

A HISTORICAL SURVEY OF NORTH KOREA'S ECONOMIC DEVELOPMENT AND TRADE, 1945-1984*

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Economic reality supersedes political rhetoric, even in the hermit kingdom. North Korea is one of the most secluded countries in the world, and its self-imposed isolation and the resulting dearth of hard data make any systematic study of the nation a challenge. Despite the political and technical constraints, this paper nevertheless attempts to demystify North Korea's claim of economic self-sufficiency. A longitudinal survey reveals the reasons why the Kim Il Sung regime had to make a major policy compromise by enacting the 1984 joint venture law. This paper shows the gradual evolution of North Korea's economic stagnation that has since the mid 1980s led to economic openness towards the West.

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Introduction

This study aspires to go beyond the usual ahistorical approaches to North Korea by surveying the country's economic history between 1945 and 1984. Careful historical observation often serves as a helpful guideline in analyzing the present situation, and in predicting the future trajectory. The Pyongyang regime has consistently pursued economic interests in its policy platform since the beginning of the Communist regime. Such behavioral consistency for four decades provides us with plausible explanations for its recent moves to adopt capitalist market practices, including the establishment of the Sinuiju Special Administrative Region. The major source of confusion regarding its economic behavior lies with the smokescreen of its quintessential political dogma of Juche.¹

The question of whether or not North Korea will ever shed the central planning mode of economic management has been lingering on for decades. The perceived lockstep between the political doctrine of Juche and a self-reliant economic system has created the exaggerated illusion of North Korea's stringent adherence to socialist economic principles. This study's historical survey of Pyongyang's economic behavior suggests that the country has been pursuing pragmatic financial interests for many years. On the basis of this data, the paper concludes that the regime will continue to pursue economic pragmatism, and thus ultimately have no choice but to participate in the world economic system.

North Korea, facing serious economic problems, desperate for cash,

1 Juche (self-reliance) is the defining ideology of North Korea. Its three main tenets are self-reliance in defense, self-sufficiency in economy and political independence. The pervasiveness of the ideology is multifaceted and multi-dimensional. As the most ubiquitous political term, the emphasis on juche-ized ways of living ranges from the citizen's personal life to the nation's defense and foreign relations. H. S. Park, "North Korean Perceptions of Self and Others: Implications for Policy Choices," *Pacific Affairs*, vol. 73, no. 4 (Spring, 1992), pp. 504-506.

and deeply in debt, made a hesitant and very limited foray into the international capitalist trading order in 1984. In the North Korean context, the Joint Venture Law can be considered almost revolutionary. Follow-up measures of the Law, however, have been considerably less dramatic. North Korea tried to emulate the Chinese example to the extent of testing the water with the 1984 Joint Venture Law, but, unlike the Chinese, refused to plunge in. North Korea's economic self-sufficiency is one of its greatest myths. This longitudinal study of North Korea's economic development and trade argues that foreign trade has made an important contribution to North Korea's economic development despite Pyongyang's claim of economic self-sufficiency.² Pyongyang's political rhetoric has long emphasized "ideological determinism" for economic policies, and yet empirical reality suggests otherwise. North Korea's trading patterns have been closely associated with domestic economic goals.

North Korea's Economic Development Plans and Foreign Trade Between 1945 and 1984

The 1940s: Laying the Foundation for a Socialist Economy and Minimal Trading Activities

Dramatic changes were occurring in North Korea's economic structure in the 1940s. The fledgling Pyongyang regime laid the foundation for socialist economy. For example, the central state began to nationalize private property. The Provisional North Korean People's Committee was organized in 1946, and a series of laws were promulgated in

2 Foreign trade is a form of behavioral interaction between two nations. Foreign trade illuminates foreign relations as well as domestic political and economic conditions. See Alexander Erkstein, *China's Economic Revolution* (Cambridge and London: Cambridge University Press, 1977), p. 273.

order to confiscate all private property.³ By 1949, 90.7 percent of manufacturing facilities, and 56.5 percent of tertiary industries were nationalized. The socialization of private ownership was finally completed in 1958. However, transforming the colonial mode of production into a socialist system was not an easy task.

Pre-Planning Period (1945-1946)

The fledgling communist regime of the North faced more than a few obstacles in its socialist economic restructuring. Even though they inherited substantial manufacturing facilities, accelerating factory operation was difficult.⁴ Most seriously, the North was not equipped with the necessary technical knowledge to resume the halted manufacturing activities in the wake of the Japanese withdrawal. Japanese technicians fled the peninsula without handing over the necessary technical know-how to their Korean successors. Entrepreneurs in the North also fled to the capitalist South out of fear of political persecution. Making things worse, the Soviet occupational forces transferred a handsome amount of North Korean production equipment to their own country. The economy's initial take-off was quite trying. The shift from a colonial mode of production to a socialist mode was not easy, technical support was not sufficient, technology levels were low, and working capital was scarce.

3 The Committee enacted the Law on Agrarian Reform, and the Law on Nationalizing Important Industrial, Transportation, Banking and Related Industries in the same year. See Dae Sook Suh, p. 213.

4 There was a notable difference in industrial structure between North and South Korea. About 80 percent of the total heavy industrial equipment was concentrated in the North, whereas 70 percent of light industry was located in the South. The North was strong in chemical and steel production, while textile and food production was mostly Southern. See Ha Chong Yon, *Bukhanui Gyungjae Jungchaekgwa Unyong* [North Korea's Economic Policy and Its Operation] (Seoul: Korea Development Institute, 1986), p. 145.

