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ECONOMIC INTELLIGENCE REPORT

**THE FOREIGN TRADE OF NORTH KOREA
1946 - 56**



**CIA/RR 108
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**CENTRAL INTELLIGENCE AGENCY
OFFICE OF RESEARCH AND REPORTS**

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THE FOREIGN TRADE OF NORTH KOREA
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(ORR Project 42.1714)

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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FOREWORD

The purpose of this report is to revise current estimates of North Korean foreign trade on the basis of recent information and to disseminate, in published form, the extensive foreign trade information contained in the captured documents of the Korean War. Much of the information from 1946 to 1950 is useful in making estimates for other periods. In particular, the year 1949 is being used by North Korea as a base year for many announcements on foreign trade. The earlier estimates for foreign trade in 1949 were incomplete and were based on planned figures. The revision of the 1949 estimates and the expansion of details provide a better measure of the recovery of North Korea and permit more accurate estimates of the foreign trade of North Korea after the Korean War.

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THE FOREIGN TRADE OF NORTH KOREA*
1946-56

Summary

North Korea must rely heavily on foreign trade as a means of compensating for its unbalanced economy. North Korean foreign trade expanded more than five times in 1946-49, achieving an estimated level of US \$124 million** in the latter year. Trade in 1950 was planned to double that in 1949, but hostilities canceled these plans. The Korean War halted nearly all commercial foreign trade, and the heavily damaged economy has been only partly reconstructed. By 1955, commercial foreign trade (excluding aid imports of \$205 million) was only 41 percent of the level of 1949, or \$51 million. In 1956, commercial trade was estimated to be \$69 million, and aid imports were estimated to be \$180 million.

The North Korean economy has been sustained by the large Sino-Soviet Bloc grants-in-aid since the Korean War. These grants amount to almost \$800 million distributed over the period 1954-64, and about 80 percent of this total is estimated to have been delivered by the end of 1956. Communist China granted the largest sum, \$325 million (1954-57), followed by the USSR with \$250 million (1954-56) and the European Satellites with \$222 million (1954-64). Because the major part of these deliveries has already been completed without significant additional aid being announced, it appears that North Korea must again rely on its exports for sustaining the necessary level of imports.

The mining, metallurgical, chemical, and electric power industries developed by the Japanese have provided the basis for the exports of North Korea. In 1949, minerals and metals constituted 56 percent and chemicals 22 percent of total North Korean exports. Although North Korea has attempted to broaden the industrial base, these same commodities formed the bulk of North Korean exports in the immediate post-Korean War period and will probably continue to do so for several years.

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 August 1957.

** Unless otherwise stated, all dollar values in this report are in terms of current US dollars.

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North Korea is completely dependent on imports for its supplies of bituminous coal, petroleum, and rubber, and major deficiencies exist in many industrial products, certain minerals and raw materials, and consumer goods, including supplemental foodstuffs in years of poor harvests. The USSR became the primary trading partner of North Korea, supplying most of the industrial products and some raw materials during 1946-50. During this period, North Korea obtained the rest of its imports from mainland China* and Hong Kong with small amounts from Japan. Since the Korean War the USSR and Communist China have been the main source of imports, with almost all the rest being obtained from other members of the Sino-Soviet Bloc. The dependency of North Korea on Manchuria for most of its coking coal and supplemental foodstuffs and upon the USSR for its industrial products and petroleum provides both of these countries with an influential position in the North Korean economy.

I. Introduction.

The Korean peninsula and Manchuria were part of the Japanese Empire before 1945. By controlling investment, the Japanese developed and integrated the area into the Empire primarily as a supplier of raw materials and semifinished goods for Japanese industry. The foreign trade of the Korean peninsula was increasingly concentrated within the Empire, primarily with Japan. The Japanese neither sought nor achieved a balanced economy in the various sections of this area.

Because of this imbalance in the North Korean economy, the new Communist regime had no choice but to continue the exchange of surplus mineral, metal, and chemical products for the coal, petroleum, machinery, and textiles required to sustain a viable economy. Foreign trade policy stressed the import of machinery and equipment to broaden the internal industrial base and to lessen dependence on foreign trade, but the achievements resulting from this policy were almost totally negated in the Korean War. In the period since the armistice the goal of the foreign trade policy of North Korea, in conjunction with the general economic policy, has been to rehabilitate the economy and to develop

* Including both Nationalist and Communist-controlled sections of China.

