
The State of Farmers' Markets in North Korea and Its Implications

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The Origin and Development of Farmers' Markets

In 1958, North Korean authority could not help allowing farmers' markets, despite the existence of a unitary distribution system. The major reasons for this change were two-fold. First, the authority could no longer ignore farmers' traditional desire to sell their personal products. Second, it could no longer control the distribution process for all the detailed products. Farmers' markets could not only contribute, though in a limited way, to meeting residents' demand for daily necessities, but also had an advantage over state-run stores in that its buying procedures were much simpler.

Farmers' markets originated from traditional markets, named "people's markets," which had existed in North Korea from the time of national liberation till 1950. Ordinarily, there were three or four people's markets in one county, and most of them opened almost every day while some markets in smaller villages opened on every third day or on every fifth day. These traditional markets began to be called "farm village markets" from 1950, and continued until 1958 when agricultural collectivization was completed.

In 1958, with the completion of agricultural collectivization,

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private commercial activities were also banned, and a unitary commercial distribution system to be run by the central authority was firmly established. In August, 1958, the North Korean cabinet issued "Decision 140" which renamed farm village markets as farmers' markets and limited the transaction therein only to vegetables and some side foods.

During the sixties and the seventies, farmers' markets were more strictly controlled by the central government. Farmers' markets located at the centers of major cities such as Pyongyang were ordered to be closed. As a result, farmers began to visit others' houses, selling their own products or exchanging them with what they needed. Since the mid seventies, as the North Korean economy showed a sign of recession, illegal transactions gradually increased.

Entering into the eighties, farmers' markets began to be revitalized, due to the malfunctioning of state-run commercial networks and the consequent insufficiency of consumer goods. In 1982, Kim Il-sung directed Pyongyang and other major cities and areas to open permanent farmers' markets. This impetus from the center not only increased the number of farmers' markets rapidly, but also diversified the kinds of goods transacted through them.

Since the mid eighties, however, farmers' markets were put under control once again, mainly due to the improvement in grain yields. Personal transactions were made through black markets, and permanent farmers' markets were first turned into every-7th-day markets (Sunday markets), and later into every-10th-day markets. Until the early nineties, the North Korean authority swung back and forth from control to non-interference on farmers' markets in terms of types of goods to be transacted, size, and opening hours.

North Korea's farmers' markets were turned back into everyday markets in 1993. Since the worsening of food shortages in the mid nineties, their number as well as their size (in terms of transaction amount) rapidly increased. Their location also spread from the designated areas to any busy streets. From this time on, the North Korean authority could not help admitting the necessity of farmers' markets, and virtually officialized them by levying taxes on traders

(2-15 North Korean Won). The regulation on them was also limited only to forbidding transactions of illegally distributed manufactured goods.

This revitalization of farmers' markets in recent years signifies that North Korea is suffering not only from severe economic difficulties, but also from the malfunctioning of its official distribution system. Foods and manufactured goods, which are not allowed, in principle, to be transacted in farmers' markets, are being traded under the authority's tacit assent. This inability to control even the types of goods to be transacted testifies to the fact that the official distribution system is not working properly.

The State of Farmers' Markets

Types of Goods Being Transacted

Originally, only vegetables produced by individual farmers were allowed to be transacted in farmers' markets. Since the mid nineties, however, various goods including foods and manufactured goods began to be transacted, thus making it difficult to tell the differences between farmers' markets and black markets. Foods are now being transacted in almost every black market, although there are some variances according to regions. Among manufactured goods, those that are for daily use are being transacted without any significant limitations. Furthermore, raw materials, machine equipments, materials for medicine, and precious metals are also being transacted, although their transactions are formally prohibited.

Sources of Goods

The goods transacted at farmers' markets originate mainly from the following three sources: personal products, goods that are stolen from the official sector, and those that flow from China and other countries.

Personal products include agricultural products individual farmers produce in their personal fields (tutbat, ddoegibat, and

bueopbat), some live-stocks and fowls and handcrafted products. Live-stocks are mostly pigs, dogs, and fowls that farmers keep personally.

In recent years, foods and other eatables stolen or embezzled from the official sector are flowing into farmers' markets with greater frequency. This is a result of the structure of dual prices between the official sector (state-run economy) and unofficial sector (farmers' markets), which in turn is a result of severe economic difficulties the country is facing. By illegally distributing products from the official sector into farmers' markets, North Korean residents could take considerable economic gains.

More than 80% of all the daily necessities (except for foods) transacted in farmers' markets are being flown from China. This is in stark contrast from the situation in 1987, when most of the goods transacted were produced in North Korea. The decrease of North Korean products and the accompanying increase of Chinese goods can be explained in part by North Korea's severe economic difficulties, and in part by the easing of control on the inflow of Chinese products since the mid nineties.

