

International Trade of North Korea : Policies and Obstacles*

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I. Introduction

The reforms in the socialist countries in the 1980s culminated in the dramatic changes in the economic policies and the political structures of East European countries in 1989.

No one expected the economic or political reforms of the socialist countries to be realized at such a fast speed. East Germany, which had been the most advanced among the socialist countries, does not exist any more. Economic liberalization policies proceeded most rapidly in Hungary and Poland. Economic reforms in these two countries have centered on the foreign trade liberalization and privatization of national enterprises. Other East European countries like Czechoslovakia, Bulgaria also have adopted policies for reform of the foreign trade system. In particular, these countries seek to increase their trade with non-socialist countries.

To improve their trade with the rest, East European countries

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made the following major policy changes. First, the foreign exchange rates were adjusted so that the domestic currency value of exports or imports correctly reflect the international market prices. In many cases this meant devaluations of home currencies against the hard currencies of the world market. It also involved the adoption of a uniform commercial exchange rate for foreign trade¹⁾

Secondly, the state monopoly of foreign trade operation will be gradually abolished. In order to respond faster to foreign trade developments, the East European countries allowed independent foreign trade operations in a number of state and cooperative enterprises. Exporting organizations are (or will be) free to decide on partners of quantities of foreign trade. Thus, the centrally planned targets for exports and imports are not mandated to individual economic organizations. In Hungary, about 40 percent of imports in convertible currency trade were freed from the need to obtain an import license. This import liberalization ratio be raised to 70 percent in 1990²⁾

Thirdly, in order to stimulate exports, various financial incentives were adopted. Exporting organizations were allowed to retain an increased share of foreign exchange earnings for future payment for their imports or for sale to the state at a premium rate.

Finally, there were important changes in joint venture legislation. The limit on the foreign equity size was raised to more than 50 percent in USSR or was eliminated completely in Czechoslovakia. More tax incentives and freer remittance of profits are also common

1) The commercial exchange rates were introduced earlier in some countries : Hungary in the mid-1970s and Poland and Romania in the early 1980s. In Hungary, the so-called "non-commercial" exchange rate (applied to tourist and other private transactions) was unified with the exchange rate applied in foreign trade.

2) Friedlander (1989).

elements of new rules.

These significant policy changes in Eastern Europe and the USSR naturally make us wonder if similar reforms can be expected in North Korea. China, North Korea's closest ally, also has pursued an active open door policy since 1978. North Korea, however, still remains one of the most isolated countries in the world and refuses to admit that increasing economic cooperation with Western countries and South Korea is indispensable for the future growth of its economy.

The most important sector of the North Korean economy that requires reform is international trade. This paper attempts to analyze the international trade of North Korea with the recent reforms of other socialist countries in mind. Policies toward international trade and obstacles to the growth of international trade in North Korea are given particular emphasis.

II. The Growth and Structure of North Korean Trade

North Korean authorities do not release international trade data. The statistics about North Korea's trade can only be estimated on the basis of trade data reported by North Korea's trade partners³⁾. Therefore estimates differ according to the methods adopted for converting a partner country's exports(imports) into North Korean imports(exports) and the sources of partner countries' trade data. Usually there are some countries which trade with North Korea but, like North Korea, do not make public their trade data.

3) Those economic statistics made public by the authorities also present many difficulties for the users because they are available only in aggregate quantity terms or in growth rate terms without specifying the compositions of the aggregate or the money value.

According to the estimates by the Korea Unification Board (Table 1), North Korea's exports stood at \$333 million in 1970, but the figure increased to \$1,946 million in 1989. Imports on the other hand, increased from \$472 million to \$2,845 million during the same period. The growth of North Korean exports was relatively rapid in the 1970s compared with the growth in the 1980s. In the 1980s, the annual exports did not show any stable growth pattern. The annual exports during 1981-84 were all less than the exports of 1980. The 1989 exports are only 1.4 times the 1980 exports in dollar value while the 1979 value is 3.9 times that of 1970.

Almost every year imports exceeded exports in North Korea. The total deficit of trade during 1980-89 reached \$5,821 million. Imports increased more rapidly than exports in the early 1970s. And this brought about a severe foreign exchange shortage and, eventually, the default in the foreign debt payment in 1976, an unprecedented event for a socialist country⁴⁾.