The First 1-Year Plan (1947)

In 1947, North Korea launched its very first economic development plan. The primary goals of this plan were to speed up the socialization of private property and to resume production. More specifically, the First 1-Year Plan aimed to restart factory operation, expand state-owned industries, increase productivity and improve the standard of living for the people. The plan aimed to double the industrial production, and increase the agricultural output by 300,000 tons over the previous year. The results, however, did not measure up to the goals. Industrial production grew by only 70 percent, and agricultural output reached only 57 percent of the original target.⁵

The Second 1-Year Plan (1948)

The Second 1-Year Plan (1948) continued to emphasize the increase in industrial and agricultural production. It stressed the importance of reducing production costs while upgrading product quality. The plan targeted an increase of 141 percent in industrial and 135 percent in agricultural production. Performance fell short of the projections once again. The aggregate growth in the industrial sector remained 126 percent over the previous year, and food production was no more than 281,000 tons.⁶

North Korea's trading activities were very small in the 1940s. The total trade volume was \$11,390,000 in 1946, and it grew to \$182,250,000 in 1949. Its major trading partner was the Soviet Union. The trade deficit was \$29,750,000 as of 1949.

5 Kim Il Sung, *Kim Il Sung Jujakjip III [The Collected Writings of Kim Il Sung]* (Pyongyang: Chosun Rodongdang Chulpansa, 1979), pp. 89-108.

6 Kim Il Sung, *Kim Il Sung Sunjip II [Selected Writings by Kim Il Sung]* (Pyongyang: Chosun Rodongdang Chulpansa, 1953-54), pp. 45-72.

The 2-Year Plan (1949-June 1950)

A new concept of “people’s economy” was introduced during the 2-year plan period. The central state tried to eliminate all remaining traces of Japanese influence in administration and management practices. This plan also attempted to create a balance among industrial sectors. North Korea’s agriculture was underdeveloped because of the colonial legacy, which had concentrated heavy machinery production in the northern part of the peninsula. The central state, therefore, tried to increase agricultural output by introducing mechanized farming methods. Meanwhile, the state kept on accelerating the process of socializing private property. Cooperative unions in the commercial sector were started at this time. More specific goals of the 2-Year plan included a 194 percent increase in the gross production of the state-run enterprises over the previous year. Increasing food production by 158 percent over 1948 was another goal. The results as usual did not meet the initial targets. Industrial production grew by only 102.9 percent, and food production amounted to 2,795,000 tons. All in all, the 2-Year Plan was a moderate success when compared to the two previous plans.

During the 2-Year Plan, North Korea’s trade dependence was insignificant. Total trade volume amounted to \$182 million. Exports amounted to \$76 million, and imports reached \$106 million. The trade deficit stood at \$29 million. From liberation in 1945 until the Korean War in 1950, the Soviet Union was the sole source of North Korea’s foreign loans, which amounted to \$53 million.⁷

In sum, the 1940s were a period for the fledgling regime to lay the

7 The North Korean economy’s dependency ratio on foreign loans during the 2-Year Plan period was 22 percent. The formula for calculating the dependency on foreign aid ratio is (total amount of aid/total government revenue) x 100. See Chun Sam Park and Byung Chun Min, *Pukhaneui Daewoe Gyungjae Hyupruk [North Korea’s Foreign Economic Cooperation]* (Seoul: Daewangsa, 1987), p. 334.

foundation of its socialist economy. North Korea attempted to change the colonialist mode of production into one of socialism. It also tried to resume factory operations that came to a halt with the Japanese withdrawal. The First and Second 1-Year Plans were not a success, but North Korea fared better with its 2-Year Plan. In every plan period, the increase in agricultural and industrial output fell short of the original targets. The importance of foreign trade for economic development was minimal in the 1940s.

The 1950s: Recovery from the Korean War and Trade Expansion

The 1950s were a dramatic era for the North Korean economy. Beginning with its invasion of South Korea in 1950, North Korea was on a war footing until 1953. Since the truce in 1953, the rehabilitation of the war-torn economy was the overriding concern. The post-war 3-Year Plan succeeded in revitalizing the devastated economy. The regime also started a variety of mass-mobilization movements. Finally, socialist allies provided loans and aid to the war-weakened communist regime.

The War Economy (June 1950-July 1953)

The Korean War put the North Korean economy on a war footing. The war demanded a major restructuring of the economy. War industries were given priority, and production facilities were strategically relocated to rural areas and Manchuria. Food was rationed, and civilian property was under government requisition. When a truce was reached in July 1953, the central government put recovery from the war at the top of its economic agenda.

Damage from the war was extensive. Total property losses were estimated at \$1,700 million, which meant that 75% of North Korea's

total economic assets were destroyed. Major industrial production declined substantially. The war not only wrecked production facilities, but a substantial number of manufacturing and agriculture workers were also lost during the war. In sum, the effect of the war was devastating.

The 3-Year Plan (1954-1956)

The North Korean leadership faced two major tasks in the post-war era: rehabilitation and modernization. The central government launched a 3-Year Economic Development Plan in 1954, and its primary goal was to return production to pre-war levels. Meanwhile, the state continued the nationalization process. Collective management practices began to replace merit-based individual performance. Food production was also a major concern.

The 3-Year Plan was a success. The war-torn economy was rehabilitated, and the average income of North Korean households surpassed that of the pre-war level. The average growth rate in industrial production was an impressive 41.7 percent.⁸

Foreign trade, however, was slow during this period. By war's end in 1953, total trade volume had declined from a prewar \$182 million to \$73 million. The regime regained its trade capacity by reaching a total trade volume of \$140 million in 1956. Throughout this period, imports exceeded exports, leaving the trade balance in deficit.