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new facilities for an expanded industrial base. This policy is being carried out with large-scale material grants-in-aid from the Sino-Soviet Bloc. By the end of the Three Year Plan (1954-56), however, foreign trade, exclusive of aid, had reached only 56 percent of the 1949 level. The policy of broadening the industrial base is progressing but has not yet materially reduced the dependence of the economy on foreign trade.

The direction of North Korean foreign trade at the end of World War II was determined by political and economic conditions in the world generally and in the Far East particularly. The Soviet occupation of North Korea was the decisive determinant of the direction of trade, although the war damage, the tasks of reconstruction throughout the world, and the unstable conditions in the Far East were additional factors. As a result, until the Korean War the bulk of the trade of North Korea was conducted with the USSR.

For North Korea this shift in its trade toward the USSR was not illogical. The USSR had great influence in important parts of the Japanese Empire which had been key suppliers of raw material to North Korea under the Japanese. Sakhalin and Manchurian coking coal, Sakhalin petroleum, and Manchurian foodstuffs -- all required by North Korea -- were controlled by the USSR for at least part of this period. The USSR also was able to fill many of the North Korean requirements for industrial products. At the same time the USSR found that political, geographic, and economic factors made trade with North Korea desirable. This basic pattern was stimulated by East-West political developments during the ensuing decade and was reinforced by the partial integration of the North Korean economy into the industrial complex of the Soviet Far East.

The organization of North Korean foreign trade has been dictated by the ideology of the regime and its foreign advisers. Within 2 years after the Communists took over North Korea, private foreign trade firms were almost eliminated, and during the Korean War and in the postwar period the Sino-Soviet Bloc military and economic aid programs greatly enlarged imports and forced all trade and aid transactions through state channels.

The area of autonomous policy designed to further the distinctive economic objectives of North Korea has been small and limited primarily to short-run goals and to a minor portion of North Korean trade. In 1949, for example, North Korea attempted to develop Hong Kong as a source

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both of needed commodities and of a stable currency and to replace the Chinese* market, which was in a chaotic condition because of the civil war. This attempt was not as successful as hoped, largely because the North Korean company responsible for this trade lacked market information and was inefficiently operated. The attempt was continued in 1950 and appeared destined for more success until the outbreak of hostilities halted all trade with Hong Kong.

In the period since the armistice, North Korea has sometimes used foreign trade as an adjunct to foreign policy. Apparently in an attempt to embarrass the South Korean government, North Korea has repeatedly offered to export electric power to South Korea. North Korea has entered into active trade talks and, probably for commercial reasons, has signed contracts with Japanese businessmen which have hindered Japanese negotiations with South Korea.

For the most part, however, the foreign trade policies of North Korea have been designed to implement economic plans. In 1946 the policy was geared to rehabilitate the economy. This policy required that most North Korean exports be used to obtain supplies from the USSR, supplemented by the import of some essential goods from China and Hong Kong. A similar policy was followed in the formulation of the Two Year Plan in 1949, although unstable conditions in China required a shift of some trade to Hong Kong.

North Korean economic relations with the European Satellites lack prewar precedent and appear to be based more on ideology and less on economic considerations. During the Korean War, all of the countries of the Sino-Soviet Bloc extended aid, and East Germany granted North Korea an economic loan of \$7.5 million. Several trade agreements were signed at this time with European Satellite countries, but they have been for the most part symbolic because North Korea was not in a position to trade during hostilities and commercial trade with the Satellites did not begin until 1955. After the armistice, most of the Sino-Soviet Bloc countries signed bilateral trade agreements and agreements on scientific and technical cooperation with North Korea. Economic aid was extended to North Korea by all the Sino-Soviet Bloc countries except North Vietnam.

* Including both Nationalist and Communist-controlled sections of China.

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This large and apparently cooperative economic aid program, designed to rehabilitate the North Korean economy, is the outstanding economic link which North Korea has had with the Sino-Soviet Bloc. The program has been presented to North Korea as a gift requiring no repayment, and it is implemented by a series of bilateral agreements signed in 1953-54. It is possible that the Council of Mutual Economic Assistance (CEMA) may have performed some role in the execution of these agreements.

