

DPRK's Foreign Trade and the Issue

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Abstract—DPRK's foreign trade, of which the structure has the characteristics of exporting primary products, importing industrial manufacture and exchanging resources with products, is easily influenced by domestic and international political circumstances. On the fundament of summarising the DPRK's foreign trade development, this dissertation is going to analyse the foreign trade structure and the influential factors positively in accordance with relevant statistical data, and the major factors that determine and restrain DPRK's foreign trade, as shown by outcomes of the analysis, are DPRK's unreasonable industrial structure, low degree of productivity development and the economic politic decision-making mechanism that still remains under the circumstance of planned economy system. Under the circumstance of economics globalisation deepening increasingly, DPRK is supposed to break through limitations of conventional planned economy system, to actively and reasonably bring in market economics, to coordinate the relationship between the project and market and to actively develop foreign trade, which is expected to significantly promote the DPRK's domestic economic development, therefore becoming a flourishing country.

Keywords—DPRK; foreign trade; foreign trade dependency; Issue; influential factors.

I. INTRODUCTION

Since 1948 when DPRK was established, DPRK has attained a series of remarkable achievements in various domains such as industry, agriculture, national defense, science and technology, cultural education. Till the 1990's, despite the income per capital still remaining relatively low level around the globe, the indicator of education was at the forefront among developing countries, and the indicator of healthcare almost attained the level of medium-developed countries.^① Then, in the beginning of 21st century, DPRK lifted "the Second Chollima Movement High Tide", which focused on developing economy and constructing the nation to come up with the global development, started to carry out a series of economic adjustment actions and brought out using modern technology to revolute the national economy and improving economic management mechanism in accordance to new environment and new situation.^② [1] DPRK is a country with abundant

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^① DPRK started to apply free healthcare system in 1953 and 11-year compulsory education system to the entire nation in 1972.

^② DPRK admitted its "black market" (free market/comprehensive market) around 1996, and started to attempt economy reformation around 1998. See

natural resources, over 300 kinds of minerals proven, among which over 200 kinds of minerals are available. Graphite, magnesite reserves remain forefront of the world; non-ferrous metals reserves such as ferrum, aluminium, zinc, copper, silver and non-metallic minerals reserves such as coal, limestone, mica, asbestos are also affluent; in addition, water and forest resources are comparatively ample. In terms of diplomacy policy, pursuing the diplomacy policy of "autonomy, peace, friendship" and advocating developing diplomacy according to principals of complete equality, autonomy, mutual respect, mutual non-interference, as well as mutual benefit, DPRK has established diplomacy relationships with 163 countries (including European Union) and joined over 200 international organisations.^③ Since the 1980s when DPRK began bringing in foreign investments and settling joint and cooperative ventures and issued the Act of Joint and Cooperative Ventures in 1992, DPRK has developed mutually beneficial cooperation with foreign investments in a range of aspects including resource developing, manufacturing industry, communication industry, hospitality industry, and opened 4 economic development areas such as Rason Free Trade Area and Kaesong Industrial Complex (up till the end of 2014).^④

Just the same as other developing countries, DPRK cannot develop without foreign trade as well as foreign capital's motivation on DPRK's national economy, and foreign trade development and foreign trade and economic cooperation, in the meantime, result from domestic political and economic mechanism and favourable foreign political economic trade relation. From the aspect of diplomacy, due to DPRK's intransigence on the issue of "nuclear weapons and missiles developing", DPRK is isolated by US-led western countries, and its foreign trade is seriously limited as a result, which leads to unfavourable influence on its domestic economy and social

Toshimitsu Shigemura, November 2002, *North Korea's data book* [M], Chapter 5, Kodansha Gendaishinsho.

^③ DPRK formally became a member of G77 in May 1975, joined non-aligned movement in August 1975, joined the United Nations in September 1991, and joined Asean Regional Forum (ARF) in July 2000. So far, DPRK has established diplomacy relationships with 163 countries (including European Union) and joined over 200 international organisations. See <http://naenara.com.kp/ko/great/guid.php?9>; Ministry of Foreign Affairs of the People's Republic of China, http://www.fmprc.gov.cn/mfa_chn/gjhdq_603914/gj_603916/yz_603918/1206_604114/.