The Soviet Union remained North Korea's major trading partner. While the USSR continued to serve as North Korea's crucial export market, import sources were expanded to include East Germany and Czechoslovakia.⁹ The main export commodities were mineral products

8 The Economist Intelligence Unit, 1985, p. 31.

9 North Korea's main export items were mostly primary products such as precious metals (60.7 percent) and nonferrous metals (14.9 percent) as of 1955. North Korea's

and nonferrous metals. The main import items were machinery, electric goods, fuel oil and chemical goods.¹⁰

Foreign aid played a crucial role in North Korea's post-war recovery. During the war, the total amount of aid and loans offered to the Pyongyang regime was \$267 million. The dependency ratio on foreign aid during the Korean War was 47 percent. The total amount of foreign aid jumped to \$748 million during the rehabilitation period (1954-1956), and the dependency ratio on loans was 40 percent in the same period.¹¹

Loans and aid from the U.S.S.R. were indispensable for Pyongyang to rebuild its industrial infrastructure. However, ideological confrontation within the communist bloc made the Pyongyang leadership more cautious in their dealings with the Soviet Union. Khrushchev's attack on Stalin and his declaration of peaceful co-existence created tension with China. Furthermore, disputes involving communist nations, such as the border clash between China and India, convinced North Korea to be more passive in its diplomatic relations.

The 5-Year Plan (1957-1960)

After the successful rehabilitation of the war-torn economy, yet another development plan ensued. The main goal of the 5-Year Plan was further consolidation of the socialist economy. The central state, for instance, completed the socialization of private property in 1958. Heavy industry rose to become the key industrial sector. The

main import items from the U.S.S.R. were machinery (37.3 percent) and food/cotton (18.9 percent) in the same year. See *The Institute for Far Eastern Studies, Bukhan Muyokron* [North Korean Trade] (Seoul: Kyungnam University Press, 1979), pp. 288-289.

10 Rin Sup Shin, et.al., *Area Handbook for North Korea*, 1969.

11 The formula for the dependency ratio on foreign loans is (total amount of loan/total government revenue) x 100; see Park and Min, p. 334.

Pyongyang leadership decided to put its main emphasis on heavy industry. The military confrontation on the peninsula, and the fresh memories of the war, taught North Korea the significance of military power. Advocates of light industry were purged from the communist party.

Another notable event during this period was the introduction of various mass mobilization movements: the Chollima (Flying Horse) Movement, the Chungsanri Farming Method, and the Taean Factory Team Work. All of these mass movements were geared towards increasing labor productivity. The driving force behind these collective efforts was ideology rather than material incentives for individual workers.¹²

The outcome of the 5-Year Plan was mixed. There were discrepancies between Pyongyang's official statements and its actual behavior. The government's official statistics implied the plan's success. Impressive numbers such as a 350 percent increase in total productivity and a 320 percent increase in crop yield over 1956 supported the regime's claims. The central state also claimed that 2 billion won was invested to improve the citizens' standard of living. The gross value of social production was up by 210 percent, and the average growth rate in industrial output was an impressive 41.7 percent over 1956. The communist government painted a rosy picture.

Despite this sunny portrait, the actual results remain ambiguous. The central government prematurely terminated the 5-Year Plan in 1959, one year earlier than originally planned. The central state designated 1960 as "the buffer year" for the completion of the 5-Year Plan. The North Korean economic planners set excessively high production

12 A worker who fulfilled the production quota was named a "hero" under this system. North Korea's Chollima Movement was a copy of China's Great Leap Forward (1958-1960). This movement evolved to the Chollima Work Team Movement in the 1960s. See Il-Pyong Kim, *Bukhan Jungchi Gyungjae Ipmun [An Introduction to North Korea's Political Economy]* (Seoul: Hanwool, 1987), pp. 108-113.

goals.¹³ The dominant speculation was that the plan was not as successful as officially claimed. Pyongyang could not start another plan until 1961.

One notable change in North Korean trade was the emergence of China as a major partner. Trade with China surpassed trade with the U.S.S.R. for the first time. However, the balance of trade with China remained in the red. In 1959, the trade deficit with China reached \$25.9 million. North Korea's reliance on foreign trade continued to be substantial. The sum of aid and loans was \$638 million, and \$387 million of this was foreign aid. The dependency ratio on foreign aid reached 40 percent during this period.

Along with economic expansion, levels of foreign trade increased. Trade volume totaled \$214 million in 1957 and grew to \$320 million in 1960. The balance of trade, however, emerged as a serious issue. North Korea's trade deficit grew from \$14 million in 1957 to \$122 million in 1959. Nonferrous metals topped mineral products as the top export item, and machinery continued to be the major import item, followed by fuel oil. North Korea continued to sell natural resources in order to pay for imports.¹⁴

The 1950s were a period of vicissitude for the North Korean economy. War damage was extensive, but the recovery from the war was a success. The economy was restored to its pre-war level by 1956, and the socialization process was completed by 1957. During the latter part of the 1950s, a variety of mass mobilization movements began. The importance of foreign trade grew, and China emerged as another major trading partner. Foreign loans and aid were important to the

13 These were usually in excess of 100 percent increases over the previous plan. The utilization of interim "buffer year(s)" to complete the original goals by extending the plan period is uniquely North Korean. It is fair to argue that North Korea's mode of economic operation is different from that of any other country. See Yong-Gyu Kim, p. 23; also see The Economist Intelligence Unit, 1985, p. 31; *Bukhan Yonguso*, 1979, pp. 214-221.

14 Rinn-Sup Shin, et. al., p. 69.

recovery from the war.

The 1960s: Impressive Economic Growth and Diversification of Trading Partners

The economy maintained consistent growth in the 1960s. The government tactically mobilized labor power into its target areas, and its strategy was effective. One of the most conspicuous changes was North Korea's diversification of trading partners. Up until the middle of the 1960s, North Korea faithfully adhered to the Juche doctrine. The central government tried not to diverge from its self-sufficiency track. North Korea refused to join the Communist Economic Conference (COMECON), and it also refrained from affiliating with the Council for Mutual Economic Assistance (CMEA).¹⁵ The intensifying ideological confrontation between the U.S.S.R. and China forced the Pyongyang regime to court capitalist countries as trading partners. Economic needs began to overshadow the ideological doctrine of economic self-sufficiency during this period.