As one can see from Table 1, both exports and imports did not show a steady growth trend but fluctuated over years. This is unusual for a country's aggregate exports and imports. This could be attributed to unstable world market conditions for North Korea's major export products and the foreign exchange shortages in North Korea.

According to Chung(1986), of the total exports to the non-communist world during 1970-82, 56 percent were classified as manufactured goods by materials (SITC 6), 17 percent as foodstuffs (SITC 0), and 15 percent as crude materials(SITC 2). Nonferrous

4) The oil shock of 1973-74 and the worldwide stagflation are also blamed for the foreign exchange shortage because they decreased the world demand for North Korean products and deteriorated the terms of trade.

metals(SITC68) have been the most important export products. Next, iron and steel(SITC 67), textile yarn and fabrics (SITC 65), and nonmetallic mineral goods(SITC 66) are other important export items.

North Korea's imports are more dispersed among different categories than its exports. As in most developing countries, machinery and transport equipment(SITC 7) have been the largest category of imports. It is followed by manufactured goods by materials, foodstuffs, chemicals and crude materials.

From the beginning, socialist countries have been the most important trade partners of North Korea. The socialist countries' share of North Korean exports was between 51.3 percent(1980) and 71.6 percent (1986). In imports the share was between 54.8 percent(1980) and

Table 1 Estimates of North Korea's International Trade

units : million U. S. dollars, %

Year	Exports	Imports	Balance	Share in Total Trade		
				USSR	China	OECD
1970	333	472	- 139	47.6	14.4	18.6
1975	767	1,311	- 544	22.9	23.7	30.6
1980	1,594	1,836	- 242	25.8	20.0	28.3
1981	1,072	1,554	- 482	28.7	20.6	25.9
1982	1,258	1,577	- 319	32.8	20.7	27.8
1983	1,117	1,438	- 321	30.7	20.8	29.9
1984	1,204	1,398	- 194	35.0	19.1	25.5
1985	1,172	1,770	- 598	42.4	16.5	20.6
1986	1,357	2,092	- 735	51.3	15.5	16.4
1987	1,647	2,500	- 853	-	-	-
1988	2,033	3,211	-1,178	-	-	-
1989	1,946	2,845	- 899	-	-	-

Sources : Unification Board, Survey of North Economy, 1989. and Summary Appraisal of North Korean Economy, 1988 and 1989.

74.7 percent(1986). Among all the countries, the USSR is by far the most important trade partner⁵⁾. North Korea's major import items from USSR are crude oil, petroleum products, machines, construction and transportation equipment, cotton and textiles, while the USSR imports magnesite clinker, clothes, raw steel and dry batteries from North Korea.

Until 1987, China always ranked second behind the USSR as North Korea's important trade partner. But in 1988 North Korean exports to Japan surpassed its exports to China for the first time. Major imports from China are coal(coke), crude oil, petroleum products and grain. North Korea mainly exports coal, iron ore, non-ferrous metals, pig iron and maritime products.

Japan is the largest nonsocialist trading partner of North Korea. North Korea's exports to Japan amounted to \$230 million in 1987 and increased to \$325 million in 1988. But imports were \$224 million and \$239 million, respectively. Thus North Korea became one of the few countries that register trade surplus with Japan. North Korea exports mainly pig iron, steel coils, gold, coal, zinc, mushrooms, and fish. Major imports from Japan are machinery, transport equipment, chemical products, and metals and metal products.

North Korea's trade with the above three countries comprised about 70 percent of its total international trade, thus showing a very high geographic concentration ratio. But recent data show that North

5) The Soviet Union maintained trade arrangements which were favorable to its satellite countries. For instance, countries like North Korea had been receiving oil from the Soviet Union at a considerable discount. In addition, the Soviet Union had been buying primary goods from other socialist countries at a big premium (eg. sugar from Cuba). These arrangements were made as part of an economic assistance package. However, the recent Soviet economic restructuring has resulted in a reduction of this type of arrangement. The Asian Wall Street Journal, October 11, 1990.

Korea's trade with other Asian countries such as Hong Kong, Singapore and India is increasing very rapidly.