^④ As revealed by <Democratic People's Republic of Korea Investment Act> published by The Joint Venture Investment Committee of DPRK in July 2012, from 2001 to the end of 2011, DPRK signed 306 foreign projects in total, and the introduction of foreign direct investment amounted to 1.437 billion USD (whether the amount refers to "contract amount" or "real volume of utilisation" is still unclear).

development.^⑤ In March 2013, DPRK declared the decision of “the parallel routes of the economic construction and nuclear force construction”, and by referring to the 20-year development of DPRK’s diplomatic foreign trade as well as its current condition, this decision is likely to be the disadvantageous factor influencing DPRK’s foreign relations development, which undoubtedly is even worse for DPRK’s stalemated foreign diplomatic relations.

On the basis of summarising DPRK’s foreign trade development and its influence on DPRK’s economic development since 1990s, this dissertation focuses on positively analysing and summarising its foreign trade structure and the influencing factors, and predicts its prospectus.

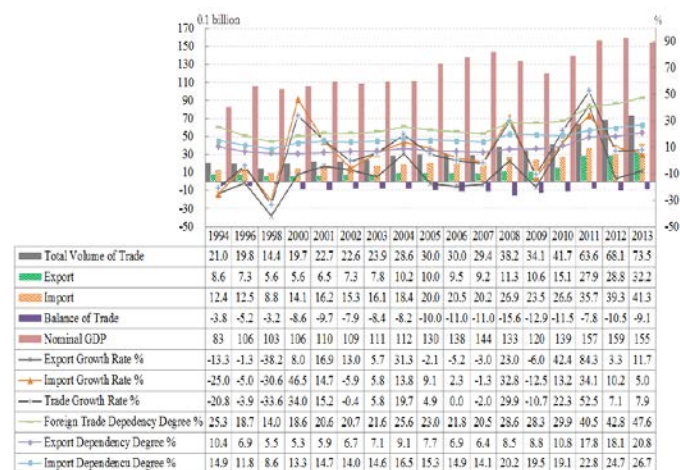
II. DPRK’S FOREIGN TRADE DEVELOPMENT

The increase in the production factors and progress of technology make up the major reason motivating economic development, and trade is the most stimulative factor that provides and promotes the increase in the production factors and progress of technology. The reason why trade is called the “engine” of economic development is that it is equipped with such “function”. For developing countries, foreign trade acting as a strategic measurement of promoting and achieving industrialisation is vital in national economy operating, so foreign trade strategy is also known as industrialisation strategy. Foreign trade development and strategic formation of a single country are affected and limited by its political and economic policies.

Since 1990s, DPRK has experienced changes of three generations of leaderships, and, as a result, there is a “subtle change” emerging in the politic and economic orientation, which is “being independent, self-dependence” (equivalent to “autarky” in some way) transforming into “opening up” based on “foreign trade pluralism and diversification” to construct a “thriving nation”, and the theoretical foundation guiding all these changes is “Songun”.^[2] Affected by subtle changes in political and economic orientation, DPRK’s foreign trade experienced “W curve” developing process. Seen from the scale of foreign trade, total sum of foreign trade experienced sharp decrease and fluctuation from \$4.17 billion USD in 1990 till 2010 when it returned to the same value of \$4.17 billion USD in 1990.^[3] This means that during 21 years between 1990 and 2010, DPRK’s foreign trade scale failed to expand. From 2010, DPRK’s foreign trade expanded and developed rapidly, total sum of foreign trade peaking at \$7.35 billion