The 7-Year Plan (1961-1967)

The Central Committee of the Korean Worker's Party set out the 7-Year Plan in 1967. The plan stressed the improvement of the people's standard of living and the promotion of light industry. New management methods were implemented in order to boost productivity. A group management system replaced the previous one-person system. Material incentives were also offered to boost agricultural productivity.¹⁶

15 Y. S. Kim, "Bukhangwa COMECONeui Gyungjae Hyupryuk Gwangae [North Korea's Economic Relationship with the COMECON]," *Pukhanhakbo*, Vol. 8 (1984), p. 28.

This plan aimed to increase gross industrial output by 220 percent and national income by 170 percent. Its emphasis on increasing coal, electric power, machine tools and tractor production illustrates the nation's shortage of energy sources and farming equipment.

The actual achievements of the plan did not measure up to its goals. The central government did not release any statistics on national income or agricultural productivity.¹⁷ The available data suggest that labor productivity increased by 147.5 percent and industrial productivity also grew by 330 percent.¹⁸ In November 1966, North Korea made the plan's failure official. The three years between 1968 and 1970 were declared to be a buffer period for catching up with the original goals. The 7-Year Plan became a de facto 10-year plan.

There were a number of reasons for the plan's failure. Contradicting its emphasis on light industry, the central government continued to allocate a substantial amount of its resources to the military sector. Military spending was 7.5 percent of total government expenditure in 1964, but had jumped to 32.9 percent by 1968.¹⁹ The problems of maintaining a rigid socialist economy started to pose a threat to the continuous economic growth. Inefficient market function began to cripple the economy as productivity decreased. The average industrial growth rate of 12.8 percent was a drastic downturn compared to the pre- and post-war growth rate of 39 percent. Finally, there were salient changes in North Korea's external environment. Pyongyang had to walk a fine line between the USSR and China. The intensifying ideological confrontation between the two communist giants meant that the

16 In 1960, the last year of the previous plan period, agricultural products ranked as the second import commodity, reflecting the nation's food shortage.

17 The growth rate was estimated to be 9.7 percent during the first half of the 1960s, and 5.8 percent in the latter half of the decade. See USCIA, National Foreign Assessment Center, *Handbook of Economic Statistics* (Washington D.C.: 1984).

18 *Bukhan Yonguso*, pp. 214-221.

19 Byung Chul Koh, *The Foreign Policy Systems of North and South Korea* (Berkeley: University of California Press, 1984), p. 59; Ha-Chong Yon, p. 231.

Pyongyang regime could not benefit from their foreign loans as much as it used to.

North Korea's growing trade dependency from the 1960s is meaningful because the political rhetoric of economic self-sufficiency gradually gave way to the empirical reality of economic growth. The nation's trade dependency grew from 19.2 percent in 1961 to 20.1 percent in 1965. It became 26.9 percent in 1970. North Korea's total trade volume grew steadily as well. The total trade volume was \$1.7 billion in 1961, and it grew to \$2.5 billion in 1967 and to \$2.9 billion in 1970. While the nation's export dependency ratio fluctuated, its dependency on imports grew rather dramatically as the plan period was nearing its end. For example, the economy's dependence on imports grew from 9.8 percent in 1961 to 10.3 percent in 1965. Import dependency peaked at 14.7 percent in the final year of the plan period.

North Korea's major export items were primary products such as agricultural and mining goods, and secondary products such as heavy industrial goods. This composition of export commodities reveals that the Pyongyang regime succeeded in boosting its labor productivity through the Chollima Movement and the Taean Management Systems. North Korea's primary import commodities were raw industrial materials and non-consumer products; these were necessary to build the socialist economy's infrastructure. As the 7-Year Plan's extension period was wrapping up, the regime increased the import of capital goods from 10.7 percent in 1961 to 45 percent in 1970. Meanwhile, the proportion of imported raw materials went down from 72.8 percent of total imports to 45.9 percent.

There was a notable change in North Korea's trade relationship within the communist bloc. Power struggles for hegemony between China and the Soviet Union were intensifying. The reoccurring border dispute between India and China and the Albanian crisis were only two manifestations of this struggle. The two giants' confrontation became more acute with the enunciation of the Brezhnev Doctrine and

the Soviet invasion of Czechoslovakia in 1968. In subsequent years the Sino-Soviet relationship rapidly cooled, and the accumulated tension exploded in Chenpao (Damyanski) Island, where a large-scale border clash between Soviet and Chinese troops occurred along the Amur River border in March 1969.²⁰ The Pyongyang regime realized the precarious nature of its alliance with these powerful communist states in the changing dynamics of international politics.

North Korea's decision to emulate the Chinese model was costly. The Soviets canceled their agreement to export agricultural equipment and machinery, and drastically reduced their economic assistance. This change in the Moscow-Pyongyang relationship was an important factor in the 7-Year Plan's failure.

The 7-Year Plan fell short of its original projections. The initially vibrant North Korean economy started to exhibit symptoms of stagnation. As the regime neared the end of the plan period, its dependence on trade grew. The experiences of the 1960s taught the regime *Juche* doctrine would not suffice to resolve some pressing economic concerns. The changes in this period are instructive, for they give us some clues to the regime's future problems.

The 1970s: The Era of Economic Stagnation and Pursuit of Economic Pragmatism

The Kim Il Sung regime succeeded in transforming North Korea's economy from agrarian to industrial. However, despite this success, the North Korean economy began to demonstrate symptoms of economic stagnation in the 1970s. The sluggish performance of light industry and the agricultural sector emerged as a major threat to the economy at this time. The shortage of basic raw materials became another problem. In order to cope with shortages of basic materials, the

20 See Erkstein, *op. cit.*, p. 239.

regime had to pursue two economic plans in the 1970s: the 6-Year Plan and the Long-Term Economic Plan in 10 Strategic Areas. The 1970s, in short, were a trying time for North Korean economy.

