

CONDITIONS AND PROSPECTS FOR NORTH KOREAN TRADE

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Characteristics of North Korean Trade

In 1999, North Korea's trade levels went into the positive, and have been increasing since. Trade in 2000 grew by 33.1% from the previous year to 1.97 billion dollars, and trade in the first half of 2001 jumped by 81.9% year over year to 1.51 billion dollars. This was due to a boost in imports, and the import growth rate reached 121.8% in the first half of this year, the largest growth ever.

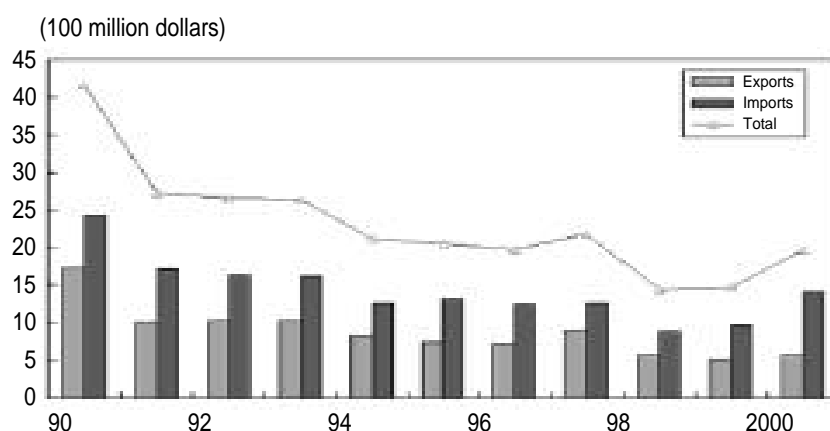
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1. Import surge boosts trade

North Korea's trade increase was due to factors such as inflow of foreign currency from South-North economic cooperation such as the Mt. Kumkang tour, increased aid from the international community, and increased demand for infrastructure. This reflects the gradual recovery by the North Korean economy, which grew 6.2% in 1999 and 1.3% in 2000. However, North Korea is plagued with a chronically widening trade deficit, and the share of total imports to trade in the first half of 2001 exceeded 80%. This indicates that although the North Korean economy has emerged from its lowest point, this was not due to its own competitiveness.

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Figure 1. North Korea's External Trade



2. Rapid increase in capital goods imports

Import of capital goods rapidly increased in order to build an industrial economy.

Although exports were led by primary goods (32.3% in 2000), while food and energy accounted for the most imports (31.3% in 2000), import of capital goods rapidly increased in order to build an industrial economy. Imports of components for autos and computers as well as electrical and electronic products grew rapidly at 51.9%. This reflects North Korea's policy of promoting science and technology as well as its focus on repair of industrial, and energy generation facilities. This shift is also visible in the first half 2001 figures for factories and businesses locations. The light industry sector grew by 1.6 times the total average growth rate, while the metal/machinery and energy sectors, grew by 14 and 2 times respectively. However, food and energy imports still showed high growth rates, indicating that North Korea is still vulnerable in those basic areas.

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North Korea's main exports consist of textile products, electrical and electronics goods, machinery, and minerals such as magnacite. The export of machinery, electrical and electronics goods recently have shown rapid growth rates, and this is seen as the result of improvement in the energy situation as well as the policy to promote science and technology and improve export value-added. Meanwhile, textiles, a former key export, showed negative growth since 1995 and resumed a positive growth of 5.2% in 2000. The share of textiles in total exports however decreased from 31.7% in 1995 to 24.7% in 2000.

3. Increasing trade dependence on Asia

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North Korea had high trade dependence on China and Japan, and Thailand became North Korea's third trading partner. The share of North Korea's top 5 trading partners increased from 69.4% in 1999 to 73.4% in 2000. Although China and Japan accounted for half of North Korean trade, their share in the country's total trade diminished. China supplies strategic goods such as oil, food and autos to North Korea, while Japan is the key source of foreign currency for North Korea by acting as the main export market for the North's primary goods, clothing, and electrical products as well as other manufactured goods.

Other Asian countries are accounting for a higher share of North Korea's trade, with the country's trade in Asia growing by 39.2% and Asia's share growing from 76.8% in 1999 to 80.3% in 2000. In particular, the rapid growth of trade with Thailand (420.2% growth in 2000) resulted in Thailand's rise to third largest trade partner. Important factors in this increase were South Korea's provision of 300 thousand tons of Thai food supplies to North Korea, as well as the supply of crude oil related to KEDO.

Hong Kong, which served as a gold export destination for North Korea in 1997, is becoming a port for North Korea's intermediate exports. The amount of goods that North Korea re-exported through Hong Kong amounted to 114.8 million dollars, which exceeds the trade between the two countries by 17.3%. This indicates that

Hong Kong, due to its return to China as well as the opening of a North Korean consulate there in February 2000, is emerging as a strategic location for North Korea's Asian trade. It is expected that Hong Kong will become even more important as a transport location for North Korea in the future, considering that North Korea lacks means of export shipment.

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Future prospects

1. Modest expansion expected in the short term

It will be difficult for North Korea's trade to expand drastically in the short term due to factors such as limited opening due to the economic crisis and regime maintenance considerations, and difficulty in attracting foreign capital due to uncertain relations with the US, Japan, and South Korea. North Korea currently lacks competitive export products due to energy and raw materials shortages, as well as a lack of foreign currency and the limited scope of reform and opening, which are limiting the introduction of advanced facilities and technology.

It will be difficult for North Korea's trade to expand drastically in the short term

North Korea's imports are expected to increase rapidly in the following categories: energy, machinery components and equipment for normalization of industrial activity, and computers and IT for automating industrial production. Considering that North Korean leader Kim Jong-Il identified the 21st century as the information era, it is forecast that the share of electrical/electronic goods and consignment manufactures in trade will increase in the near future. However, it will be difficult for North Korea to become competitive in the short term, due to lack of modern facilities or advanced technology, substandard infrastructure, and tariff barriers due to its designation as a terrorist supporting state.

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2. "open self-rehabilitation" in the mid to long term

North Korea's trade in 2005 is expected to reach around 4.5 billion dollars, which was the level seen in 1990. This forecast falls between the pessimistic and optimistic scenarios, although the optimistic scenario seems more likely. The forecast is due to the fact that North Korea's economic recovery strategy of opening and external aid has passed the point of no return due to the country's severe economic crisis and the need for regime preservation. In addition, foreign currency inflows from the Mt. Kumgang Tour have been included in North Korea's economic plans, and the authorities are expected to strengthen external economic policies in order to rebuild the economy. Therefore, the optimistic scenario seems more likely than the pessimistic one, but trade is not expected to expand far beyond economic growth. North Korea is still trying to maintain a basic strategy of "creating our style of socialist economy", with limited opening and reform, and a continued emphasis on self-rehabilitation. In other words, North Korea's external trade has been kept at the minimum levels needed for survival in a closed, planned economy. **VIP**