

# Internal Faculty Grant/Award Application

## Office of Sponsored Projects and Research Administration (OSPRA)

Date: February 10, 2014

### Principal Investigator (PI) Information

Name: [REDACTED]

Email: [REDACTED]

Phone: [REDACTED]

Department: [REDACTED]

Department Chair: [REDACTED]

Dean: [REDACTED]

### Internal Grant / Award

| Please indicate which award you are applying for (x) | Internal Grant or Award                                 | Application Deadline* |
|--|---|-----------------------|
|  | New Harmony Outreach and Engagement Faculty Grant       | November 4, 2013      |
|  | Darrel Bigham Faculty Engagement Grant                  | November 4, 2013      |
|  | Applied Research Faculty Outreach and Engagement Award  | November 4, 2013      |
|  | USI Summer Research Award for Junior Faculty            | November 4, 2013      |
|  | OSPRA Summer Research Grant for Pilot Research Projects | November 4, 2013      |
| X  | Faculty Research and Creative Work Grant                | February 10, 2014     |

*\*Note: The application deadline is the date when the full application must be submitted via CAYUSE 424. The intent to apply notification (this form) should be submitted at least 5 days prior.*

### Project Information

Project Title: **Impact of the Communist Economic Doctrines on the Development of the Emerging Retail Structure of the Free Market System in North Korea**

Are you using human subjects? \_\_\_ Yes  No

#### **1. Literature Review**

##### Introduction

After more than a half century in seclusion from the outside world, in particular, the Western world, North Korea is in rapid transition to an open market economy from the hard core communist system, partly because of three reasons that can be cited. First, the *perestroika* movement that failed in Russia was a huge blow to the North Korean economy. By 1990, the subsidized oil shipments as well as the monetary aid from the Soviet Union to North Korea had completely stopped (Noland 1996). North Korea was not capable of maintaining self-sufficiency; the communist state was no longer capable of feeding and clothing its own people.

Second, two natural disasters occurred in the early nineties; flood and draught had hit the country very hard. An exact statistical number of deaths during the acute phase of the crises will probably never be fully determined, but independent analysis estimates between 800,000 and 1.5 million people died due to starvation, disease, or sickness caused by lack of food. Even the North Korean government estimate runs as high as 4 million to a low of 220,000. Ironically, a survey by North Korea's Public Security Ministry suggests that 2.5 to 3 million people died from 1995 to March 1998, the numbers may have been inflated to secure additional food aid from the donors around the world, particularly South Korea and the U.S. (BBC News 1999).

Third, North Korea is one of several countries whose collective system is a basic tenet of the communist system that has failed. Other countries include the USSR, Cuba, and Vietnam. North Korea, compared to South Korea whose system is opposite, is now far behind South Korea in many economic indicators. As shown in Table 1, two political and economic systems show a stark contrast in their economic changes from 1960 to 2012. The free market-oriented South Korea has joined the advanced economy of the world, while North Korea has been struggling to maintain its status quo.

Table 1 Brief Economic Comparison of North Korea to South Korea

|                     | 1960<br>North Korea | 1960<br>South Korea | 2012<br>North Korea                 | 2012<br>South Korea                  | Remarks  |
|---------------------|---------------------|---------------------|-------------------------------------|--------------------------------------|--|
| Land                | 120,538 Sq<br>Km    | 99,720 Sq<br>Km     | Same                                | Same                                 | N. Korea is larger in<br>land.                           |
| Population          | 10.5 Million        | 25.0 million        | 24.7 million                        | 48.9 million                         | N. Korean<br>population is about<br>half of<br>S. Korea. |
| GDP                 | \$1.52 Billion      | \$1.95 Billion      | \$28 Billion                        | 1.1 Trillion                         | S. Korean economy<br>is about 40 times<br>larger.        |
| GDP Per<br>Capita   | \$137               | \$94                | \$1800                              | \$31,900                             | S. Koreans are about<br>17 times richer.                 |
| Change<br>from 1960 |                     |                     | 12 times<br>higher in Per<br>Capita | 338 times<br>higher in<br>Per Capita |  |