The 6-Year Plan (1971-1976)

The 5th Workers' Party Congress adopted the 6-Year Plan for the period of 1971 - 1976. It aimed to "improve the results of industrialization, upgrade the technological foundation for the socialist economy, and liberate workers from hard labor."²¹ The plan also called for building an industrial foundation for domestic production. The plan emphasized the need to extract larger quantities of natural resources that the economy was short of. A minimum of 60-70 percent of all needed raw materials was to be supplied domestically.

In detail, the plan called for the building of factories for metal production, cement processing, power, and chemicals. Turbines and motors with generation capacities of 50,000 kw/hour, and 25-ton capacity automobile manufacturing plants were to be constructed. Domestic equipment such as refrigerators (125,000 units), television sets (100,000 units), and washing machines (10,000 units) were to be assembled.

The plan emphasized increasing food production and agricultural productivity. The 6-Year Plan also aimed to increase the national income by 90 percent over the previous plan. It also attempted to increase workers' average monthly wage to 90 won.²² The cash income for each farm household was to be raised to 1,800 won. During this plan period, more than 1 million new houses were to be built in rural and urban communities.²³

21 *Rodongshinmun*, "On the 6-Year People's Economic Development Plan," November 10, 1970.

22 It was approximately \$81 in 1970.

On September 25, 1975, the Central Statistics Bureau of North Korea made the abrupt announcement that they had accomplished all of the plan's goals 16 months ahead of schedule. The Bureau gave out impressive figures to support its claim. According to the government, annual industrial production had grown by 110 percent over that of 1970. The production of manufacturing materials had increased by 115 percent, and the production of consumer goods had risen by 105 percent. The average growth rate of industrial productivity was claimed to be 18.4 percent, surpassing the original goal of a 14 percent increase. The growth rate of industrial output was also impressive with a 250 percent increase over 1970. Furthermore, the grain yield amounted to 8 million tons, which was far above the original projection.²⁴ All in all, these figures alluded to a phenomenal success. However, observers have had more than a few reasons to be skeptical about these figures.

The timing of such an abrupt statement leaves open the possibility of an artificial staging of the announcement. The Korean Workers Party was going to celebrate its 30th anniversary in October 1975, and this announcement came out one month before. Speculation was that the Kim Il Sung regime needed an occasion to make their 30th anniversary special, and an advertisement of the 6-Year Plan's phenomenal success was the perfect way to do so. Another reason to question the credibility of the state-issued figures comes from North Korea's serious trade deficit in the midst of the worldwide oil crisis of 1974. Finally, the North Korean government could not start another plan until 1977, two years after the completion of the 6-Year Plan in 1975. It was obvious that Pyongyang needed the extra two years to catch up with the original goals of the 6-Year Plan before it could embark on another plan. This circumstantial evidence suggests that the regime's claim of the 6-Year Plan's phenomenal success was an exaggeration.

23 *Bukhanyongoso*, p. 47.

24 C. G. Eun, "Elements of North Korea's Foreign Policy Decisions Regarding China and Soviet Union," *Vantage Point*, Vol. IX, No. 6 (1986), p. 6.

The first half of the 1970s was an era of dramatic change in North Korea's trading activities. Trade volume grew drastically, reaching more than \$ 1 billion in 1972. The total volume reached \$1.9 billion in 1974, the largest level in the nation's history. However, trade volume has gradually declined since then.

The Pyongyang regime's decision to emulate the Chinese model alienated the Soviet Union as a major benefactor, and the main consequence was a drastic reduction in loans and aid. This change redirected Pyongyang to cultivate alternative markets within the capitalist bloc. Kim Il Sung's statement that North Korea must expand its markets and exports, that they had to play a more crucial role in the economy, is noteworthy. The Juche ideology's emphasis on economic self-sufficiency now seemed untenable. This realization led the regime to openly put economic pragmatism before political doctrine.

It is not surprising that North Korea's dependency on exports increased during this plan period. The export dependency ratio increased from 1.82 percent in 1971 to 3.73 percent in 1974. This change implies that the increase of industrial productivity contributed to an increased export of industrial goods. The agricultural and industrial sectors' export dependency ratio grew dramatically to 12.40 percent and 15.51 percent respectively as of 1974 as well.

North Korea's import dependency has followed a typical pattern of import-substitution policy. In the beginning of the 6-Year Plan period, the economy's import dependency was insignificant. But lack of sufficient capital or trained labor left the regime with little alternative but to increase imports. The major import commodities were plants, machinery, and fuel. North Korea purchased an already assembled French petrochemical complex, one of the world's largest cement plants, and Japanese textile factories during the early 1970s.²⁵

Trade became less active in the second half of the 1970s. The

25 Byung Chul Koh, *The Foreign Policy Systems of North and South Korea* (Berkeley: University of California Press, 1986), p. 40.

international oil crisis was one major blow to the nation. North Korea had to endure skyrocketing import prices, while export prices went down. The cost of major export items such as lead and zinc plunged, while the price of import materials such as machinery rose dramatically.

North Korea's increased trade with the third world was notable. Its trade proportion with the third world grew from 2 percent in 1971 to 8.8 percent in 1974. Nations such as Pakistan and Uganda were the major clients for Pyongyang's arms sales. North Korea's obsession with military defense led to heavy investments in its defense industry, and the regime further tried to cash in on these investments by selling arms to other developing nations. Arms sales jumped from zero in 1975 to \$80 million in 1976.²⁶ North Korea's trade partnership with the third world became more important as time passed. Their solidarity was not only economic but political as well: they claimed to share a common ideological principle of anti-imperialism.

