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He has published more than 200 articles in different journals such as "Political Economy Quarterly", "Statistics", "Journal of Econometric Study of Northeast Asia," and has written or compiled over 40 books. Among them, 10 books are single author books, including one book translated into Russian, two books translated into Chinese and Korean.

Privatization Process of the North Korean Economy

[JP] Hiroshi Ohnishi

I. Preconditions to Understand the North Korean Economy

Although North Korean economy is ordinarily understood as a socialist economy, in my opinion, our academic society does not have enough knowledge to assess it. These are, the lack of clear and agreed definition of ‘socialism’, and correct knowledge of the reality of the North Korean economy.

On the first problem, in Ohnishi(1992) and its related many works written in Japanese, Chinese, Russian and Korean, I proposed a special and strong opinions that so-called ‘socialist economy’ has to be recognized as ‘state capitalism’ which is observed everywhere in the early stage of capitalism, typically in Russia before 1991, in Eastern Europe before 1989, in China before 1978, in Vietnam before 1985, in India before 1991, in Egypt before 1970, in Indonesia before 1967, in Japan before 1945 and in Germany before 1945. In these years, these countries accumulated capital rapidly strongly helped by states, and in this sense, it has to be understood as ‘societies for capital’. This is the reason why I call them ‘state-capitalism’. In other words, these countries turned in each year from this type of state-capitalism to private-capitalism (or market-capitalism) which does not need strong intervention of government for such capital accumulation. If it is correct, Kim Il-song’s North Korea also has to be identified as a state-capitalism, and this understanding can be summarized in **Table 1**.

Table 1 Two Stages of Capitalism and Their Leading Political Parties

	State Capitalism	Turning point	Private Capitalism
Japan	Taiseiyokusankai	1945	LDP
Germany	NAZI	1945	CDU
Indonesia	National Party (Sukarno)	1967	Gorkal (Suharto)
Egypt	Nasser	1970	Sadat
China	CCP (Mao)	1978	CCP (Deng)
Russia	Communist Party	1991	Yeltsin
India	National Congress (Nehru)	1991	National Congress (Rao)
North Korea	Labor Party (Kim Il-song)	?	Labor Party (Kim Jong-il) ?

Of course, reality of the North Korean economy is also very important to understand it, but it is hidden by its government for many political reasons. One is for the purpose to take foreign aid, and another is that North Koreans do not want to reveal the broken

economy. However, its broken economy is now ‘recovering’ at least in the private sectors, or correctly speaking, its weakening trend of the state-owned and collective sectors came from the growth of the private sectors. In this paper we will discuss the relationship of these sectors.

II. How Broken Was the North Korean Economy?

Well-known crisis of the North Korean economy started soon after collapse of the Soviet Union, because its huge aid stopped by this collapse, and its difficulties were deepened by the establishment of the Chinese diplomatic relation with South Korea in 1992, because it abolished ‘friendly price’ of the trade goods with China. These are the direct reasons why the North Korean economy was broken down in 1990s and continued its minus growth until 1998. However, normal economy has to live without any foreign aid or ‘friendly price’. In this sense, we have to understand that the North Korean economy had its own reason to be broken down, and of course, the most serious sectors are state-owned and collective sectors. The rates of operation in the state-owned industrial sectors are said to be very low, and sometimes under 30 percent, although we cannot know their correct figures.

One more difficulty that I’ve found when I visited North Korea in the last year is that official salaries people receive are definitely short to live. While public servants’ salary is 3000 won and factory workers’ salary is 2500 won, the price of 1 kg cookies that I bought in the free market in Pyongyang was 2300 won and the price of a toothbrush imported from China was 600 won. Other prices that I’ve known in my visit are shown in **Table 2**. These evidences show state-owned sectors or official economy cannot guarantee peoples’ lives. This is the reality of one side of the North Korean economy.

Table 2 Market Prices in A Free Market and on the Road

Toothpaste (made in China)	4500
Males’ socks (made in China)	1500
Socks for child or female	2500
Soap (high quality)	1000
Soap (domestic)	500
Fried Cake	100
Cake with honey	100
Sweet roll	100
Fried cookie	100
Tofu	90
Bread	2000
Other bread	1300
Sponge Cake	2500
Wine	400

Kimchi	600
Smoked dack	9000
Yogurt	500
Ice bar (in Kaesong)	50
Ice cream (in Pyongyang, Kaesong)	250-300
Subway ticket	15
Bus ticket	10

III. 'Broken' is also a Proof of the Recovery

However, very strange thing is that many Pyongyang people are buying such everyday goods in the free market, and the qualities of goods in the free market became better than before. This fact was revealed by another visitor's old report that toothbrushes in the same market were made in North Korea and humble. I think this change came from the strong competitive of the Chinese light industry on one side and from the North Korean income growth on the other side.

