

Behind North Korea's Rocket Launch, Economic Turmoil
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The disaster in outer space is matched by the disaster on the ground

With global attention focused on North Korea's attempted launch and humiliating failure today of a multi-stage rocket, it's worth also taking a look at the other claim the Pyongyang regime has long made for the imminent April 15 birth centennial of its founding leader, Kim Il-sung: emergence into economic prosperity.

Originally, the regime had declared that the country would emerge as "a strong and prosperous nation" during this time, but with that aspiration far from attainment, the goal has been relaxed recently to marking the country's "passage through the gate" to prosperity. In reality, the North Korean economy today is characterized by macroeconomic instability, widening inequality and growing corruption.

No one (including the North Korean government) knows with any true confidence the size or growth rate of the country's economy, but the consensus among outside observers is that per capita income today is lower than it was 20 years ago, and by some reckonings is only now re-attaining the level it first achieved in the 1970s.

Price data indicate that since a disastrous currency reform in November 2009, inflation, including for basic goods such as rice and coal, has been running at well over 100 percent a year. The black market value of the currency has been falling at a similar rate, meaning that those with access to foreign exchange are insulated from the ravages of inflation while those reliant on the local currency have seen their buying power dwindle. Unlike in the past, when grain prices fell after the harvest – sometimes by quite substantial amounts – prices have continued to rise this year. Analyses by both the US government and international groups indicate that there is not enough food to go around, and some families are going without.

Help was supposed to be on the way in the form of a resumption of U.S. aid, but the unraveling of the "Leap Day" food-for-weapons deal in the wake of North Korea's announcement of its rocket launch means that conditions for the North's chronically food-insecure population may not improve.

This picture stands in sharp contrast to numerous anecdotal reports of improved living standards, abundant cell phones, and even traffic jams in Pyongyang, though it is consistent with the less numerous reports of grim conditions in provincial cities. My colleague Stephan Haggard has dubbed this phenomenon "Pyongyang illusion" and believes that it may well go beyond typically observed urban- or capital-bias in governance, and represents an attempt by an insecure regime to forestall any Tahrir Square type activity in the capital city.

Macroeconomic imbalances and shortages have exacerbated the country's problems with corruption, already assessed by Transparency International as the worst in the world. The situation not only represents a drag on growth, but could impair the regime's capacity to govern, as the parochial interests of corrupt officials diverge from the policy preferences of Pyongyang. In the wake of the December death of leader Kim Jong-il, the state has responded with heightened control measures, including purging the security units who were supposed to

pursue corrupt officials but who had evidently themselves been corrupted. But there are limits to the effectiveness of repression when the underlying problems remain unresolved.

In short, the country is beset with macro instability, deepening inequality, rising corruption, and a political leadership that appears to lack the vision or capacity to respond. Some current policies have allegedly been ascribed to Kim Jong-il's "dying wish," and it would not be surprising if the regime uses this rationale for some time. But at some point Kim Jong-un and the new leadership will have to take ownership of policy. That transition could well begin on the centennial of his revered grandfather's birth.

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