North Korea's trade with the OECD (Organization for Economic Cooperation and Development) increased as the nation tried to diversify its trading partners. The ideological confrontation between the eastern and the western blocs became less of a concern as economic interests came to the fore. North Korea's exports to OECD nations grew by an annual average of 8.8 percent between 1974 and 1980. The volume of imports from the OECD was not as big as that of exports, because the OECD was an export market for North Korea. Its major export items were primary goods, such as raw materials and foodstuffs. The major import commodities were machinery, transport equipment, raw materials (e.g., steel, paper and textiles) and chemical products (e.g., insecticides and fertilizer). As of 1980, the importation of machinery and transportation equipment was 38.1 percent of the total volume of imports from the OECD. These items were crucial to Pyongyang's relentless pursuit of its economic development plans.

26 Chun Sam Park and Byung Chun Min (eds.), pp. 323-326.

Despite North Korea's efforts to diversify its trading partners, there were obstacles. Chief among these was a chronic shortage of hard currency. Even though North Korea's economy desperately needed the advanced technology of the west, its insufficient foreign currency reserve always stood as a serious hurdle. North Korea's lack of credibility as a debtor in the eyes of the west also made its prospects gloomy. North Korea's international isolation was yet another obstacle. North Korea was not a member of the IMF (International Monetary Fund) or the IBRD (International Bank for Reconstruction and Development).²⁷ The socialist regime's prospects as an OECD trading partner were therefore not bright.

The prospect for North Korea to become an exporter to the OECD nations was not rosy, either. Low industrial productivity was its crucial weakness as an exporter.²⁸ The substantial military budget allocation, usually 20 to 25 percent of the total government budget, meant that the industrial sector did not receive enough investment to produce export items. In addition, the nation's heavy reliance on hydroelectric power and coal as major industrial fuel sources made potential partners wary of the possibility of natural disaster. In short, North Korea could not be a reliable supplier of the items that the OECD nations were interested in buying.

Socio-political obstacles were also too important to ignore in assessing North Korea's viability as a trading partner. The society's closed nature, the regime's self-imposed isolation in the international community, its leadership characteristics under the banner of Juche ideology, and its lack of experience with the western world were believed to be

27 Ha-Chong Yon, 1986, pp. 200-201.

28 As compared to other socialist countries, the labor productivity of the North Korean worker was one of the worst. Labor productivity in the industrial sector per 1 worker in the 1970s was \$2,184 in the Soviet Union, \$1,588 in Bulgaria, \$2,916 in Czechoslovakia, \$1,586 in Hungary, \$ 1,729 in Poland, and \$ 1,588 in Rumania. However, that of North Korea was a meager \$218. See Chun-Sam Park and Byung Chun Min (eds.), p. 335.

insurmountable barriers in its relationship with the west.²⁹

As a way to leap over such hurdles, the central government modified its trade policies. Import-substitution partially yielded to export activities. Pragmatic concerns began to carry almost as much weight as ideological rhetoric. Higher numbers of technocrats ascended to power within the communist bureaucracy. Local enterprises were given more autonomy than ever before. All of these efforts were designed to reinvigorate North Korea's stagnant socialist economy. However, despite these policy changes, foreign trade did not proceed smoothly. A few important obstacles remained, as will be discussed later.

The drastic increase in North Korea's trade reflected the nation's need to accomplish its ambitious economic goals. We can also speculate that Pyongyang was motivated to accelerate its economic growth after the power elite had a first-hand opportunity to observe South Korea's booming economy during their visit to Seoul for talks in 1972. Furthermore, the nation's trade with OECD nations reveals the general mood of detente in the international community and the caution with which it dealt with the Soviet Union and China.

The 1980s: Continuing Economic Stagnation and Dramatic Moves to Open Up the Economy

The North Korean economy continued to experience sluggish growth in the 1980s. Pyongyang's desperation led to the simultaneous launching of two economic programs, the 2nd 7-Year Plan (1978-1984) and the Long Term Economic Plan in 10 Strategic Areas (1979-1989).

29 North Korea's active trade with Japan is an effective example of its diversification of trading partner strategy. For instance, its trade with Japan occupied 43 percent of North Korea's total trade volume with non-socialist countries in 1970. An examination of trade commodities with Japan shows that North Korea was in need of secondary goods, and heavy industrial goods in particular were the primary import items. See Kyungnam Daigaku Gyokumondai Genkyusho, p. 248.

The structural deficiencies of the socialist economy and the consequential bottlenecks that plagued the major industrial sectors led the regime to take the dramatic measure of opening up its closed economy through the revolutionary Joint Venture Law of 1984. The Supreme People's Assembly of North Korea adopted its 2nd 7-Year Plan in December of 1977. The plan period ranged from 1978 to 1984. The goals of the 2nd 7-Year Plan included a 220 percent increase in gross industrial output and a 190 percent increase in national income. This plan also emphasized the "modernization" and "scientification" of the people's economy. The improvement of people's standard of living was once again highlighted.

Interestingly, however, the regime did not start another plan until 1986. Again, the dominant speculation was that the socialist regime needed a two-year buffer period to round off the original plan. The actual outcome of the 2nd 7-Year Plan is estimated to have been 55 percent of the original plan. Essential industrial products such as electricity, steel, machinery, and chemicals experienced serious production setbacks.³⁰

During this latest plan period North Korea's trade was in better shape. Its trade volume increased, and its trade balance improved over that of the 1970s. 1980 saw a record amount of trade, and the trade deficit was a comfortable \$83,000. North Korea's trade with western nations continued to increase in the first half of the 1980s as well. Its imports from the western bloc grew by 20 percent, and its exports to them also increased by 18 percent.

North Korea also continued to emphasize its cooperation with the third world during this time. It was an ardent advocate of the New International Economic Order (NIEO). Its economic doctrines matched the regime's Juche ideology and its ambition to become a leader of the non-aligned group.³¹ Pyongyang's interest in other developing nations

30 See Young-Gyu Kim, p. 24.

31 North Korea's efforts to align with Third World nations are well demonstrated by its

also reflected its monetary interests as a weapons exporter. North Korea's trade deficit grew to \$14 million in 1981 and to \$55 million in 1982.

