

## Comments and Discussion

### Transposable and Non Transposable Lessons from the Transition Experience, *Gerard Roland*

#### *Comments by Chung H. Lee\**

In this highly interesting paper (*Seoul Journal of Economics*, Vol. 21, No. 2) on the lessons to be drawn from the transition experiences of former planned socialist economies for North Korea, Professor Gerard Roland discusses three specific issues of some relevance and their transferability to North Korea. They are price liberalization, privatization, and institutional reform. He argues that the dual track price liberalization, which was implemented only in China, is not transferable to North Korea; privatization should mostly be the bottom-up type and gradual as happened in China; and some institutional reform but not the introduction of top-ranked institutions is adequate to achieving economic growth. I am in basic agreement with the author's second and third proposition that North Korea should adopt China's gradual approach to transition but disagree with his argument that the conditions necessary for the first, the dual track price liberalization, are not present in North Korea.

There are basically two scenarios why transition may take place in North Korea. The first is the collapse of its political regime, as happened in East Germany, and the absorption of its economy into South Korea in a big-bang manner. The second is that of North Korea changing its economic system in a deliberate manner in its effort to guarantee the survival of its political regime. The second scenario is what concerns us here since in the case of the first scenario North Korea will not exist to take advantage of lessons from the transition experiences of the former planned socialist economies.

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For the North Korean political leaders China's transition experience is a good model to follow as it has managed to bring about successful economic growth while maintaining political stability and thus ensuring the survival of the political regime. China has managed to do so by undertaking reforms that are basically "ideologically safe" (Naughton 2007, p. 274). Key elements of these reforms are (1) dual-track price liberalization, (2) township & village enterprises (TVEs), (3) household responsibility system, and (4) special economic zones (SEZs). These reforms have managed to give the appearance of continuing with the official ideology of socialism, thus not undermining the political legitimacy of the regime, while in effect introducing the market mechanism into the economic system. Being concerned with the survival of the political regime the North Korean political leaders will see China's experience as a model to follow.

The dual-track price liberalization in China introduced free markets at the margin while maintaining the quota system of planned deliveries at planned prices, giving the appearance of maintaining the core tenets of the socialist system while introducing the profit motive but only at the margin. TVEs likewise did not undermine the regime's official ideology since they were collective firms and did not require the privatization of the means of production. The household responsibility system also introduced the profit motive without privatizing the ownership of land as it allowed farmers to cultivate the land leased on a long-term basis. And SEZs are only for foreign-invested enterprises in a restricted area, something that predates in China to the days going back to pre-Opium War era, and do not change the socialist nature of the Chinese economic system. In sum, all these four crucial reforms have maintained the appearance of not violating the basic tenets of socialism and thus not undermining the official ideology and political legitimacy of the regime while gradually introducing the market mechanism into the economic system. For the political leaders of North Korea who are concerned with the survival of their political regime China thus provides a perfect model to follow.

Given what I see to be the demonstration effect that China's experience would have on the North Korean political leaders, I disagree with the author's proposition that the actual transition in North Korea will take place only after a "... sufficiently important political and institutional shock and meltdown of the repressive government apparatus" (p. 271). What I see is the adoption of something like China's ideologically safe, gradual approach to transition that maintains the

facade of socialism while introducing the market mechanism that will inject vigor into North Korea's moribund economy.

**Reference**

Naughton, Barry. *The Chinese Economy: Transitions and Growth*.  
Cambridge, Massachusetts: MIT Press, 2007.