

WALL STREET JOURNAL

Hey Kim Jong Eun, It's The Economy Stupid

By Evan Ramstad
October 2, 2012

North Korean farmers in South Hwanghae province, Sept. 2011 file photo. Photographers toured the countryside with government minders. North Korea's just-for-show parliament may have not addressed the economic reforms that outsiders were expecting when it met last week, but a couple of statements from its state media over the last few days suggest that the regime in Pyongyang is sensitive to criticism that it is not focused on the economy.

And some recent reports by North Korea watchers suggest a reason why the regime is touchy on the subject: inflation may again be destabilizing the economy.

In its daily dumping on South Korean President Lee Myung-bak, the North's Korea Central News Agency on Saturday addressed a comment by Mr. Lee last week that the Supreme People's Assembly, as KCNA put it, "did not discuss the issue of people's living and its session brought disappointment to the international community."

KCNA's response included its usual over-the-top disparagement, calling Mr. Lee a "most disgusting rat-like and crazy man utterly ignorant of what is going on in the world stuck in the back room of Chongwadae," a reference to the presidential Blue House. But it also built a spirited defense of the announcement last week that the North would increase compulsory education from 11 to 12 years, as a means of building a "dynamic advance towards the most civilized thriving socialist nation."

We'll take that as KCNA-speak for getting richer.

"It is a great turn in building a highly civilized state in name and reality to provide (a) legal, material and social environment for increasing the might of the power of Mt. Paektu," the dispatch added, with a reference to the giant mountain on the border with China that it uses as a symbol of Korean greatness.

Then on Monday, KCNA threw another punch at Mr. Lee for criticizing the regime's heavy focus on defense. Mr. Lee has repeatedly urged North Korea to focus on the living standards of its people rather than spending so much on its military, but KCNA has rarely responded to that.

Monday's dispatch explained North Korea's fundamental decision to prioritize guns over butter as a means to repel another colonial occupation, as happened with Japan in the Korean peninsula a century ago. "It directed greatest efforts into bolstering the defense

capability with their belts tightened at a crossroad of whether to lead an independent life or to become once again slaves of imperialism,” KCNA said.

It added that North Koreans are “proud of the defense capacity to which they have devoted everything for decades.” And it then asked, “Did the people of those countries that were recently forced to disarm themselves bereft of the sovereignty and dignity undergo hardships and humiliation because of their small income?”

It’s unclear who North Korea is talking about but the end of the Gadhafi regime in Libya springs to mind.

The statements beg the question of why North Korea is suddenly defending its “military first” and economy-never-mentioned policy in the face of things that Mr. Lee and other critics have said for years?

The economic data that is available from North Korea – what little of it there is – suggests the answer: the country is contending with more inflation and weakening of its currency.

Agence France-Presse/Getty Images

Kim Jong Eun admires peppers at the Pyongyang Vegetable Science Institute in a photo released by Korean Central News Agency on Sept. 22.

Over the weekend, the Daily NK, a defector-staffed Web site in Seoul, reported that the price of rice late last week was 6,700 North Korean won per kilogram in Pyongyang and reached 7,000 won in some outlying cities. That’s way above last year’s level and also way above the 5,000 won level we noted in July.

The rising value of the Chinese yuan on international currency markets is one contributor to North Korea’s difficulties. A poor harvest could also push rice prices higher.

Rice is the main indicator outsiders have into North Korea’s economic problems. Economist Marcus Noland in mid-September cited other recent signs that inflation had returned to vex North Koreans.

And just last week, two Cato Institute experts on “hyperinflation” noted that North Korea is one of just 40 countries in the world to experience the phenomenon. Steve Hanke, an economist at John Hopkins University, wrote that North Korea last had a period of hyperinflation from December 2009 to early 2011, with a peak in March 2010 when prices were doubling every 14 days.

Meanwhile, North Korea Economy Watch reports that the North is also trying to counter the perception, created by a Chinese company that lost a lot of money there, that it’s a bad place for foreign investors to do business.