III. North Korea's Policy toward International Trade

One important feature of North Korean trade is its small size. For a small country, North Korea's trade/GNP ratio is very low. For instance, based on 1989 data compiled by the Unification Board, exports/GNP ratio is 9 percent in North Korea compared with 29 percent in South Korea. Even in the U.S, the largest and the most self-sufficient economy, the ratio is around 7 percent. Per capita exports in 1989 were \$91 in North Korea compared to \$1,449 in South Korea.

These low figures reflect past North Korean policies toward foreign trade. Basically, North Korean authorities pursued a Stalinist self-reliant and self-sufficient economy. For this purpose, import substitution, rather than export promotion, was emphasized in resource allocation. Exports were primarily regarded as means of acquiring essential raw materials and capital goods which North Korea could not produce. Most of the investment resources were directed to heavy industries. Giving priority to heavy industry was regarded as laying the foundation of an independent national economy. North Korean planners firmly believed that, without building an independent national economy, international trade would only benefit those countries from which North Korea had to buy expensive manufactured goods⁶⁾.

The autarkic system of North Korea began to show signs of change

6) North Korean development strategy with its excessive emphasis on self-reliance and heavy industry in the 1950s was even criticized by the Soviet Union who expected a certain type of interdependence and cooperation between the two socialist states. See Brun and Hersh (1976), CH. 5.

in the early 1970s. In only three years between 1971 and 1974, North Korean trade with the world more than doubled in value. Trade with nonsocialist developed countries increased most significantly. The 1974 trade value was more than eight times the 1971 value. Thus, the developed countries' share in North Korean trade increased from 11 percent to 42 percent⁷⁾. This sudden increase in trade with developed countries can only be explained by North Korea's changed desire for the mass imports of Western technology needed for its productivity growth. But the surge of imports from developed countries was unsustainable because exports could not finance the imports and the foreign debt accumulated to the point of default.

At the Sixth Congress of the Korean Workers Party in October 1980, Kim Il Sung emphasized a fast expansion of external trade for the economic development. In particular he stressed the importance of production for exports in all sectors, quality control, diversification of trade composition and active seeking for possible export items. He declared that at the end of the 1980s the annual exports should be more than 4.2 times the export of 1980^{8) 9)}. In the same speech, however, he boasted that during 1970-79, the industrial output increased each year at the rate of 15.9 percent and that the North Korean economy produced domestically everything needed for its citizens and for the build-up the socialist system¹⁰⁾.

A more significant change in the North Korean attitude toward international trade and the foreign direct investment appeared in January 1984. In a resolution of the Supreme People's Assembly titled

7) Based on Chung (1986, Table 3).

8) Korea Unification Board (1988), p.51.

9) The actual 1989 exports was only 1.2 times of the 1980 figure in U.S. dollars.

10) Korea Unification Board (1988), p.26 and p.33.

"On Further Strengthening South-South Cooperation and External Economic Work and Further Developing Foreign Trade", Kim Il Sung urged that North Korea should actively develop economic and technical transactions and foreign trade with capitalist countries and even with those countries with whom North Korea did not have diplomatic relations¹¹⁾. He emphasized the trustworthiness for the development of economic cooperation with other countries and stressed again the priority for export production in resource allocation, quality control, improvement in packaging and strengthening external transportation work. In particular, he argued that more factories and enterprises should be organized solely for specialized export production. The resolution was entirely for the issue of international trade and economic cooperation, and it specifically mentioned the European capitalist countries as countries with whom North Korea was required to increase technology exchange and economic cooperation. The resolution showed that North Korea was willing to deal with any country in the world for the purpose of acquiring technology and capital goods needed for the development of the North Korean economy.

The North Korean open-door policy was stepped up by the promulgation of Joint Venture Law in September 1984. The 26-article law encourages joint ventures between North Korean companies or enterprises and foreign companies, enterprises, of individuals in areas such as manufacturing, construction, transportation, science and technology, and tourism. The regulations of the Joint Venture Law and Joint Venture Income Tax Law state that a joint venture company can export its products or import materials without government permission and without tariff. The income tax rate is 25 percent of net income, but the tax is exempted for the first three years after be-

11) Korea Unification Board (1988), pp. 589-597.