The inflow of Chinese goods is made not only through official trade, but also through unofficial Chinese traders called "boddari" merchants. Some estimate that the unofficial trade may account for around 80% of the total trade between China and North Korea. Those goods Chinese traders bring to North Korea are first sold wholesale to North Koreans of Chinese origin (estimated to be around 5,000) retail and North Korean merchants, who either distribute them to local retail dealers or sell them directly in farmers' markets.

Methods of Transaction and Management

The distribution system of farmers' markets is highly undeveloped, with the mixed use of barter and money.

Small-scale transactions between consumers are usually made through bartering, with only the gap being paid in cash. Even in merchants' transactions, bartering is preferred to cash sales. This preference for bartering is due to the instability and inconvertibility

of North Korean Won. In particular, Chinese merchants have to pay fees (around 20%) or risk the chance of being caught when they illegally exchange North Korean Won into Chinese or other currencies.

The role of distributing goods across regions, although it was originally played by North Koreans of Chinese origin or Chinese of Korean origin visiting North Korea, is now also played by material buyers of firms. Material buyers tour around the country to purchase various raw material for their firms, and as their side jobs, they are playing the role of wholesale merchants, distributing goods across regions. Local residents, who purchase goods from these whole sale merchants, would play the role of retail dealers. The transactions between wholesale merchants and retail dealers are usually made in cash, but sometimes bartering is utilized. Retail dealers are estimated to have a capital of at least 5,000 North Korean Won. When cash is lacking, they can borrow from neighbors, paying the interests whose rate is estimated to be around 20-30%.

Farmers' markets were supposed to be managed by officials who belong to the commercial division of Committees on Administration and Economy at city and county levels. Since these committees were annexed to Local People's Committees with the Constitutional amendment in November, 1998, farmers' markets are now managed by some organizations that belong to Local People's Committees. The managing tasks are usually performed by retired soldiers or agents working at Social Security Agency.

Management fees vary widely across regions, but they seem to reflect dealers' expected income. In some regions, there seems to exist a clear discrimination against Chinese, as North Korean residents pay fees of 30 North Korean Won per month, while Chinese merchants are forced to pay 50 Won per day. For individual farmers selling their own products, very small fees or no fees are imposed.

Method of Price Setting

The North Korean authority, although it has taken generally negative views on farmers' markets, has intervened in determining

prices in the markets. The prices are, then, being determined mostly by the supply and demand. Therefore, the prices for agricultural products and fisheries vary widely across seasons, while manufactured goods are little affected by such seasonal variances.

Currently, the prices in farmers' markets are affected mostly by the prices in China. For example, the hike of rice price in China would cause the price of rice in North Korea to jump also. In specific, wholesale prices in farmers' markets are determined by applying the exchange rate (the exchange rate between North Korean and Chinese currencies is 1 : 24) and the margin of around 10% to the original prices in China. Retail prices are determined by applying the margin of 10-20% to the wholesale prices.

The reason why prices in China is so critical in determining prices in farmers' markets is that Chinese goods occupy a bulk of all the goods transacted in the markets, while North Korean goods are getting increasingly difficult to find due to the worsening economic conditions of the country.

Recent Prices in Farmers' Markets

Price Changes Across Time

Prices in farmers' markets, which had been increasing rapidly until 1997, started to go down somewhat in 1998. For example, the price for rice (1 kg) in Western region went up from 12 North Korean Won in 1992 to 80 Won in 1997. Nowadays, the price is around 75 Won. The price changes for pork also showed a similar pattern. In Eastern region, the price for rice (1 kg) went down from 125-140 Won in 1997 to 90 Won in 1998.

Recently, the gap in prices between Eastern and Western regions has been narrowed down. In 1997, the rice price in Eastern

<Table 1> Prices in Eastern and Western Regions Across Time

	1997		1998	
	Western	Eastern	Western	Eastern
Rice (1 kg)	80	125	75	90
Pork (1 kg)	350	270	140	130

region was around 156% of that in Western region, but the gap decreased to 132% in 1998. The price gap for pork also decreased from 130% in 1997 to 108% in 1998.

What can we infer from the going down of prices in farmers' markets in general and the reduction of price gap between Eastern and Western regions in 1998? The reduction of regional price gap seems to be a result of the easing of regulations on movements of goods across regions and on transactions in general. The decrease of prices in general can be interpreted as the increase of the amount of goods being circulated relative to the amount of currencies.

Relative prices for different goods have also changed. When food shortage was not severe, the price for pork (1 kg) was only 130% of that for rice (1 kg). With the worsening of the problem of food shortage since 1994, however, the price for pork hiked to 440% of the rice price. In 1998, the gap was reduced back to 200%. The changes in relative prices can be explained mostly in terms of the supply of pork. The worsening of food shortage caused the supply of pork to decrease rapidly.

Comparison of Prices Across Regions

Prices in border regions such as Shineuiju and Rajin-Sonbong have been generally assimilated. In contrast, prices in non-border regions such as Hamheung and Haeju have been highly differentiated from those of border regions.