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>

North Korea has improved 12 fold only for the half century, compared to 338 fold of South Korea, even though South Korea had much lower per capita than of North Korea, \$94 to \$137. In terms of economic resources, North Korea has been positioned better for economic development in natural resources and larger land. However, the collective system hindered the growth lacking in personal motivation and individual creativity. Unlike South Korea, North Korea is rich in natural resources. For example, North Korea is the world's second largest producer of magnesia (Sowinski 2000). It is believed that there are at least 43 different mineral resources that are considered highly valuable to market overseas; however, North Korea failed to take advantage of these rich natural endowments to boost its economy, which has fallen into one of the poorest in the world today.

### An Emerging Market System in North Korea

A significant change has been taking place in the acquisition of daily necessities by the North Korean people since the early 1990s. The changes are visible on the streets. Shops that were empty several years ago are stocked with goods, and restaurants are multiplying in number. People who were clothed in dull communist uniforms are more fashionably dressed and are aping pop culture of near-by countries like China and South Korea.

North Korea is no longer the land where state distribution reigns supreme, and as far as the economic system is concerned, the North Korean communism as we knew it is dead. The system fell apart but gave a birth to a fledgling free market system, in particular, Jang Ma Dang, retail distribution markets. Jang Ma Dang is the North Korean word for a market, similar to the farmers' market in the U.S. where many agricultural products by small producers bring their offerings to a designated location. There is no Chinese-style market reform, but private business activities are contributing to a growth of commercial class that is a relatively wealthy middle class (Belford 2012).

In spite of many obstacles such as an unthinkable government rule that stipulates all the traders in the markets should be women who should be also at least 50 years old, Jang Ma Dang markets have been mushrooming since the 1990s, offering a great variety of consumer goods ranging from domestic goods that are cheap plastic household items, stationery items that include pens, pencils, and exercise books, to clothing and electrical goods. In the capital city, Pyongyang, there are more than 19 Jang Ma Dang markets (Everard 2011).

### The Structure of an Emerging Market System in North Korea

North Korea officially recognizes only three commerce structures (Lee 1960). The first one is the National Distribution System (NDS) which is the most supreme distribution network controlling more than 60 % of domestic products produced at wholesale level. NDS is considered to be an artery of the North Korean commerce centralizing from the networks of every regional unit of production sites. The NDS has total control of quantity of production and types of goods to produce under the national economic plan. It also determine the prices of goods at the national level. The second commerce structure is the Cooperative Distribution Association (CDA). CDAs are semi-independent regional commerce associations that cooperate with NDSs. Agricultural producers are the main elements of CDAs, but fishery and other commerce are also part of them. CDA occupies at least 40 % of national retail distribution. The third one is the Farmers Distribution Commerce (FDC) that 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 requirement.

