can express their views, other's can listen and decide for themselves whether they agree or disagree.

[For more details, see: Frank, Ruediger (2005): Economic Reforms in North Korea (1998-2003): Systemic Restrictions, Quantitative Analysis, Ideological Background, in: Journal of the Asia Pacific Economy (Routledge), Vol. 10, No. 3, pp. 278-311]

### III. Nautilus Invites Your Responses

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: [napsnet-reply@nautilus.org](mailto:napsnet-reply@nautilus.org) . Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

Produced by The Nautilus Institute for Security and Sustainable Development  
Northeast Asia Peace and Security Project ( [napsnet-reply@nautilus.org](mailto:napsnet-reply@nautilus.org) )

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