

Voices: North Korea

Let the market thrive,
so the people can, too**James Dorn**

After US Secretary of State Hillary Rodham Clinton's announcement that new economic sanctions would be placed on North Korea, one headline read: "US tightens the screws on North Korea's economy." Yet, Pyongyang has already tightened the screws on its own economy.

The chaos created by last year's currency "reform" and by the crackdown on market activities is evident in food shortages, spiralling prices and discontent.

Small traders had taken advantage of opportunities for profitable exchange following a relaxation of economic controls after the famine of the mid-1990s. Private markets developed and cross-border trade grew. The existence of private markets along with the "sunshine" policy of the South brought new opportunities, as workers moved into the non-state sector and consumers could purchase goods outside the state distribution system.

Not surprisingly, the communist elite feared the market. Moreover, the South, under domestic and US pressure, departed from a policy of engagement. By 2005, Pyongyang had begun to restrict small traders. The currency reform – and an end to the use of foreign currencies in the informal, dual economy – was a signal that further liberalisation was anathema.

Instead of learning from the natural experiments that demonstrated the superiority of markets, Kim Jong-il and his cronies preferred to maintain their power. By making people dependent on the state for their livelihood, government officials regain power

lost to the market. Yet, the reforms failed, the government apologised, and some market activities resumed.

What will happen next? The reported execution of Pak Nam-gi, the party's economics chief, in March, for his role in the currency reform could mean future liberalisation. In the absence of popular uprisings, however, the old guard is likely to protect their privileged position. Adherence to central planning did not protect the Soviet Union from collapse; it hastened it. The same is likely to happen in North Korea.

After more than 50 years of North-South tension, it's time to end the socialist fantasy and restore markets and freedom to the North. The US foreign policy of economic sanctions and war games has failed to change the North. A policy of economic engagement would be more productive, with support from both China and South Korea. China's "peaceful development" is the result of economic liberalisation, not isolation.

The transition from central planning to a market economy in the North should be of utmost importance. Massive war games and economic sanctions will only play into the hands of the North's propaganda department, and the US will become the scapegoat for Kim's attack on market liberalism.

The North was once richer than the South. Restoring markets and instituting a rule of law would give North Koreans the possibility of improving their lives.

James A. Dorn is vice-president for academic affairs at the Cato Institute in Washington, DC, and editor of the Cato Journal