

Online Series

2024. 02. 07 | CO 24-12

The Status and Implications of North Korea's Trade with China in 2023: Challenging Outlook for Trade Expansion

Hong, Jea-hwan (Research Fellow, Unification Policy Research Division)

This article analyzes North Korea's trade with China, which takes up the highest proportion of North Korea's external trade using the 2023 statistics of China recently published by Korea International Trade Association (KITA), and examines the implications for the North Korean economy.

Recovery of Over 80% of the Pre-pandemic Trade Volume

Intensified tensions against North Korea since the second half of 2017 coupled with the COVID pandemic in 2020 led to border closures, resulting in a sharp decline in trade with China. However, signs of recovery began to emerge from 2022 after North Korean authorities declared an end to the pandemic in August 2022 and partially lifted the border closure measures. According to the recent publication, North Korea's exports to China in 2023 amounted to \$0.29 billion, the highest since the impact of sanctions became apparent in 2018. Imports reached \$2.03 billion, which is well over 80% of the pre-pandemic levels in 2018–2019. North Korea's trade with China has now almost fully recovered to pre-COVID levels.

Emergence of Wigs and Artificial Eyelashes as a New Major Export Item

<Table 1> depicts the export trends of North Korea's major export items in 2023. The top four export items for North Korea in 2023 were wigs and artificial eyelashes, ferro-alloys, tungsten, and electrical energy. These four items account for 85% of North Korea's exports. Particularly noteworthy is the export revenue of wigs and artificial eyelashes taking up 57.7% of the total export revenue with \$168 million. This represents an encouraging change for North Korean authorities as they are struggling to discover new major export items amid sanctions.

Another item that experienced a sharp increase in exports after the strengthening of sanctions against North Korea was watch movements. However, the export of watch movements sharply declined after border closure measures and has not recovered even in 2023. The export of watch movements has yet to establish itself as a stable source of foreign currency for North Korea.

<Table 1> Export Trends of North Korea's Main Export Items in 2023 (unit: \$1 million)

Year	Tungsten (2611)	Electrical Energy (2716)	Wig·Artificial Eyelashes (6704)	Ferro-alloys (7202)	Watch Movements (9108)
2016	0	6	2	18	0
2017	4	11	9	22	2
2018	18	11	22	28	31
2019	13	11	31	31	49
2020	5	12	2	11	7
2021	1	17	0	27	3
2022	31	20	12	27	2
2023	26	22	167	32	4

Source: KITA, Data on China's Trade with North Korea in the Statistics of China's Trade, <<https://stat.kita.net/stat/istat/cts/CtsWholeList.screen>> (Accessed on February 1, 2024).

Note: Data compiled using 4-digit HS codes, and the numbers in the () represents the HS code.

Although North Korea's exports reached the highest level in 2023 since 2018, the scale is too small to attach any significant meaning. The increase in exports appears to have had only a meagre impact on the economic recovery of North Korea. The

major export items themselves are evidence of difficulty North Korea is experiencing in breaking away from its existing export structure centered on minimally processed products and minerals.

Rapid Recovery of Intermediate and Consumer Goods Imports

<Table 2> illustrates the trend of North Korea's major intermediate imports, which shows that excluding textiles and fabrics, import volumes have somewhat recovered to pre-COVID levels. The import volume of textiles and fabrics falls significantly short of previous years, which may be attributable to sanctions prohibiting the export of textiles and garments. The rapid increase in intermediate imports to pre-pandemic levels in general would have helped the recovery of North Korea's industrial production in 2023.

<Table 2> Import Trends of North Korea's Main Intermediate Goods (unit: \$1 million)

Year	Fertilizer (31)	Plastic Products (39)	Rubber products (40)	Paper (48)	Textile· Fabrics (50~60)	Wig Materials (67)	Ceramic Products (69)
2016	38	205	79	62	519	3	47
2017	36	231	60	66	587	9	66
2018	85	222	56	64	393	21	58
2019	43	275	63	67	489	30	69
2020	5	36	24	16	49	3	7
2021	24	36	31	9	17	0	4
2022	5	117	62	34	123	18	13
2023	82	212	66	56	258	171	54

Source: KITA, Data on China's Trade with North Korea in the Statistics of China's Trade, <<https://stat.kita.net/stat/istat/cts/CtsWholeList.screen>> (Accessed on February 1, 2024).

