

The New Markets of North Korea: *Jangmadang*

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The experience of the failed Communist market doctrines seemed to have led at least tacitly, to approving the evolutionary process of the new emerging Jangmadang markets that have been growing rapidly and spreading around the country, North Korea. The Jangmadang retail-evolution that was germinated in the 1990s is now one of the major channels of distribution and has become a critical value chain that can move the hungry North Korean consumers out of poverty because it also can lead the country's economy to potential prosperity as their Southern families (South Korea) had achieved decades ago. Two market structures; one prior to and another since the 1990s are presented and discussed.

THE SEVEN DECADES OF SECLUSION

Countering stereotypes of the country as starving, backward, and relentlessly bleak in recent months North Korea has been promoting to attract tourists around the world predicting as many as 2 million by 2020 (Talmadge 2015). However, with its roguish policy and a limited number of allies for the last seven decades, few people have been allowed to step into the country for research of any subject. The control of information flow out of the country by the state has been almost impeccable. This situation creates various obstacles in studying North Korea for any subjects. No wonder North Korea is branded as one of the most mysterious nation states on earth (Yonsei Institute of North Korean Studies, 2015). The study of the changing market system of North Korea is not an exception for securing any necessary data and information. There is no alternative but relying on two avenues; one is to be dependent on the secondary information already published somewhere, and the other is to interview defectors of North Korea currently residing outside the country. The information barriers cast a caveat, if a reliable and accurate portrait of North Korea has ever been presented.

The birth of the North Korean market system traces back to August 1945, seven decades ago, when the Japanese invaders were being forced out of Korea at the end of World War II and the Korean communist leaders, supported by the Soviet Union, began to section the peninsula by a demarcation line called the 38th parallel drawn by U.S. official Dean Rusk with the surprising acceptance of the Soviets (Fry 2013) that eventually led to the division of one Korea into two Koreas; South Korea and North Korea, three years later. The close political and ideological proximity with the Soviet Union steered North Korea into an idealistic state-run economy under which the North Korean market had become a thoroughly orthodox Communist State with but few deviations from the Russian type (Kuarik 1963). The market was a closed-system rather than being open to the outside world, in particular to the western countries, to be specific, countries in Europe and North America.

Today, in reaction to what became a dysfunctional public distribution system by which people were expected to receive reliable provision of food and basic goods, increasing number of *Jangmadangs* have

been born that became the primary source of supply of goods, including food, for most of the population. This phenomenon that can be called “marketization” by Smith (2015) was a social, economic and political consequences. In this market transformation from the public distribution system to private *Jangmadang* operations, women are the predominant participants because women are perceived by the government as less of a threat than men. Also, men are either in ten years of military service or holding prestigious job at public offices.

STRONG START BUT STRUGGLING SYSTEM

The North Korean market that separated in 1945, going a different direction from that of the existing traditional Korean market system, had substantial advantages over the capitalistic South Korean system. Helped by the abundant natural resources, as many as 43 different minerals in number including the world’s second largest producer of magnesia (Sowinski, 2000) and the industrial-based infrastructure designed by the Japanese during the 36 years of occupation, the North Korean market was expanding rapidly. The national income doubled in 1949 as compared with 1946, and factory and office workers’ salaries increased 83 percent until the whole country was miserably devastated by war against South Korea in 1950 on North Korea’s initiative (Kuark 1963, p. 52).

As shown in Table 1, even after the war, the North Korean market was reinvigorated with rising per capita income, but beginning 1979, the growth rate of the North Korean market moved into a negative territory and further the market condition became worse in 1990 after the Soviet Union, North Korea’s principal source of support, had ceased. The failure of the Soviet Union’s *perestroika* combined with two natural disasters: prolonged drought and unprecedented flood, causing the entire North Korean market to become dysfunctional and killing at least 1 million people from starvation. Still persisting is a chronic food insecurity that affects two-thirds of the country’s 24 million people (Thomson Reuters Foundation 2003; BBC News 1999).