^⑤ The internationalization of DPRK’s “nuclear weapons and missiles developing” issue derived from its announcement of quitting NPT (Non Proliferation Treaty) in March 1993 and the launch of medium-range missile in May 1993. To improve diplomacy relations with USA and other western countries, DPRK has been applying an Omni bearing multipolar practical diplomatic strategy since the end of 1990s, and attained a success. For example, during the 3 years from September 1999 when DPRK announced its will to improve relations with USA, Japan and South Korea till the end of 2002, DPRK established diplomatic relations with 17 countries, which created advantageous conditions for its international communication and cooperation. However, the current foreign diplomatic condition still remains unchanged because of its “nuclear weapons and missiles developing” issue. United Nation Security Council Resolution (1695, 1718, etc) has banned trades, transfers or relevant technical services concerning “relevant items relating to nuclear weapons and missiles developing”, “arms” and “luxuries” between DPRK and international societies.

USD in 2013, annual average growth rate attaining 22.5% from 2010 to 2013.^⑥



Note: the data is calculated and the graph is conducted in pursuant to the data of KOSIS and statistical data concerning GDP of each nation from UN.

Fig. 1. DPRK’s Foreign Trade and its Dependency Degree Changes (1994-2013)

Fig. 1. illustrates the status of changes in foreign trade and the dependence degree since the internationalization of “nuclear weapons and missiles development” issues i.e. from 1994 to 2013. As can be showed by the data of the graph, during 20 years between 1994 and 2013, DPRK’s import value exceeded export value, leading to a position of foreign trade deficit; the average annual growth rate of foreign trade (6.9%) was higher than that of nominal GDP (4.8%) by 2.1%; foreign trade dependency degree maintained extremely high with an average value of 26.3% (it was 40.2% from 2010 to 2013), among which import dependency degree (16.7% on average) was higher than export dependency degree (9.6% on average) by 7.1%.

As can be concluded from the data of DPRK’s foreign trade above, DPRK’s import trade played an important role in satisfying domestic demands, but from the angle of trading balance and the correlation between DPRK’s domestic economy and international economy, due to import growing faster than export and relatively low correlation between domestic economy and international economy^⑦[4], there exists the possibility that DPRK lacks domestic foreign currency because of import volume expanding, and the trade therefore slips into a state of paralysis.

^⑥ DPRK’s foreign trade expanding and developing since 2010 ought to be attributed to the goal of “opening the gate of thriving nation” brought forward in 2009, measures of establishing “Taepung International Investment Group” and “North Korea’s State Development Bank” in 2010, as well as the policy of “foreign trade pluralism and diversification” brought forward at the beginning of 2013. The annual average growth rate from 2010 to 2013 (22.5%) is calculated in accordance with the data listed in Graph 1.

^⑦ DPRK’s government insisted on “government-led economic growth pattern”, so its decision-making mechanism is experiencing the historical phase of transforming from “planned economy of instruction” to “planned economy of direction”. See JETRO, February 2014, A Survey of recent North Korean economy, p.29.

III. DPRK'S COMPOSITION OF FOREIGN TRADE

Composition of Foreign Trade, also known as Composition of Foreign Merchandise Trade, referred as a certain country's proportion taken up by import and export volume of various import and export goods against its total volume of import and export trade during a certain period, i.e. the ratio of its import and export volume of various import and export goods to its total volume of import and export trade, is the generic term of import goods structure and export goods structure of a certain country. A country's composition of foreign trade is mainly determined by its economic developing level, industrial condition, the condition of natural resources and trade policy.

Since DPRK has still not unveiled its relevant foreign trade and economic statistical data at fixed period yet, to minimise errors and standardise the data, this dissertation is going to apply the DPRK's statistical data conducted from KOSIS (Korean Statistical Information Service).^⑤ By the utilisation of KOSIS's relevant statistical data of DPRK and Excel, trade value and the proportion of Top 10 goods and Top 5 trading partner countries of DPRK's foreign trade during the three years between 2011 and 2013 are listed in Table 1.