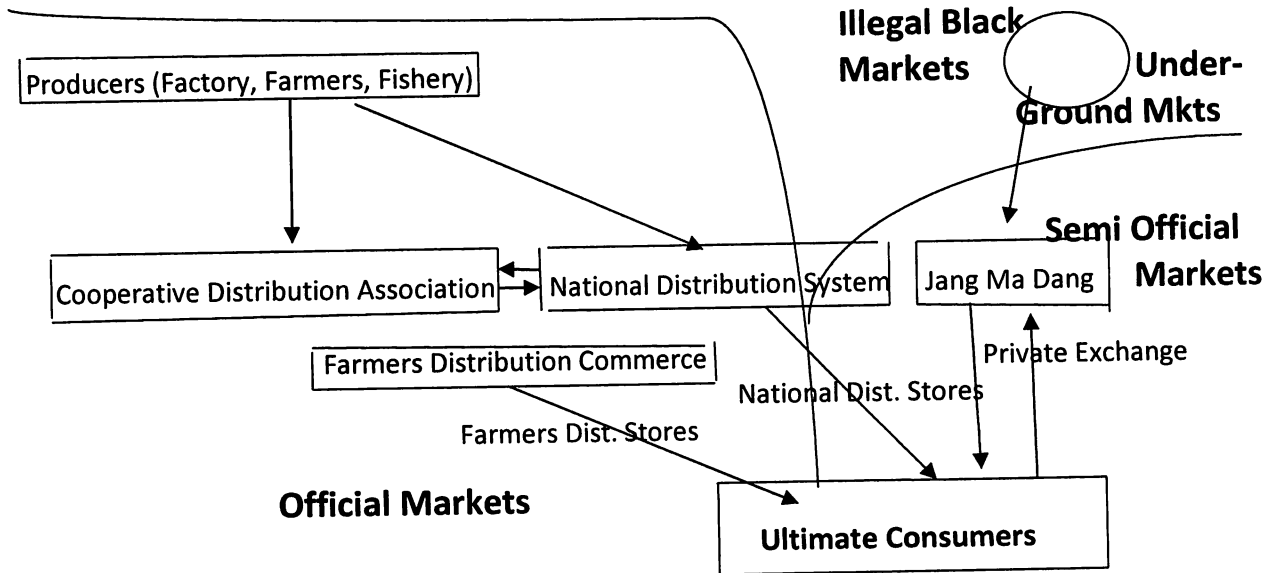
### An Emerging Distribution Structure of the North Korean Markets

The following diagram depicts an emerging distribution structure of the North Korean markets. 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 it is in an evolutionary process, the structure is changing constantly into a new form with the infusion of new types of businesses.

In the schema, Figure 1, there are three different market structures: Official Markets, Semi-Official Markets, and underground Illegal Markets. Official Markets have not been functioning properly because of inherent shortage of supplies in many types of products including even the basic necessities such as rice that is a staple food for North Koreans. Semi-Official Markets, which is the focus of this study 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 the foreign products from

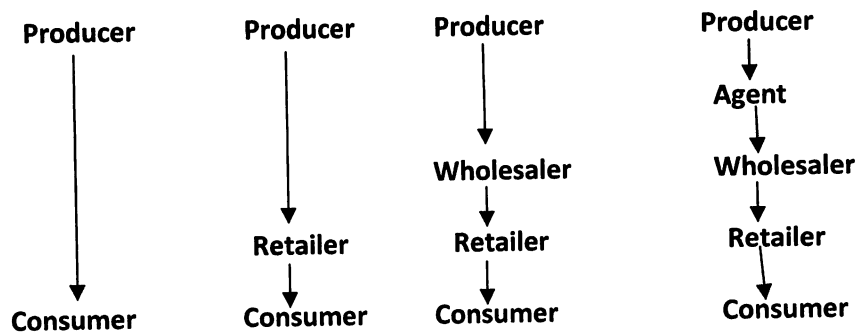
China and other countries, and the other is the underground production that is not reported to the National Distribution System. The North Korean market distribution in Figure 1 is a contrast to the U.S. market distribution system in Figure 2 whose system is mainly composed of manufacturers, wholesalers, and retailers with the participating agents of distributors and agents that do not take title or ownership of the products.

Figure 1 An Evolving Distribution Structure of the North Korean Markets



(Sources: Jin Myung Kim, Chosun.com, December 12, 2013, and Various sources of the PI)

Figure 2 Common Channel Structures in the United States



(Source: Kerin, Hartley, and Rudelius, 2013., pp.380-381)

## **2. Goals and Objectives**

Unlike the basic communist system in which the state is to provide its people with their every need, North Korea, the most secluded country in the world is far from satisfying the needs of its 22 million residents. The latest report is that 90% of the people are relying on the free market system for their daily consumption, mainly on a newly-created Jang Ma Dang market, similar to the farmers' markets in the U.S. or a bazaar market place.