The Communist Market Systems around the world had either disappeared or waned from their prosperous era of the cold war. Remaining is almost none but the markets of North Korea and Cuba. The Cuban market is getting ready to have a face-lift by normalization with the U.S.A. (Cresswell 2014). The

TABLE 1
BRIEF ECONOMIC COMPARISON OF NORTH KOREA TO SOUTH KOREA

	1960 North Korea	1960 South Korea	2012 North Korea	2012 South Korea	Remarks
Land	120,538 Sq Km	99,720 Sq Km			N. Korea is larger by 21% than S. Korea
Population	10.5 Million	25.0 million	25 million	49 million	N. Korean is about ½ of S. Korea.
GDP (PPP based)	\$1.52 Billion	\$1.95 Billion	\$40 Billion in PPP	\$1.666 Trillion	S. Korea is about 40 times larger.
GDP Per Capita (PPP based)	\$137	\$94	\$1800	\$33,200	S. Koreans are about 18 times richer.
Natural Resources	Rich overall. The world 2 nd producer of magnesia.	Poor overall. Every drop of oil is imported.	Underdeveloped 13 million human resources.	Highly developed, world class 26 million labor forces.	From beginning the heavy industry in North to the light industry in South.

Sources: The Ministry of Unification of South Korea, <http://www.populstat.info/Asia/nkoreac.htm>, and World Factbook at <https://www.cia.gov/library/publications/the-world-factbook/geos/ks.html>

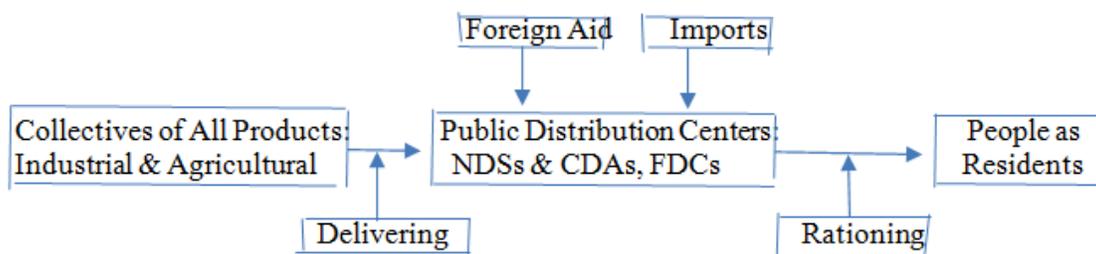
Cuban market is already taking the fifth place for U.S. export, and U.S. business interest in Cuba has exploded since December 2014 when the two countries announced they would restore diplomatic relations after 54 years of trade embargo (Murray 2015). This diplomatic action has left only one market, the North Korean market as a sole Communist market closed to the global community. A brief contrast of the two market systems between North Korea and South Korea cannot be more dramatic than shown in Table 1. After seven decades of its own claim to be self-sufficient and the strongest military nation, the market of North Korea is crossing from the old Communist system and moving into an entirely new market system that has been evolving for the last twenty years. Looking over the 38th parallel demilitarized zone, people in North Korea can easily see that life in the South is far different from theirs. The South Korean market enjoys a 40 times larger economy and is 18 times richer for individuals despite 21 percent less land mass and fewer natural resources.

EMERGING DISTRIBUTION STRUCTURE OF THE NORTH KOREAN MARKETS

For the last seven decades, North Korea officially recognized only three commerce structures (Lee 1960); the National Distribution System, the Cooperative Distribution System, and the Farmers Distribution Commerce. The National Distribution System (NDS) is the most supreme distribution network controlling more than 60 percent of domestic products produced at wholesale level. NDS is considered to be an artery of North Korean commerce centralizing from the networks of every regional unit of production sites. The NDS has total control of the quantity of production and types of goods to produce under the national economic plan. It also determines the prices of goods at the national level. The Cooperative Distribution Association (CDA) is a semi-independent regional commerce association that cooperates with the NDS. Agricultural producers are the main elements of CDAs, but fishery and other commerce are also part of them. CDAs occupy at least 40 percent of national retail distribution. The last one, the Farmers Distribution Commerce (FDC) plays a supplementary role to NDS and CDA. FDC is a distribution system at a smaller scale where individual members of the system can exchange their own products that are in excess of state requirements.