TABLE I. TRADE VALUE AND THE PROPORTION OF TOP 10 GOODS AND TOP 5 TRADING PARTNER COUNTRIES OF DPRK'S FOREIGN TRADE DURING THE THREE YEARS BETWEEN 2011 AND 2013

Top 10 Import and Export Goods						Unit: 0.1 billion USD (%)					
Export to Other Countries			Import from Other Countries			Export to Other Countries			Import from Other Countries		
Status	Goods of HS2 Status	Amount of Money (%)	Status	Goods of HS2 Status	Amount of Money (%)	Status	Goods of HS2 Status	Amount of Money (%)	Status	Goods of HS2 Status	Amount of Money (%)
1	27 Mineral fuels, minerals	38.5 (43.4)	1	27 Mineral fuels, minerals	24.1 (20.8)	2	62 Apparels and the relevant products (excluding fabric)	13.0 (14.7)	2	84 Atomic pile and machine	9.5 (8.2)
2	26 Ore, slag and lime	11.8 (13.3)	3	85 Electrical equipment, audio, cameras, etc.	8.6 (7.4)	3	85 Electrical equipment, audio, cameras, etc.	2.3 (2.6)	6	54 Artificial macrofiber	3.9 (3.3)
3	72 Steel	4.5 (5.0)	4	87 Vehicles and relevant products	7.3 (6.3)	4	03 Fish, Crustaceans, etc.	3.0 (3.4)	5	39 Plastic products	4.0 (3.5)
4	03 Fish, Crustaceans, etc.	3.0 (3.4)	5	39 Plastic products	4.0 (3.5)	5	61 Apparels and the relevant products (including fabric)	2.2 (2.4)	7	40 Rubber and relevant products	3.5 (3.0)
5	85 Electrical equipment, audio, cameras, etc.	2.3 (2.6)	6	54 Artificial macrofiber	3.9 (3.3)	7	25 Saline minerals, sulphur, debris, etc.	1.7 (1.9)	8	10 Grains	3.4 (2.9)
6	61 Apparels and the relevant products (including fabric)	2.2 (2.4)	7	40 Rubber and relevant products	3.5 (3.0)	8	79 Zinc and relevant products	1.7 (1.9)	9	55 Artificial staple fiber	2.8 (2.4)
7	25 Saline minerals, sulphur, debris, etc.	1.7 (1.9)	8	10 Grains	3.4 (2.9)	9	84 Atomic pile and machine	1.2 (1.3)	10	72 Steel	2.8 (2.4)
8	79 Zinc and relevant products	1.7 (1.9)	9	55 Artificial staple fiber	2.8 (2.4)						
9	84 Atomic pile and machine	1.2 (1.3)	10	72 Steel	2.8 (2.4)						

Top 5 Trading Partner Countries/Areas								Unit: 0.1 billion USD (%)							
Export Partner Countries			Import Partner Countries			Trading Partner Countries		Export Partner Countries			Import Partner Countries			Trading Partner Countries	
Status	Country/Area	Amount of Money (%)	Status	Country/Area	Amount of Money (%)	Status	Country/Area	Amount of Money (%)	Status	Country/Area	Amount of Money (%)	Status	Country/Area	Amount of Money (%)	
1	China	78.6 (88.5)	1	China	103.3 (88.8)	1	China	181.9 (88.7)	1	China	181.9 (88.7)	1	China	181.9 (88.7)	
2	Korea	26.0 (29.3)	2	Korea	22.2 (19.1)	2	Korea	48.2 (23.5)	2	Korea	48.2 (23.5)	2	Korea	48.2 (23.5)	
3	Taiwan	1.0 (1.2)	3	Russia	2.6 (2.3)	3	Russia	2.9 (1.4)	3	Russia	2.9 (1.4)	3	Russia	2.9 (1.4)	
4	Indonesia	0.9 (1.0)	4	India	1.9 (1.6)	4	India	2.3 (1.1)	4	India	2.3 (1.1)	4	India	2.3 (1.1)	
5	Hong Kong	0.7 (0.8)	5	Thailand	1.5 (1.3)	5	Thailand	2.0 (1.0)	5	Thailand	2.0 (1.0)	5	Thailand	2.0 (1.0)	

Note: In trading partner country/area, the data of Korea consists of trading volume of Korea and North Korea and the ratio of that to total value of DPRK's foreign trade.
Resource: the table is conducted by calculation of KOSIS statistical data.

