



HIKES IN RICE PRICES AND EXCHANGE RATES AGAIN SHAKE DPRK MARKETS

Market prices in North Korea, which had been falling since March, have again begun to grow since the second week of July. This year's prices have not followed the trends normally seen in the North; usually, prices fluctuate around the April~May lean crop season. According to a Daily NK source within North Korea, rice cost 450-500 won/Kg at the Hyeryeong Market, in North Hamgyeong Province, up until the end of June. However, prices had shot up to 750 won/Kg by July 13. Corn had also risen to more than 400 won/Kg. Along with the rise in prices, the exchange rate for won-to-yuan rose to 150:1, indicating that the value of the North Korean won had plummeted to a very low level.

Since the mid-2000s, as market economics expanded in the North, food prices tended to shoot up during the lean season of April~May every year. After potato and barley harvests in late June, prices again rise until September, when food prices tend to drop in anticipation of fall grain harvests. Because of this trend, most market traders spend November and December concentrating on buying up food stocks, and they then actively sell their food stores after April. Government authorities have also been known to stockpile food at the end of a year in order to resell after April at considerably higher prices. This regular fluctuation of prices also leads most North Koreans to stockpile all the food they can in December and January.

However, with the currency reform efforts enacted last November 30, North Korea's food prices set off on a very different trend. Because the North Korean authorities closed markets after last



year's currency reform, January rice prices soared to sixty times as much as before the reform measure. Markets were allowed to reopen after February 5, but food prices remained unstable through mid-March. As the food stockpiling that North Koreans needed to do in December was delayed until March, spring sales were driven more by demand than by supply.

At the beginning of April, Pyongyang authorized the distribution of a small amount of food. Residents of the capital city received enough corn to get through May and June, and these rations, along with rumors of food imports following Kim Jong Il's trip to China, helped stabilize prices. However, this stability faltered after less than two months. Anticipated Chinese food imports never materialized, and authorities discussed food shortages. In May, North Ham Province party officials released an order titled 'Each unit is to resolve the food problems in the latter half of the year'. The lack of food and confidence circulating even at government levels again undermined market stability.

A continually soaring exchange rate also drove up prices. The won-to-yuan rate had climbed to 110:1 by June, and in late July has risen to 150:1. North Korean prices rise with the exchange rate, so without food price stabilization measures from the government, food costs will likely continue to grow.

Traders in Hyesan, Yanggang Province have more freedom to trade than most in North Korea, and are permitted to cross over into China once every two weeks in order to purchase goods to sell in North Korean markets. However, prices in the region continue to grow as demand cannot be met, due in part to the rising exchange rate that makes it increasingly expensive to import Chinese goods.



In the aftermath of the currency reform, North Korean authorities have released some food originally slated for military use and enacted measures to force down prices in an attempt to soothe the public. But, these attempts provided only temporary stability, and cracks are again appearing under the weight of rising exchange rates.

North Korea is planning to hold the first meeting of Party leaders in 44 years, and the state media has been emphasizing the economic successes of Kim Jong Eun in order to shore up support for him. Despite the press, however, average citizens in the North only see rising prices. Recently, due to the harvest season, Hyesan markets have been open only between 3:00 and 7:00 in the afternoon. Despite the limited hours, when doors open there is no apparent crackdown on prices or on the use of foreign currency, and markets are operating freely. However, since increasing numbers of North Koreans find themselves broke after the currency reform, sales are still slow.

The North's economic situation is likely to get worse. Flooding during the July-August rainy season could have a detrimental impact of fall harvests. Farms already suffered from frosts in the spring, raising expectations that this year's harvests will be lean. If fall harvests are light, concerns over food could grow, further destabilizing the food markets. Food prices are expected to continue to rise, and if this inflation impacts other goods, as well, disturbances such as those seen in January are likely to occur.