The previous channels of distribution in North Korea for products, industrial as well as food supply, can be generalized in Figure 1 that shows all the products regardless of the types, industrial as well as agricultural products are collected from the producers and distributed through the public distribution system by rationing to the needs of the people as resident consumers. The public distribution system (PDS) was established by collectivizing all the means of production including land. All the land was taken by the state and redistributed to farmers to use, though the land was owned by the state in theory which represents people, producers, and farmers. Producers use the government assets as farmers use the land by entering either cooperatives or state farms resulting in private production being prohibited, hence no private market being created anywhere in the country. Therefore, all the products produced were delivered to the public distribution centers. This distribution system means very limited or no choice for the buyer, instead North Korean residents are simply receivers of the products and food items, not as consumers per se we have known.

FIGURE 1
CHANNEL OF DISTRIBUTION SYSTEM IN NORTH KOREA: PRIOR TO THE 1990S

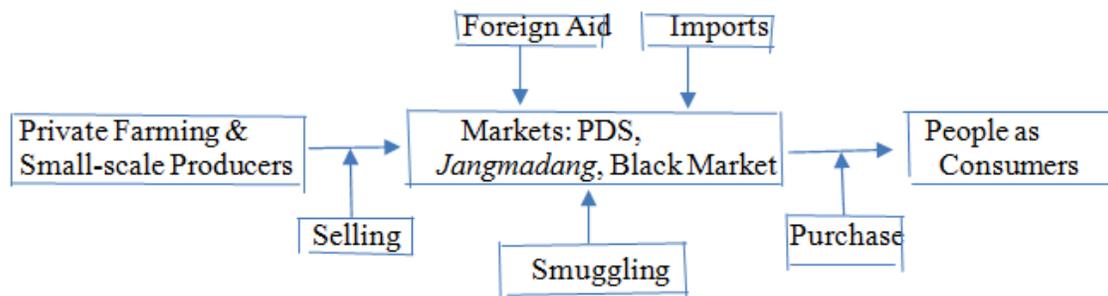


The public distribution system became insidious as the Soviet Union’s support diminished along with the declining growth of the North Korean economy, worsened by excessive military expenditures, almost a quarter of its GNP (Lee 1990). The growth rate of 10.5 % in 1970 was a miniscule 2.1 % in 1986. In fact the dysfunctional PDS created a window of opportunity for the private market system, a small-scale private market activity throughout the country as shown in Figure 2. The small-scale market activity was encouraged by the regime announcing the “People’s Consumer Goods Production Movement,” which allowed people to produce consumer goods such as small handicrafts locally without state control or supervision. Initially it was small scale to a limited number of people, but as the economy began to deteriorate, more and more people began to generate income outside of the centrally planned system, eventually in a larger scale and even illegally. Those that engaged in business illegally were called “frog markets” because the traders would jump up like frogs and run off with their wares at the first sign of trouble (Everard 2011).

This is a significant event in the development of the North Korean markets. The private markets, though small scale, created two concepts that had never been used before; profit and consumer. The concept of profit could not exist in the PDS because all the products produced by the state assets were collected and rationed to each resident of the country. The meaning of consumer was new to them because people in North Korea made up the collective group that was cohesive toward the national goal, not the individual choice. There were no products produced to satisfy individual preferences, no prices to decide on any products for profits, no distribution channels to choose for efficiency, and no promotional activity or choice of media to inform of the products or services.