As can be illustrated from Table 2, from the aspect of import and export, "resource primary product" (e.g. mineral fuels, minerals) and "labour intensive product" (e.g. apparels and the relevant products) made up DPRK's major export merchandise, with the sum of Top 3 export merchandises' proportion of 71.3% and the sum of Top 10 export merchandises' proportion of 89.8%, which revealed a high level of export merchandises' concentration ratio. Nonetheless, on the contrary, among import merchandises, except for the special position taken by the proportion of the initial

^⑤ North Korea's original statistical data of KOSIS data base 북한통계= comes from the statistics of the Bank of Korea. See relevant statistical data of <<http://kosis.kr>>.

merchandise "HS27 Mineral fuels, minerals" (20.8%), proportions taken by other import merchandises were below 10% without exception, with the sum of Top 5 import merchandises' proportion of 46.1% and the sum of Top 10 import merchandises' proportion of 60.2%, which revealed that DPRK's import merchandises were various but distracted i.e. with a low extent of concentration ratio. These phenomena unveiled the low developing level of DPRK's industries and weak productivity.^⑥

In terms of trade partner country composition, from 2011 to 2013, the major trade partner countries of DPRK were generally China, Korea, Russia, India and Thailand. However, there existed some difference between its export and import partner countries, of which the export trade partner countries included Taiwan and Hong Kong of China ranking at the third and the fifth position respectively, along with Indonesia ranking at the fourth position. Meanwhile, during the same period, the value of trade between DPRK and China as well as the proportion of it took the lead, of which the export and import trade value and the proportions were 7.86 billion USD, 88.5% and 10.33 billion USD, 88.8% respectively and total value of trade and the proportion were 18.19 billion USD and 88.7%, which means that dependency degree of DPRK's trade and economy on China was relatively high. DPRK's trade with Korea i.e. "Southern and Northern Trade" was conducted through Kaesong Industrial Complex. Because of the special relationship between North Korea and South Korea, as well as the DPRK's special condition in international politics, "Southern and Northern Trade" is likely to be easily affected by changes of political relations among DPRK, Korea and US-led relevant western countries. Affected by deterioration of relationship between North Korea and South Korea, the volume of "Southern and Northern Trade" declined by 10.4% in 2011 and 42.4% in 2013 severally.^⑦ In trading with Russia, DPRK imported coals, railway vehicles and oil from Russia, and exported debris to Russia.

IV. INFLUENTIAL FACTORS OF DPRK'S FOREIGN TRADE

International trade is based on International Division of Labour. International Division of Labour refers to labour division among countries all over the globe, the consequence of one certain country's productivity development promoting its domestic social division and then stimulating its internal division within the domestic economy exceeding the national boundary. The derivation and development of international division of labour principally result from "social political economic conditions" and "natural conditions". On the one hand, social political economic conditions mainly consist of productivity development level, technical invention and application, population and domestic market scales, social

^⑥ Among DPRK's import and export merchandises, the initial merchandises in both aspects were "HS27 mineral fuels, minerals" but with varied meanings. There was no existence of "oil" in its export, but it was on the contrary in its import with a large proportion. In addition, as can be seen from Top 10 import and export merchandises listed in Table 2, despite the fact that DPRK was restricted in international trade, the trade of "84 atomic pile and machine" still existed in its export trade. See footnote ^⑤.

^⑦ North Korea statistical data of KOSIS Database North Statistics derives from "Monthly of Communication between South Korea and North Korea" of South Korea Unification Ministry.

political economic mechanism variances, etc. and natural conditions, on another, chiefly include geolocation, national territory area and climate, soil, and the condition of resource distribution, etc. the former of which is simply the influential factor constraining the derivation and development of international division of labour. A typical country's composition of foreign trade is a form of its performing in international division of labour, which reveals the country's state in international division of labour.