In general, grain prices tend to show relatively narrow variances ($\pm 20\%$) across regions, while substitutes for main foods, such as tofu and vermicelli, show wider variances in price across regions. Prices for meat and fish also differ considerably across regions, which can be explained by the regional differences in the amount of supply for given goods. For instance, prices for theragra chalcogramma and salt in Haeju are very low, simply because these are produced in this region. Prices for vegetables, fruits, seasonings, and other light foods vary widely across regions. This wide variance seems to result largely from the differences across regions in terms of basic unit, types of goods, and quality of goods.

In those non-border regions such as Haeju and Hamheung,

prices for most goods other than grains, meat and fish are known to be relatively low. This implies that transactions in farmers' markets are still concentrated on main foods and their substitutes while demands for side foods, seasonings, and other necessities are still low. Prices for local products tend to be low, since they are supplied in abundance with little chance of being exchanged.

Even in non-border regions, however, prices in farmers' markets have been considerably assimilated, and this trend is expected to continue in the future. Given the fact that urban residents are purchasing around 70% of foods and around 80% of daily necessities in farmers' markets, it will be difficult for the North Korean authority to impose direct regulations on farmers' markets.

<Table 2> Prices for Main Goods in Farmers' Markets

(North Korean Won)

Categories	Goods	Unit	Eastern Border Region	Western Border Region	Non-Border Region	State Price
Grains	rice	kg	75~80	75~80	85~90	0.08
	corn	kg	35~40	40~45	45~50	0.03
	wheat flour	kg	50~60	55~60	70~80	0.06
Meat & Fish	pork	kg	170~180	140~150	190~200	10
	chicken	one	120~130	150~180	300~500	9
	theragra chalcogramma	one	25~30	20~25	20~30	N. A.
Vegetables & Fruits	cabbage	one	6~9	10	8~10	0.05
	laminaria	kg	80~100	60~80	20~30	0.3
	apple	one	15~20	15~20	10~20	0.1
Seasonings	soybean oil	kg	250~300	280~300	130~200	1.2
	ground pepper	kg	200~280	150~160	100	1.5
	sugar	kg	120~140	120	80~150	2
Light Foods	ice cake	one	5	4	2~5	0.1
	honey	500g	200	250	250	5
	beer	one bottle	60	40	50	0.5
Other Necessities	washing soap	one	30~40	40~45	60~100	0.4
	penicillin	one bottle	15~20	20	20~30	N. A.
	television	one	6,000~8,000	6,000	10,000~12,000	350

Implications

Farmers' markets have established themselves as an essential means by which North Korean residents maintain their lives. Therefore, it will be difficult for the North Korean authority to impose direct controls on farmers' markets as it did in the past. Urban residents are purchasing 70% of their foods and 80% of daily necessities in farmers' markets, and rural residents are also heavily dependent upon farmer's markets for their daily necessities. The North Korean authority cannot but admit the market function, which is sort of replacing the sector of state economy. For political reasons, however, it cannot desert the official distribution system. Unless there occurs a radical change in the current regime, therefore, the dual structure where the official distribution system and farmers' markets coexist will continue in North Korea.

The North Korean authority is expected to accept the functions of farmers's markets in considerable part, and to derive as much utilities as possible from them. Since the price gaps still exist across regions, however, one cannot exclude the possibility that political forces (the Party and other power organizations) could intervene in the distribution network for profits.

Farmers' markets have several positive effects on the North Korean economy. First of all, they make it possible to distribute those goods that cannot be supplied through the official distribution system. This also has the effect of reducing the supply gaps across regions. In addition, farmers' markets have the effect of expanding production by encouraging individuals to work harder for their personal benefits, and by providing the unemployed with opportunities to work.

Next, farmers' markets may contribute to a more efficient use of resources by encouraging recycling and saving of resources through various efforts. This will be also accompanied by an increase in production. In longer term, however, the effect of increasing production will be limited, as transactions in farmers' markets will be concentrated on commerce and service industries, rather than on agriculture and manufacturing. Moreover, due to the lack of property rights, investment activities for the long term

objective of productivity increase are difficult to expect.

There are some considerable negative effects of farmers' markets. As the price gaps between the official sector and farmers' markets increase, incentives for embezzlement and stealing from the official sector will also increase, which in turn will intensify socially undesirable activities such as bribery and illegal transactions. All these will lead to a reduction in the state revenue coming from the official sector.

With its distribution system, the North Korean system has been aiming at the goal of economic equality. The weakening of the official distribution system and the expansion of farmers' markets, however, tend to widen income gaps among residents. In particular, those who participate directly in market transactions may be able to accumulate a considerable amount of wealth. It is important to note here that this might encourage a new type of class differentiation in North Korea, based exclusively on "economic" factors regardless of "political" status. **EK3**