12) Korea Unification Board (1986), p.138.

ginning of the operation. The remittance of profits to investors' countries is guaranteed.

North Korea's accelerated progress toward opening up its door is a reaction to the gloomy performance of the North Korean economy and its foreign sector. Some major goals of the second Seven Year Plan(1978-1984) could not be achieved. According to the plan, the national income at the end of the period was to be 1.9 times the national income at the beginning. According to the announced result, the income only increased by 1.8 times. But in reality, it is said that the result was far more disappointing. Because of the failure to achieve major goals within the planned period, North Korea needed a two year adjustment period before starting the Third Seven Year Plan (1987-1993).

It is a general view that at the end of the 1970s the North Korean economy began to experience serious bottlenecks in its infrastructure such as energy and transportation. This contributed to the slowdown of the growth of industrial production in the early 1980s. The stagnation of the North Korean economy is most apparent in its GNP figures. According to the GNP estimates by Korea Unification Board and USCIA, the growth in the four years between 1980 and 1984 was only 8.6 percent and 17.9 percent, respectively, in terms of nominal US dollars. The rate for South Korea in the same period was 43.8 percent.

The size of international trade during this period declined, both in exports and imports. Actually, annual trade amounts between 1981-85 was less than that of 1980. These stagnations of domestic production and foreign trade must have made the policy officials realize that, without foreign (Western) capital and technology, rapid growth of the North Korean economy was not possible.

Policy reforms in China since the late 1970s, such as the opening up of domestic economy, must have also influenced the North Korean policy toward international trade and foreign capital¹³⁾. The policy change is also attributed to the emergence of new economic experts and technocrats in the 1980s. They are basically practical and rational and their participation in policy making has increased over the years¹⁴⁾.

IV. Obstacles to the Growth of North Korea's Trade

The report by North Korean Premier Li Gun-Mo to the 8th Supreme People's Assembly on the Third Seven Year Plan(1987-1993) contained a separate section about the development of foreign trade and external economic work. It stated that the value of foreign trade in 1993 will be 3.2 times the value in 1986. It emphasized increasing the exports of machinery, nonferrous metals, and such light industry products as clothes, footwear and glass products for the achievement of the foreign trade targets.

In spite of this and other previous policy announcements, the recent performance of the North Korean foreign trade sector has remained very poor. The value of exports in 1989 was 44 percent more than in 1986, while the value of imports increased 36 percent. Since the world exports increased approximately 49 percent during the same period¹⁵⁾, the North Korean performance should be considered

13) Due to the open door policy of China, South Korean trade with China increased at the annual rate of 42 percent during the 1980-89 period. See Noh (1989), Table 3. China's trade with its long-standing ally, North Korea, is now a fraction of its trade with South Korea.

14) Rhee(1989), p.192 and p.220.

15) IMF, International Financial Statistics, May, 1990.

disappointing, and it is far below the target of the Third Seven Year Plan. Therefore, it is important to determine the reasons for this poor performance. Since the North Korean economic growth now depends more on international trade than in the past, how North Korea deals with the obstacles to the growth of its trade will have significant effects on the future of North Korea.

The obstacles may be divided into two groups according to their sources : internal obstacles and external obstacles. The internal obstacles are more important and more serious than the external obstacles. In addition, the internal obstacles are closely linked with the North Korean growth strategy and economic performance.

The most obvious problem with the North Korean economy has been its severely biased emphasis on heavy industry. As is well known, North Korean policymakers were preoccupied with the self-reliance of the economy and they believed that the emphasis on heavy industry was the best way to achieve this self-reliance. Heavy industry was also supposed to provide a sound basis for light industry and agriculture. This is the classic import substitution strategy for industrialization in many developing countries. But in the case of North Korea, it went too far. The result of this strategy was the shortage of food and light industry consumption goods as well as the shortage of products for sale in the world market.

For a country like North Korea, with low technology level and few primary resources, the only plausible policy to increase exports to the world market is to specialize in those manufactured goods which do not require advanced technologies or a large amount of capital investment and to sell these products to industrialized countries. For North Korea, promising export markets should be sought in Japan, Western Europe, and, eventually, in the U.S.A. However, with reliance only

on heavy industry products of some metals, export growth will be limited at a low level even in these new markets.