The Long Term Economic Plan in 10 Strategic Areas (1979-1989)

During the 2nd 7-Year Plan, the 6th Worker's Party announced another ambitious Long-Term Economic Plan in 10 Strategic Areas. The central government of North Korea attempted to pursue two ambitious economic programs simultaneously. The rationale behind this double-track policy is hard to fathom. We can, however, guess that the regime was becoming desperate with the sluggish economic growth that followed the impressive expansion of the 1950s and the 1960s. Furthermore, North Korea was becoming more dissatisfied with its own lagging performance when it compared itself to its rival, the capitalist South. The gap between North and South Korea's GNPs was becoming larger. South Korea's GNP growth rate, for instance, was 2.87 times faster than that of the North in 1960. But this difference grew to 3.80 in 1970 and to 5.52 in 1984. The rivalry between the two regimes propelled the North to take extreme measures such as the joint venture law.

economic aid to them. During 1956 and 1976, North Korea's economic aid to the Third World amounted to \$980,000, and its loans reached \$5.6 million. About 39 African and Middle Eastern nations received the Pyongyang regime's assistance in such diverse forms as direct material supplies and agricultural technology transfers. Among Asian nations, Viet Nam, Burma and Sri Lanka were the major recipients. See Tae-Hwan Kim, *Bukhaneui Jaesamsaegae Woegyo Gwangae [North Korea's Diplomatic Relations with the Third World]* (Seoul: Gukjaemunjaeyonguso, 1987), p. 166. One of the most notable aspects of North Korea's relationship with Third World nations is its support for their military actions. The Pyongyang regime, for instance, supported military confrontations in 11 African nations by dispatching military personnel and providing arms. See *The Dong-A Ilbo*, August 2, 1984; *The Hankook Ilbo*, August 4, 1984.

The detailed goals of this latest plan reveal that North Korea was in dire need of the primary materials required to process manufactured goods. The plan's 10 strategic areas included an increase in electricity, coal and steel production.

The target year for the completion of this economic plan was left open. 1989 was the targeted date, but the Supreme People's Assembly announced in 1987 that they were going to modify the goals due to unfavorable international and domestic conditions. They judged that the initial goals were not attainable, and they were pressed for time. They therefore extended the target year for the Long Term Plan from 1989 to 1993, and most of the original production goals remained the same.

The Joint Venture Law (1984)

In 1984, the Pyongyang regime made a revolutionary move to revitalize its stagnant economy: the enactment of the Joint Venture Law. Article 1 of the law specifies that North Korea wants to "expand and develop economic and technical interchange and cooperation with many countries of the world." This move was a great compromise between economic reality and Juche rhetoric. Since events had revealed economic self-sufficiency to be no more than wishful thinking, to the xenophobic nation had to modify its key policy doctrine.

There were a few advance warnings of this massive impending change. In the 1984 government shake-up, pragmatists like Kang Sung San and Kim Young Nam replaced technocrats like Li Jong Ok and Huh Dam.³² Kim Il Sung emphasized the importance of technology transfer from capitalist economies in an official statement. The Pyongyang regime was starting to realize the limits of a closed eco-

32 The Economist Intelligence Unit, 1985, pp. 37-38.

conomic system. It needed a strong prescription to cure the nation's deteriorating economic health and the limited effects of mass mobilization. Pyongyang saw a dire need to import advanced technology and capital by attracting foreign investors. As it faced more and more obstacles to trade expansion with the OECD countries, its prospects for improving economic relations with socialist countries also diminished. The power struggle between China and Russia put Pyongyang in a tricky position. The Soviet Union began reducing its assistance to Pyongyang in the late 1970s. Most of its assistance now went to Cuba, Viet Nam and Mongolia, and North Korea was low on the Soviets' list. China also made changes in its trade policies with Pyongyang. The western bloc nations became China's major import sources, while North Korea remained as its export market. These external changes were all detrimental to Pyongyang's attempts to revitalize its economy.

Changes were also detected in South-North relations. North Korea agreed to hold economic talks with the South in November 1981 after abruptly breaking off talks in 1979. Economic discussions became more active after a third meeting in November 1984. Even though the seventh meeting was postponed in 1985, a considerable change in North Korea's attitude was detected. Pyongyang also accepted South Korea's delivery of relief goods in 1984.

In addition to these changes, there were practical reasons for the enactment of the Joint Venture Law. First of all, North Korea was suffering from a large accumulation of foreign debt from the beginning of its economic development drive. By 1986, the total amount of foreign debt had reached \$4.1 billion. This debt posed a serious threat to the nation's international credibility. In October 1986, the Japanese government reimbursed 30 Japanese export insurance companies \$196 million to pay off Pyongyang's debts to them. Furthermore, the western banking group declared in 1987 that Pyongyang was in default of \$770 million. These loans were mainly used for the purchase of machinery and the construction of bridges and roads in the 1970s. Since 1984

Pyongyang had made no payments on the interest of the principal sum.³³ The shortage of foreign capital reserves made the nation face more difficulties in importing technology and machinery for its economic growth drive.