Now with profit motive and choice of products as a consumer, the North Korean markets present an entirely different picture. The North Korean regime not only allowed small-scale home production, but also offered an incentive system by 2002 recognizing a family as an economic unit that can market any quantity of production over the quotas. The government admitted prices should reflect the costs, and wages should be priced fair. The admission of these three measures; family as an economic unit, marketing opportunity of production over the quotas, and fair pricing based on the costs, opened a new era in the evolution of the North Korean markets. The forces behind the admission of the three measures can be summarized in three areas. First, for so long the state purchase prices were too low for all the products including agricultural products. Second, in the absence of incentives, the producers avoided meeting the quotas. Third, the producers tend to divert the products to illegal private markets for profit motives.

FIGURE 2
CHANNEL OF DISTRIBUTION SYSTEM IN NORTH KOREA: EMERGING SINCE 1990S



The key players in the evolution are the birth of *Jangmadang*, a new type of private market similar to a farmer’s market, but not limited to agricultural products, and the arrival of smugglers. Unlike the original 3600 state stores of the PDS in the country, *Jangmadang* and black markets were born for profit offering value to individual residents as consumers, beginning the marketing era in North Korea. The new

stage of the North Korean markets had new variety of products brought into *Jangmadang* by small-scale producers and smugglers from China and South Korea.

Jangmadang

The *Jangmadang* markets as of today are taking center stage in the North Korean markets. It is a place where demand and supply is observed, a phenomenon that is quite different from the PDS. *Jangmadang* is a market place reflecting the reality of North Korea. Right after *Jangmadang* became openly recognized in 2002, prices changed for the three staples of North Korean diet; rice, corn, and potatoes, shown in Table 2 are good examples. The prices in 2002 are clear indications of the low prices artificially set by the state without any regard to costs or value concepts, and they were increased substantially in 2003 reflecting the economic mechanism balancing the demand and supply.

**TABLE 2
PRICE CHANGE BEFORE AND AFTER 2002**

	<u>2002</u>	<u>2003</u>	<u>Change</u>
Rice (Won/kg)	44	180	309 % Increase
Corn (Won/kg)	24	165	587 % Increase
Potatoes (Won/kg)	9	55	511 % Increase

(Source: Evaline Diang's Food Situation in Democratic People's Republic of Korea, March 1, 2003)

Jangmadang is an emerging market place for the 24 million North Korean consumers. As of today, it is generally believed about 83 % of the North Korean residents who are at least 16 years or older are participating in this market structure. Since *Jangmadang* is still in an evolutionary process, the structure is improving constantly with the infusion of new types of businesses and ideas. The growth of *Jangmadang*, a drastic departure from the old public distribution system, has already helped the overall living standards of the consumers.

More Choices in Products

Increased productivity through an efficient exchange process such as *Jangmadang* enabled North Koreans to consume greater amounts of food. For example, 397 g per day of food consumption in 2013 is some improvement from 383 g per day in 2012. Varieties of products imported from South Korea and China are sold in *Jangmadang* by family businesses. Many that were not available before in the country are displayed for purchase ranging from cosmetics, cellphones, TVs, and Cuckoo rice cookers to South Korean DVDs and Choco pies. Aside from *Jangmadang*, even the luxury goods consumed by its ruling elite have been increasing through imports that include foreign cars, air conditioners, laptops and mobile phones whose imports surged to 64 % up in two years from \$272 million of 2008 to \$446 million of 2010 (Free Republic 2011). However, in recent years Russian products including food and medicine are rapidly replacing Chinese goods at *Jangmadangs* as they are generally seen to be of better quality at cheaper prices (Moon 2015).

Published Prices in Market Entrance

Unlike many markets in Asian countries where the price haggling is so common in practice, in *Jangmadang* there are price boards, not fancy electronic but simple white wooden boards with the names of products in black. Surprisingly the published prices are respected and in general most of the products in *Jangmadang* are sold at fixed prices.

Nationwide Locations of *Jangmadang*

There were 200 *Jangmadangs* in 2010, but the growth in the number of *Jangmadang* has been a phenomenon in the past four years to be 396 *Jangmadang* establishments as of today (Park 2015), and for many North Koreans, *Jangmadang* is a major source of income as much as 80 % of the total living expenses. In average each of the *Jangmadang* markets generates 10,000 visitors per day. There are stores located indoors for higher space fees than the amount charged for outdoor space.

