

RECENT TRENDS IN NORTH KOREAN MARKETS AND PRICES

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North Korean markets went through a significant shock following currency reform efforts at the end of 2009. Now, with officials reauthorizing market activities and other private trading reemerging, markets are slowly regaining their pre-reform position in the North Korean economy. The road to regaining market stability has, to date, run through three distinct stages.

The first stage was one of chaos, running from the announcement of currency reform measures in December 2009 to the beginning of February 2010, when then-Premier Kim Yong Il apologized for policy failures related to the currency reforms. During this period, North Korean authorities enforced a range of strong control measures over markets and market activities, almost completely shutting down market trading across the country. However, these measures failed to improve standards of living impacted by the reform measures, leading only to increased discontent among most North Koreans, and worsening food shortages in rural areas of the country.

The second stage ran from early February to mid-April. During this period, North Korean authorities came to recognize the failures of the currency reform measures, and implemented a series of countermeasures partially easing restrictions on the markets in order to rectify the side-effects of the failed policies. Officials not only authorized previously curtailed market activities and tacitly allowed the use of foreign currency, they even released emergency stores in order to repair the damage done by the reforms. Despite these efforts, however, the North's economy has been unable to break free from the instability and uncertainty causing see-sawing prices and other unpredictable shifts.

The third stage of market recovery for North Korea fell between mid-April and June, 2010. As market functions have slowly been returning to normal and market activity appears on the road to regaining pre-reform levels, food prices have appeared relatively stable, especially since May. That said, price fluctuations remain severe, and prices vary significantly between regions, indicating that North Korea's economy has not yet been able to gain stable footing. These days, North Korean market prices remain the most unstable element of the country's economy. Prices and currency exchange rates have been on a rollercoaster, impacted by the regime's policies.

In late February, rice cost 500 Won per kilogram, but by early March, prices had hit their highest point in recent history (prices in North Hamgyong Province hit 1,500 Won/Kg on March 7, 2010). After the beginning of March, food imports from China led to a decline in prices, which hit 300 Won per Kg in early April (April 2). North Korean authorities' allowance of the use of foreign currency also appears to have encouraged the import of Chinese rice and other foods. Market activities continued to grow throughout the month of April, but throughout May, prices appeared to have stabilized considerably. Despite improvements, however, instability was still predominant, and regional price disparities continued to exist, as can be seen in the tables below.

<Figure 1> North Hamgyong Province Onsong Market Rice Price Fluctuations
(Unit of measure: DPRK Won/Kg)

Date April 23 April 27 May 1 May 4 May 9
Rice Price 500 700 820 630 580
Source: Daily NK, May 10, 2010

<Figure 2> Comparison of Rice Prices in North Korea's Major Cities
(Unit of measure: DPRK Won/Kg)

Major Region
(Date) Hyeryong, North Ham
(June 4) Sinuiju
(June 7) Sunam District, Pyongyang (June 2) Sariwon
(June 7)
Rice Price 480 420 360 380
Source: Daily NK, June 8, 2010

Maintaining some semblance of market stability during the May-June spring lean season, during which most experts anticipated sharp price jumps, can be attributed to 'normalization' of North Korean markets. According to sources within North Korea, currency reform measures led to the reduction of all market activity across the country, but now, these markets have almost completely regained their former place in the North Korean economy. Furthermore, official encouragement by government offices

of the import of food by institutions and agencies dealing in foreign currency exchanges appear to have played a part in stabilizing food prices. Following the Cheonan incident, North Korea bolstered border protection measures, and this led to the shooting by DPRK border guards of three Chinese smugglers. Despite this incident, cross-border smuggling seems to be continuing to grow.

While markets today appear to be busy, sales are still considerably below pre-reform levels. This is because not only did reforms devoid traders of the capital they need to carry out business, but the measures caused the money held by consumers to be worth less than the paper upon which it was printed, severely limiting their ability to shop in markets. Therefore, recent price stability could be a reflective of a less-than-ideal balance between consumers and suppliers, both with limited resources.