The purpose of this study is to find out where the Jang Ma Dang market the concept, which is a free enterprise system, and to understand how this type of market came into being in a closed market system by studying and researching North Korea's historical educational and school textbooks from grade school through the higher levels of education to see if there is any mention, reference or teachings of a capitalist or free market system and how it possibly could have impacted the development and necessity of the Jang Ma Dang Market. Is there a relationship between what they learned in school and the birth of this burgeoning Jang Ma Dang market?

## **3. Significance of the Project**

Understanding the evolution of the North Korean market system will greatly empower many American businesses, in particular multinational enterprises, to enter and penetrate the market segment for a multitude of opportunities ranging from satisfying consumer needs, providing goods and services such as financial and banking services, systems and logistics such as location, and industrial investments in manufacturing, trade, as well as, service sectors for foreign direct investment.

## **4. Research Methods & Timeline**

### **A. Research Methods**

Since I'm unable to enter North Korea and observe the market and ask questions, the methodology of this work entirely relies on the secondary sources that are available in the North Korea Resource Center at the Korean Central Library, Seoul, South Korea where access is granted solely to authorized people by the Korean Ministry of Unification for which I have been authorized since July 2013 in recognition of being a USI marketing professor. The resource center possesses almost every category of North Korean information including the daily North Korea's newspapers, movies and videos, teachings of the government leaders on the communist system and economic life, the textbooks used in the North Korean educational system from the levels of kindergarten through university, and many others. The teachings in the textbooks are the main focus of this research.

### **B. Timeline of the Work**

My creative work will have two phases.

Phase 1: July 1, 2014 through July 31, 2014.

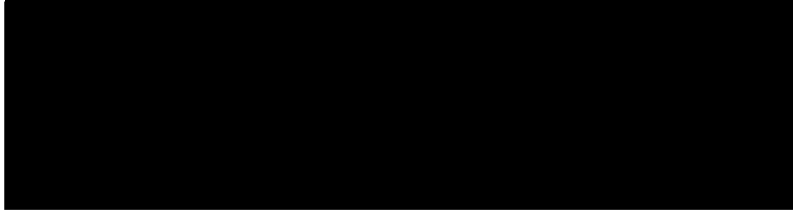
Fly into Seoul and work in the North Korea Resource Center as soon as I am settled in. Collect information in the center. The focus is to find out the business and economic teachings of the North Korean communist system in textbooks in social studies in the grade school years and business and economic doctrine portrayed in the textbooks of the higher education.

Phase 2: August 1, 2014 through May 31, 2015.

Analysis and prepare to disseminate in reputable academic journals.

## 5. Evaluation

The evolution of North Korean markets at macro as well as micro aspects has been my focus of research for the last ten years as shown in my brief resume. I have published 10 refereed academic journals and presented my research in the national and international conferences. Accordingly, this research is also to be disseminated in academic journals such as International Journal of Retail and Distribution Management, Retail Education Today, and Journal of Retailing.



### REFERENCES

- BBC NEWS (1999), "World: Asia-Pacific North Korea 'loses 3 million to famine,' February 17.
- Belford, Aubrey (2012), "'Tiramisu Time' in Pyongyang," CNN.com, March 13, 2012, at <http://www.cnn.com/2012/03/13/world/asia/pyongyang-aubrey-korea/index.html>.
- Everard, John (2011), "The Markets of Pyongyang," KEI Academic Paper Series, Vol. 6, No. 1, January.
- Lee, Shin Young (1960), Economic Principles, Cho Sun Ro Dong Dang Publication, Inc., September, 24., pp. 229-241.
- Nolan, Marcus (1996), "The North Korean Economy," *Economic and Regional Cooperation in Northeast Asia*, Korean Economic Institute of America, Washington, DC, Vol. 6, pp. 148-149.
- Sowinski, L. L. (2000), "Uncovering Market Opportunities in Asia," World Trade, November, pp. 34-41.