Increasing Promotional Activities in the Markets

Promotional activities are still limited to the western market standards, but at a national level, 111 North Korean companies participated in the International Trade Fair (2011) to allow product sampling and information diffusion toward the global markets.

IMPLICATIONS AND CONCLUSION

In the schema, Figure 2, there are three different market structures: PDS as official markets, *Jangmadang* as semi-official markets, and Black Markets as underground illegal markets. Since the 1990s, official markets have not been functioning properly because of inherent shortages of supplies in many types of products including even the basic necessities such as rice that is a staple food for North Koreans. *Jangmadangs* are growing rapidly as the markets serve the ultimate consumers by offering opportunities to exchange goods and services to make up for the shortages caused by the poor official markets. It is termed semi-official because the central North Korean government intentionally ignores its existence even though it is illegal under the regime's doctrine. Black markets are illegal, and are underground economic activities. There are two types of illegal activities; one is import of foreign products from China and other countries, and the other is underground production that is not reported to the National Distribution System.

TABLE 3
A CONTRAST OF THE OLD AND NEW NORTH KOREAN MARKETS:
BEFORE AND AFTER THE 1990S

	Old Markets of North Korea	New Emerging Markets of North Korea
Existence	1945 to the 1990s	The 1980s to present
Ownership	Every means of production by the state	Some private ownership with incentives and birth of new concepts: profit, consumer, value, and costs.
Key players	Public Distribution System: NDS, CDA, FDC	Co-existence of public distribution system, <i>Jangmadang</i> , and Black markets
Products	All produced to be collected by the state	Any volume of products over the quotas can be marketed through <i>Jangmadang</i> .
Prices	Determined by the state	Demand and supply of economic mechanism
Place (Distribution)	All products to be rationed to the 24 million residents	More than 350 <i>Jangmadangs</i> , public distribution system stores, and licensed department stores
Promotion	Propaganda and no advertising	Radios and media are used for information of product, price, and place.

The distribution structure of the North Korean markets is a contrast to the U.S. market distribution system that is mainly composed of manufacturers, wholesalers, and retailers with the participating agents of distributors and agents that do not take title or ownership of the products. A comparison of the old

North Korean market prior to the 1990s with the new emerging market in the recent decades is shown in Table 3.

It is highly unlikely for the North Korean government to stop the evolutionary process of *Jangmadang* where anything and everything is available for its people. *Jangmadang* has been a positive force for their economic life. *Jangmadang* is a place where people do private banking such as currency exchange and seek for employment. It took center stage for 24 million North Koreans and *Jangmadang* is not limited to the exchange of merchandise and artifacts. It is a place where various services are also traded and offered. Through a decree of “Freedom in Production Choices,” the North Korean government allocated and supplied privatized farms (as much as 1000 *pyung*) to individuals to cooperatively produce many products marketed in *Jangmadang* with state enterprises.

Jangmadang markets are centers of information as well as exchanges of products and currencies. In a communist society where public meetings are strongly discouraged to control the flow of information, markets seems to provide one of the least constrained environments for the exchange of news, information, and even rumor (Everard 2011). In a *Jangmadang* market, typical customers spend a long time wandering from stall to stall before making a purchase decision. They conduct a careful pre-purchase comparison of the goods on offer and their prices, but it also provides an opportunity to converse with a large number of vendors.

Through *Jangmadang*, North Koreans are ushered into an “American Gold Rush” era to be rich someday. They now start to understand the concept of profit and costs. It is a good sign that a new rich social class may be born out of the *Jangmadang* operations that could boost the entire North Korean markets and usher in a potential global market place.

Note: *Pyung* is an areal unit for measuring a space or land. 1 *pyung* is about 3.3058 square meters or 35.586 square feet. It is commonly used in Korea, China, and Japan. However, in Korea it is prohibited to use since 2007. A person can be fined up to \$500 for a violation.

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