Another principal obstacle is, of course, the rigidity of the centralized economic management in North Korea. In spite of the repeated emphasis of the necessity for increasing foreign trade, there has not been any significant change in the foreign trade monopoly by the state. Foreign trade in North Korea is planned and controlled by the Ministry of Foreign Trade and the Ministry of External Economic Work. Currently, there are over 100 trading corporations under either of the two ministries. They are the government organizations that actually trade with foreign buyers and sellers¹⁶⁾.

Unlike in the Soviet Union or some East European countries, direct trade by producers of exports or consumers of imports is not yet allowed in North Korea. This separation of domestic economic agents from the world market is one of the most important factors of slow foreign trade growth in socialist countries. Although there have been some reform efforts in domestic economic management, such as the advocacy of "independent accounting system" by Kim Jongil in 1989, no such reform was made in the area of foreign trade. In short, terms such as "incentive system", "competition" or "decentralization" cannot be applied to the North Korean trade system.

In North Korea, international trade is still regarded only as means of acquiring materials and capital goods needed for economic growth. The concept of comparative cost of comparative advantage is not important in explaining roles or benefits of international trade. This is clearly shown in the following words of a North Korean economist¹⁷⁾.

16) Korea Traders Association (1989).

17) So (1990), p.2.

"It is quite natural, therefore, that in order to build an independent national economy, each country should produce by itself main materials, raw materials and products in great demand, while it should import what is runs short of, what is in a limited demand and what is not produced for the present".

Also the dynamic contributions of international trade of learning new technologies, management skills and market opportunities through competition in the world markets are not understood by the policy-makers. The benefits of scale economies and of training workers from increased exports are also unknown to North Korean policymakers.

With North Korea's poorly trained and unmotivated workers and its outdated technology, it is very difficult for North Korea to be competitive in manufacturing in the world market. North Korean workers have been pushed by endless work-hard campaigns like the "200 day speed battles" in 1988 and 1989. But this forced loyalty alone is not enough for raising workers's productivity¹⁸⁾.

There is also the problem of poor infrastructure. This problem is now well recognized by the North Korean authorities. The current Seven Year Plan (1987-1993) stresses energy and transportation as priority areas of resource allocation. In spite of these efforts, the shortage of energy (electricity) supplies, the poor transportation (railroad) system, and insufficient communication facilities remain the major hindrance to the growth of production for exports or for domestic use¹⁹⁾.

18) As a reward for the two successive 200 day speed battles, North Korea's workers and students received an unprecedented special bonus, equivalent to an extra month's wage or scholarship, respectively, in 1989. However, the sums were not massive from the viewpoint of the recipients. Actual salaries are very low in North Korea because food, housing and services are all subsidized. One western diplomat in Pyongyang described the salary as "pocket money". EIU (1989, No. 2).

19) Korea Unification Board (1989), pp.66-75.

Small domestic market of North Korea is a disadvantage for import substitution strategy. But it is also an obstacle to export growth because it is difficult to attract foreign capital and technology with a small domestic market. Foreign direct investment in North Korea did not increase as fast as expected after North Korea announced the joint venture law in 1984. North Korea claimed in May 1990 that it is promoting joint ventures and cooperation with many countries including the USSR, China, Hong Kong, Italy and France²⁰. But with only a few exception, all the joint ventures are with the Chongryon, the association of pro-North Korea residents in Japan.

At the end of 1989, there were 98 joint ventures with the Chongryon businessmen including 56 ventures which did not reach the production stage. And the total agreed investment by the Chongryon was less than \$100 million (11.3 billion yen)²¹. North Korea regards all forms of cooperation between North Korean companies and foreign partners as joint ventures. A real joint venture with a western company with a significant amount of equity investment is yet to come.

Of the external obstacles to the growth of North Korean trade, the following three are important to consider. First, North Korea has a credit problem in trade with foreign countries. Since its default on foreign debt in 1976, North Korea has had difficulty in getting foreign loans and trade credit from Western countries.

According to the estimates by the Korea Unification Board, the total amount of North Korea's foreign debt stood at \$6.78 billion at the end of 1989. The amount is \$1.58 billion more than its debt in 1988. The \$6.78 billion of foreign debt is more than three times that of

20) EIU (1990), p.40.