Therefore, our problem has become where people earn extra incomes, and this answer also was in the free market. Besides the free market that we've seen, there are 26 or 40 free markets in Pyongyang city according to some reports, and at least our market was full of customers. Maybe, there are several hundreds of shops, and selling all kinds of everyday goods including agricultural products. Although this kind of free market was introduced by the food crisis, because the government expected they compensate shortage of ration, and if so, recovery of the agricultural production has to stop the trades of agricultural products in the free markets. In reality, the government declared the end of the trade of rice in the free markets soon after its rich harvest in 2005. However, according to a report, still now rice is also traded in the free markets. Because distribution to the free markets is expected to be more profitable, it is very natural that they send them to the free markets.

Not only agricultural products but also industrial goods are traded in the free markets. However, its trades are officially limited to side jobs, for example, exchanges of the goods that people have in their home over their own use, or the goods that factory workers made after five o'clock in their home. If this restriction is kept by the people, we can regard its economy as that is a planned one in nature and market economy is just only a complement. However, the reality of the free markets is far from its official principle. For example, we saw many drinks which must be bought by them or clothes which must be produced before five o'clock. As I mentioned above, also for the factory workers, it is rational that they distribute the products to the free market rather than the government.

However, I've taken very interesting information that workers are 'buying' the right not to go to their factory and to do private trades outside. This information was in a web-cite in Korea (http://www.goodfriends.or.kr/n_korea/), and it is very likely, if private

trades are very profitable. Under this condition, factories welcome such behaviors and become a kind of 'staff agencies' who send people and receive parts of their income. Therefore, the more profitable private sectors, the lower the rate of operation of the state-owned sectors, and in this sense, lower rate of operation means the rapid growth of the private sectors. Here, we could understand both negative sides and positive sides of the North Korean economy.

In addition, we have to know that these private sectors sometimes include capital-labor relations, for example in the fishing industry. According to the same web-cite in Korea, there are ship owners who employ workers as crews. Anyway, in this situation, North Korean government has to declare that this economy is a market economy, although it is hesitating to say so by the political reason.

IV. Change of Income Distribution

Generally speaking, in the stage of economic growth, income of the lowest stratum grows but income disparities among strata also rises. This basic trend is also observed in the present North Korean society.

According to a NPO called 'RENK', there were following five income segments in North Korea (with the corresponding shares): (1) the ruling segment that has foreign-currency incomes (20%), (2) the middle segment that lives on white rice (25%), (3) the subsistence segment that lives on corn grain, (25%), (4) the sub-subsistence segment that lives on porridge (25%), and (5) the vagrants (5%). However, today, the same information source has revealed that its distribution has changed as follows: (1)+(2)=50%, (3) 0%, (4) 5-40%, and (5) 0%. Because this NPO is an anti-North Korean organization, it is reliable that the lowest segment has disappeared. However, this type of bi-polarization may be also true¹. This is the reality of the North Korean economy.

Therefore, this economic growth gives two results: positive and negative. However, if it is true, introducing income tax can give them a good effect on re-distribution. Although North Korea prides that there is no tax, no taxation is not good for its needed re-distribution, and introducing taxation has another role for the government to change its growth of the private sectors to its governmental revenue. In reality, already some kinds of 'taxation' has been introduced in North Korea, for example, rental fee taken from the private shops in the free markets, money which is paid by the factory workers to buy the right to be allowed not

¹ According to the same web-cite, the segment (1), (2), (3), (4), and (5) earn monthly one million won, 120 thousand won, 35 thousand won, 10 thousand won, and zero won respectively. If this present income disparity in North Korea is measured correctly, Gini coefficient of the North Korean society can be calculated as 0.675. This figure is the second worst next to Namibia according to Hiroshi Yamaguchi's web-cite in Japan (www.h-yamaguchi.net/2006/01/post_d7b3.html). Please compare the figures 0.33 in China, 0.299 in USA, and 0.217 in Japan.

to go to the factories. Therefore, the only things that have to be conducted are just the declaration of 'market economy' and introducing taxation.

References

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