In terms of international division of labour, associated with characteristics of composition of DPRK's foreign trade, by the analysis of DPRK's foreign trade development, influential factors constraining DPRK's foreign trade development can be summarised as follows:

- Political economic regime and the policy orientation: a certain country's foreign trade development and its impact are determined by its political economic regime and the policy orientation. Due to DPRK as a socialist country insisting on "government-led economic growth pattern", its decision-making mechanism is experiencing the stage of transforming from "planned economy of instruction" to "planned economy of direction".[5] Constrained by this mechanism, foreign trade can only act as a "tool" to satisfy domestic demand and supply, and fails to become the "engine" promoting economic development effectively.
- Unreasonable industry structure, low level of productivity development: influenced by the policy tending to develop heavy industry and military industry, DPRK's industry structure has attributes of large proportion of heavy industry, tiny proportion of light industry, being relatively backward in rural areas.[6] Despite DPRK attempting to promote the harmonious development of four prior industries including industry, electricity power, coal and railway transport and other industries including mining, machine, chemical industry and light industry, it fails to effectively improve the circumstance that industry structure remained unreasonable, and that productivity of light industry, chemical industry and agricultural industry still remain at a low level.[7]
- Low transparent degree of trade mechanism, trade legal system that is still expected to be completed: under the planned economy mode of "government-led economic growth pattern", division of right and duty, which is hard to be decided apparently between "trading enterprises" and nation/regional governments, seriously affects the normal and sustainable development of DPRK's foreign trade.
- Foreign investment policy inconsistent with international political relationship: the bonus of foreign investment policy tends to be maximised when a certain country's foreign investment policy coordinates with its international political relationship, so that foreign investments are able to promote the development of national economic trade. Nonetheless,

in respect of DPRK, because DPRK's diplomatic relationship fails to create a condition of international political relationship that was stable and favourable for introducing foreign investments especially since 1990s, the process of utilising foreign investments is seriously held back.^①[8]

V. CONCLUSION AND PROSPECT

On the basis of summarising DPRK's economic and political policies, as well as DPRK's foreign trade development and its influence on the development of DPRK national economy since 1990s, in the reference with statistical data, the dissertation practically analyses and summarises DPRK's foreign trade structure and its influent factors, providing a reliable approach and attempt for understanding and grasping DPRK's foreign trade development and its influential factors.

As research indicating, after experiencing long-term fluctuation of increments and decrements, DPRK's foreign trade volume revealed a trend of expanding since 2009. However, because of DPRK's unreasonable industry structure, low level of productivity development, as well as the economic political decision-making mechanism that is still under the circumstance of planned-economy, the foreign trade structure has the attribute of "exporting primary products and importing industrial finished products" i.e. "exchanging products with resources". As can be revealed by summarising DPRK's economic and political policies, as well as evolution of its foreign trade policy, in spite of the fact that DPRK's authority has not declared the policy of "reform and open up" formally, the tendency towards reform and open up regarding economic adjustment policy and regional economy-developing policy is relatively clear, which can be embodied in critical decision-making aspects such as establishment of free trade areas, special economic zones, economic development zones, and issue of relevant laws and regulations.

Under the circumstance of economic globalisation deepening day-by-day and regional economic cooperation tending to be high-standard and multiple, DPRK is expected to break through the restriction of traditional planned-economy gradually and guide into market economy positively and reasonably, to coordinate the relationship between plan and market and that between "being independent, self-dependence" and "opening towards outside", to follow the general procedures of industrialising strategy^②, and to actively develop foreign trade, making foreign trade the vital factor promoting national economy development indeed, therefore becoming "strong and prosperous nation".

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^① Owing to the ossification of DPRK's relationship with USA as well as other relevant international relationships, DPRK is still unable to obtain effective support from international financial institutions in financial aspects such as investment and financing, which is considered as a critical factor of restraining the foreign investments entering DPRK.

^② Foreign trade strategies, which can be classified as primary product export, i.e. resource-oriented trade strategy, import substitution, and export-oriented strategy. Among these three strategies, export-oriented strategy has more influence on industrialisation and economic growth than any other.

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