Note: Data compiled using 2-digit HS codes, and the numbers in the () represents the HS code.

<Table 3> illustrates the trend of major consumer goods imports in North Korea, including food, clothing, and footwear. The direction of change for each of the items in 2023 is somewhat inconsistent. The import volume of grains, edible oil, tobacco, footwear, and furniture has almost recovered to pre-pandemic levels, while the

import volume of dairy products, sugar, and pharmaceutical products exceeds previous levels. On the other hand, imports of seafood, fruits, and clothing fall short of pre-pandemic levels. Overall, apart from some items affected by sanctions-related factors, imports of consumer goods also showed rapid recovery, possibly leading to improvements in the living standards of North Korean residents.

<Table 3> Import Trends of North Korea's Main Consumer Goods (unit: \$1 million)

Year	Seafood (3)	Dairy Products (4)	Fruits (8)	Grains (10,11)	Edible Oil (15)	Sugar (17)	Tobacco (24)	Pharma ceutical Products (30)	Clothing (61, 62)	Foot wear (64)	Furniture (94)
2016	74	2	100	30	99	4	19	13	189	34	49
2017	102	3	67	68	122	39	33	15	159	41	60
2018	71	6	82	92	156	40	70	32	98	41	58
2019	56	4	64	161	144	44	92	46	123	51	75
2020	5	1	8	38	80	32	39	18	6	6	8
2021	0	7	0	1	12	5	24	19	1	0	1
2022	0	5	0	53	63	30	51	43	16	6	12
2023	9	36	12	125	126	74	77	60	92	35	66

Source: KITA, Data on China's Trade with North Korea in the Statistics of China's Trade, <<https://stat.kita.net/stat/istat/cts/CtsWholeList.screen>> (Accessed on February 1, 2024).

Note: Data compiled using 2-digit HS codes, and the numbers in the () represents the HS code.

In summary, North Korea's imports of intermediate and consumer goods rapidly recovered in 2023, possibly contributing to improvements in industrial production and the standards of living of its residents. However, as for capital goods subject to heavy sanctions, efforts were made for import substitution but the outcomes are not yet clear. This suggests that the sanctions on imports may be hindering the recovery of North Korea's industrial production.

Challenging Outlook for Additional Trade Expansion

How will North Korea's trade volume change after 2024? One of the main characteristics of North Korea's trade with China in 2023 is that the trade deficit increased significantly. This is the result of a dramatic increase in imports with only

a slight increase in exports.

Since North Korea is earning foreign currency through illegal methods such as smuggling, sales of fishing rights, cyberattacks and financial crimes, dispatch of its workers overseas, and arms trade despite scrutiny by the international community, its balance of payments deficit in 2023 may be actually be smaller than the figures shown in the statistics. However, considering North Korea's foreign currency reserves, it may be difficult for North Korea to endure a trade deficit of the same scale as in 2023 over the long term under sanctions. Furthermore, the prospects for North Korea's exports are not optimistic.

Therefore, under sanctions, it appears challenging for North Korea's trade with China to exceed pre-pandemic levels or even return to the levels of 2023. This is anticipated to limit North Korea's industrial production and the residents' consumption. Since North Korea is likely to continue engaging actively in illegal means such as cyberattacks, financial crimes, and arms trade (particularly with Russia) to mitigate the situation and earn foreign currency, the international community needs to be thoroughly prepared against it and remain vigilant. ©KINU 2024

※ The views expressed in this paper are entirely those of the author and are not to be construed as representing those of the Korea Institute for National Unification (KINU).