China's 1978 commencement of its successful economic reform program, "the open door policy," seems to have motivated the Kim Il Sung regime to implement a similar plan. Kim, along with top-ranking government officials, made frequent visits to industrial sites in China such as the Shenzhen Special Economic Zone in Guangdong Province in 1984.³⁴ The North Korean Joint Venture Law seems to have used the Chinese law of 1977 as a model.³⁵

Eighteen years have now elapsed since the introduction of the Joint Venture Law. The law's impact is mixed. Barriers of various kinds explain the disappointing effect of the law. First of all, one of the ironies of the new system is that the joint stock company is one of the most popular forms of ownership in the capitalist economy. In issuing stocks under the North Korean law, the range of stockholders was severely limited. It was obvious that the government of North Korea was going to be the sole stockholder from the North Korean side. This meant that the central government would voice its opinion in all management decisions and hold the largest amount of stock from each deal. This unequal partnership has hindered many private western firms from

33 Chun Sam Park and Min Byung Chun, p. 314.

34 *The Dong-A Ilbo*, November 20, 1984; Y. H. Kihl, "North Korea in 1984: The Hermit Kingdom Turns Outward!," *Asian Survey*, Vol. 25, No. 1 (January 1985), pp. 62-72.

35 The two share striking similarities. There are two subsections of the two laws: 1) the basis of law explaining its principle and purpose; 2) description of organization and business activities; 3) regulation of distribution; and 4) description of the procedures concerning the extension and termination of contracts. In the first few articles, both emphasize the equal nature of economic cooperation and technology development. Article 3 of the North Korean law lists the focus industrial sectors and article 5 specifically mentions that Pyongyang welcomes investment by Korean-Japanese. See S. B. Yoon, "Two Laws of Joint Ventures: The North Korean and Chinese Cases," *Journal of East and West Studies*, Vol. XV, No. 1 (Spring-Summer 1986), pp. 69-72.

participating in business deals. Second, North Korean income tax law is discriminatory.³⁶ According to the law, the central government of North Korea can levy income taxes on joint venture companies, foreign employees and Korean workers at the firms.

Right after the joint venture law's enactment, the regime intensified its anti-capitalist propaganda. The official party newspaper, the *Rodong Shinmun*, criticized the "cancer of capitalism" and the vicious nature of imperialist revisionism. These contradictory actions (economic openness and ideological indoctrination) reveal the essence of North Korea's dilemma. Even though the need to open up its closed economy was pressing, the regime was afraid of losing tight control over its people. Despite decades-long political indoctrination, it was possible for the people to be aware of the fact that North Korea was not paradise after all.

The analyses above show the gradual evolution of North Korea's economic stagnation that has since the mid 1980s led to economic openness towards the West. The association between economic development and trade has been fairly close despite the political rhetoric of *Juche*. Trade volume tended to increase as each plan neared its end. Import activities, in particular, were on the rise as the Pyongyang regime was gearing itself towards the completion of each development phase. This research demonstrates how Pyongyang has tried to tread water while faced with internal as well as external obstacles.

Conclusion: Gearing Towards Inter-Korean Reconciliation Through Trade and Economic Cooperation

Even though the results of the 1984 joint venture law are mixed, the

36 North Korea was the first nation in the world which abolished income taxes in 1974. The 8th Plenum of the 5th Workers' Party declared this abolition in order to realize "true communism." See *Yearbook on International Communist Affairs*, 1975, p. 368.

unrealistic goal of economic self-sufficiency is giving in to the global trend of economic restructuring. The recent economic reform measures support such an observation.

Pyongyang will continue to make more reform-oriented measures even at the cost of losing its tight grip over the populace. Comparative historical evidence suggests that economic collapse tends to precede political demise,³⁷ and Pyongyang has yet to prove the regime's sustainability through prolonged economic incapacity.

The current economic situation, plagued with severe famine, has not changed much since the annus horribilis of 1993. The nationwide average nutritional intake improved only temporarily right after the regime's 1995 international plea for humanitarian aid. The improved macroeconomic indicators fall very short of translating into tangible changes at the microeconomic level. The woes of the crumbling economy manifest themselves in massive starvation, infrastructure deterioration, severe energy shortage, depleted foreign currency reserves, and an increasing human exodus.

Pyongyang's leadership has consistently misread the implications of its actions in the current international political context in which the hawks outvoice the doves. A series of diplomatic mishaps has aggravated Pyongyang's economic relationships with its key trading partners. Pyongyang's candid admission of the existence of abducted Japanese has backfired on the regime by angering the Japanese public. The unexpected admission to the U.S. of a continuing nuclear development program has quickly become an international security hot potato. North Korea's continued export of weapons to Middle Eastern countries has increased doubts about the regime's credibility. With international aid from the two major donors dwindling, the World Food Program continues its warnings about the worsening famine. But Pyongyang has been caught with its hand in the cookie jar,

37 Nicholas Eberstadt, *The End of North Korea* (Washington D.C.: AEI Press, 1999), pp. 45-69.

and such political jeopardy can only aggravate its economic performance. An unprecedented amount of pressure, external as well as internal, is mounting on the regime.

Pyongyang appears to have adopted three economic policy changes. The first is a more encompassing introduction of capitalist economic principles such as competitive pricing, and a productivity-based reward system. These recent adoptions go beyond the separate accounting system, a mixture of socialist and capitalist modes of operation. The trial-and-error of the Sinuiju Special Administrative Region will not dampen the regime's desperate need to attract more foreign investment and stay competitive in the international market, because it has no viable alternative. The Kaesung Industrial Complex and Mt. Geumgang Project will continue, because North Korea is in desperate need of economic resuscitation.

Second, North Korea seems to aspire to a strategic separation of politics from economy. Pyongyang's recent policy has been to adhere to agreements made in the cultural, economic and sports realms despite political and military confrontations. Seoul may be the only partner that will play along with such a policy. Other major western partners will hesitate to continue economic ties if their security concerns are at stake.

Third, the North will continue to rely on the South as its major trading partner. South Korea became North Korea's second largest trading partner, followed by China, in 2001, and traffic in human and material resources increased dramatically under Kim Dae Jung's Sunshine Policy. The whirlwind of globalization will not exclude North Korea, and the country can no longer keep its doors closed. As no man can be an island, no nation under the sun can remain self-isolated indefinitely. North Korea has been doing that too long, and its time for revolutionary change is approaching sooner than expected.