21) The Joong Ang Ilbo, July 25, 1990.

North Korea's exports in 1989. These debts are owed to various countries²²⁾. But it is said that no creditors have been consistently repaid. Without agreements concluded with creditor countries to repay debts, North Korea cannot expect to increase its trade relations with these countries. Up to now, North Korea has either failed to reach agreements or has been unable to make the agreed payments. After the visit to North Korea by a group of Japanese politicians headed by a former vice premier in September 1990, the relationship between North Korea and Japan improved rapidly. However, Japanese traders are very cautious about expanding exports to North Korea because currently North Korea owes about 60 billion yen in unpaid export credits to Japanese firms and banks. The shortage of foreign exchange and the borrowing opportunity is the most important hindrance to the growth of North Korean trade. Without adequate imports of capital goods, raw materials, and technology, export growth must be suppressed to a minimal level.

The country composition of North Korean trade is another major obstacle. As discussed above, socialist countries including the USSR and China are North Korea's dominant trade partners. But these socialist countries are not particularly good partners of trade. International trade in a Socialist country is not so much based on the concept of international division of labor or of specialization, but rather on the concept of making up a deficiency. Furthermore, the economic size of the socialist countries are very small compared with that of Western countries. Therefore, with the current composition of partner countries, North Korea's trade cannot grow as fast as targeted in the Third Seven Year Plan.

For the fast growth in exports, it is required that North Korea

22) Of the \$6.78 billion, \$2.74 billion is owed to Western countries.

expand trade relations with the Western countries, especially Japan and the U.S, the two countries with the largest potential markets for North Korean exports. In particular, the establishment of diplomatic relations with the U.S and obtaining MFN status in U.S customs regulations should be regarded as one of North Korea's most important policy goals of international trade.

Limited demand for North Korean exports coupled with fluctuating prices in the world market is also a serious obstacle. This is related to the commodity composition of North Korean exports. North Korea is generously endowed with some minerals. Minerals such as coal, iron ore, gold, silver, zinc, copper, lead, and magnesite have been the most important export items in foreign exchange earnings. But demand for these products, whether they are processed or not, is limited and income inelastic in the world market. Also the prices of these export goods show severe fluctuations in the world market depending on the world economic conditions and supply conditions in major supplier countries. The fluctuations of the North Korean exports in the 1970s and 1980s are closely related with the world market price fluctuations of minerals, especially, nonferrous metals like gold, silver, zinc, copper and lead.

For a stable and rapid export growth, North Korea must contemplate emphasizing exports of labor-intensive manufactured goods. These types of goods have a large potential market in Western countries. North Korean authorities may argue that North Korea does not have enough labor power to engage in a labor-intensive export production on a large scale, but this argument is not correct. Although North Korea's population is only a little over 21 million, which is about half of South Korea's population, the labor participation ratio is very high. The current number of employed workers in North Korea is estimated to be 11 million, which does not include those in military

service. Furthermore, this figure of North Korean labor force is about the same as that of South Korea in the early 1970s, the period when South Korea was successfully engaged in export promotion of labor-intensive goods.

V. Prospects

The obstacles that North Korean trade currently faces in and out of the country are not expected to be removed in the near future. Many of them are closely related to ideological issues and the way the North Korean leaders manage their economy. It appears that the economic reforms in Eastern Europe and the USSR have not yet influenced the North Korean leaders' economic, or for that matter, political philosophy.

Kim Il Sung's 1990 New Year Message devoted one-third of its minute-long statement to stressing the need to protect North Korean-style socialism. This can be interpreted as an indication that the North Korean Leaders are concerned more than ever about preventing the reform drives in Eastern Europe and the USSR from affecting the present domestic situation²³⁾. Unlike the new year messages in recent years, Kim did not mention the need to promote trade relations with the Western countries. Instead, he warned of the dangers of capitalism saying that the imperialists have escalated their maneuvers to subordinate other countries in the name of cooperation and aid.

A reaction of this kind is understandable because Kim Il Sung, who has controlled North Korea for the 45 years, is still in power.

23) Vantage Point, January 1990, p.11.

Nevertheless, reforms in other socialist countries will create changes in North Korean economic policies and external economic relations. Also, the establishment of full diplomatic relations of South Korea with East European countries and most recently with the USSR may force North Korea to improve its political and economic relations with Western countries.

Because South Korea's trade with the socialist countries increased so rapidly in recent years, South Korea is now a larger trade partner than North Korea for China and most East European countries. In 1989, South Korea's trade (exports and imports) with socialist countries reached \$4.22 billion²⁴⁾. In the same year, North Korea's trade with the world totaled \$4.79 billion. For the USSR, North Korea currently remains a larger trade partner than South Korea, but it is certain that Soviet trade with North Korea will stagnate while trade with South Korea will accelerate. The USSR announced recently that it will reduce its barter trade with other socialist countries. The barter trade has been promoted as a form of economic aid to USSR's partner countries. USSR-South Korea trade, on the other hand, will show accelerated growth due to the establishment of diplomatic relations and the planned South Korean loans to the USSR, in the amount of about \$3 billion during the next three years²⁵⁾.

One significant change in North Korea's thinking forced by the reforms in other socialist countries was manifested by the North Korean decision to normalize its relation with Japan. North Korea had long taken the position that it would not have formal relations with major allies of South Korea. Realization of formal relations with

24) The trade figure during the first seven months in 1990 amounted to \$2.82 billion. Exports increased 32.2 percent and imports, 9.5 percent over the same period of 1989.

25) The Seoul Economic Daily, October 22, 1990.

Japan and increased trade between the two countries will eventually lead to a similar progress in relations with other Western countries including the U.S.A.

The relation between South Korea and North Korea has also changed recently. In September 1990, the prime ministers of South and North Korea met in Seoul for the first time since the division of Korea. The second meeting was held in October at Pyongyang and the third meeting is scheduled for December in Seoul. As yet, no significant breakthrough has been made at these high-level talks. South Korea proposed trade and economic cooperation as the primary agenda while North Korea wanted to discuss political and military matters first.

De facto trade between North and South Korea began after South Korea removed trade restrictions against North Korea in October 1988. This policy shift was preceded by South Korea president Rho's declaration in July 1988. The declaration stated, among other things, that South Korea would regard trade with North Korea as internal trade and that South Korea would not object to any of South Korea's allies trading with North Korea in non-military goods.

The North-South Korea trade between November 1988 and November 1989 amounted to \$21.5 million. Except for \$70,000 worth of clothing exports by South Korea, all of the trade was imports by South Korea consisting mostly of minerals, mineral products and marine products. The trade figure for the first half of 1990 fell to \$6.5 million. All the trade between North and South Korea has been indirect trade, which denies the existence of the North-South trade.

This very small volume of commodity trade and non-existence of

any other economic cooperation between North and South Korea is contrasted with the large volume of commodity trade and considerable of joint ventures between taiwan and China. The total value of trade between Taiwan and China was almost \$ 3.5billion in 1989 and is expected to reach \$ 4 billion in 1990. In addition, investment in China by Taiwan businesses this year is expected to be \$600 million. This figure is lower than that of earlier forecasts because is reflects the recent cooling down of "China fever" in Taiwan²⁶⁾.

Once North Korea allows direct trade and joint ventures with South Korean businesses, North Korea's trade volume will increase dramatically. Actually, in the first North-South high-level talk in September 1990, South Korea offered to accept as import \$1.7 billion worth of minerals and other natural resources annually from North Korea. By opening trade with South Korea, North Korea will also find a large market for its manufactured goods in South Korea. South Korea does not levy and tariff on imports from North Korea and the cost of transportation between North and South Korea is minimal. Thus, North Korean goods will have price advantage compared with goods from other countries.

Expanding trade relations with South Korea of Japan is very important for the future of the North Korean economy. Without Tncreasing exports to and economic cooperation with South Korea of Japan, the North Korean economy will encounter increasing difficulty in satisfying even the basic needs of its citizens. North Korean policymakers will soon discover that it is impossible to protect North Korean-style socialism in a time when all other major socialist countries are eager to flee from that type of socialism.

26) The Asian Wall Street Journal, October 19, 1990.

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