II. Level and Direction of Trade.

1. Level.

The unbalanced economy inherited from the Japanese forces North Korea to rely heavily on foreign trade. The economy is completely dependent on imports for its supplies of coking coal, crude petroleum, and rubber, and major deficiencies exist in tin, certain minerals, machinery, bearings, electrical and transport equipment, textiles, and long-staple cotton. 1/* At the same time there are North Korean surpluses of electric power, metals and metal products, and some chemicals. The foreign trade engendered by these imbalances represents a considerable part of North Korean economic activity. As a measure of this, exports were equal in value to about 30 percent of North Korean budget expenditures during the period 1948-50. 2/ Aid deliveries from the Sino-Soviet Bloc for North Korean reconstruction during 1954-56 represent about 22 percent of total North Korean budget revenues in those years. 3/

Foreign trade grew rapidly during the period before the Korean War and by 1949 had increased more than five times above the level of 1946, when the economy was quite disorganized. Trade in 1950 was planned to be nearly double that of the previous year, but hostilities disrupted normal foreign trade activities. 4/ During the war, unknown quantities of military and economic aid were exported to North Korea by the Sino-Soviet Bloc, most of which required no repayment. North Korea claims that its exports continued during the war, but these would of necessity have been limited. In 1953, bilateral agreements signed with most countries of the Sino-Soviet Bloc provided deliveries of free economic aid to assist in the extensive rehabilitation necessary for the devastated economy. Foreign commercial trade, which was overshadowed by the extensive aid deliveries, had by 1956 reached only 56 percent of the level of 1949.

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The estimated value of the imports and exports of North Korea, 1946-49 and 1954-56, is shown in Table 1.*

2. Direction.

At the end of World War II the USSR assumed the dominant position which Japan formerly held in North Korean foreign trade. During the period 1946-49 the USSR accounted for about 70 percent of North Korean foreign trade, and additional trade with North Korea appears to have been conducted by Soviet trade organizations located in the Communist sections of China and Manchuria. The next largest trading partner of North Korea during 1946-47 was China. In 1947, North Korea began a concerted drive to develop trade with Hong Kong, and during 1949 nearly 20 percent of the foreign trade of North Korea was with Hong Kong. With the Communist rise to power in China during late 1949 and 1950, North Korean trade began to swing back to China, and trade with Hong Kong ceased after June 1950.

Estimated value of the foreign trade of North Korea, by country, 1946-49, is shown in Table 2.** The distribution of the foreign trade of North Korea since 1949 is unknown. During the Korean War, all imports and exports were restricted to the Sino-Soviet Bloc 5/ and consisted largely of military and economic aid deliveries from the USSR. During the period since the armistice the Sino-Soviet Bloc has continued to dominate North Korean foreign trade, primarily in aid deliveries. The USSR and Communist China are currently the most important trading partners of North Korea and until 1954 were its only significant trading partners in regular commercial trade. Trade with East Germany, Czechoslovakia, and the other European Satellites has been developing slowly since 1955.

Since 1953, only an insignificant amount of trade with North Korea has been recorded by countries of the Free World. This trade has probably been supplemented by minor amounts of smuggling and dealings through third parties. There is evidence that North Korea would like to develop trade with the Free World, although a part of this desire may be politically motivated. In 1956 a North Korean trading firm signed a trade contract with an association of Japanese businessmen, but the Japanese government refused to permit execution of the contract. 6/ Later in 1956 a contract was signed by North Koreans with a Swiss company, involving an exchange of goods valued at \$500,000. 7/

* Table 1 follows on p. 7.

** Table 2 follows on p. 8.

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Table 1

Estimated Value of Imports and Exports of North Korea
1946-49 and 1954-56

	Million US \$						
	<u>1946 a/</u>	<u>1947 a/</u>	<u>1948 a/</u>	<u>1949 a/</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
Imports and exports (commercial trade)	22.1	51.8	65.1	118.5	32.8 b/	50.6 c/	68.8 d/
Imports (grants-in-aid)					255.1 e/	205.4 e/	180.4 e/
Imports (loan from the USSR)				5.0			
Total	<u>22.1</u>	<u>51.8</u>	<u>65.1</u>	<u>123.5</u>	<u>287.9</u>	<u>256.0</u>	<u>249.2</u>

- a. See Table 2, p. 8, below.
- b. 8/
- c. 9/
- d. 10/
- e. See Table 9, p. 23, below.

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Table 2

Estimated Value of the Foreign Trade of North Korea, by Country
1946-49

Country	1946 ^{a/}			1947 ^{a/}			1948 ^{a/}			1949		
	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total
USSR	7.7	6.3	14.0	14.1	13.9	28.0	24.3	25.7	50.0	44.3 ^{b/}	49.3 ^{c/}	93.6
China	3.6	3.7	7.3	7.8	7.8	15.6	2.3	3.4	5.7	1.9 ^{d/}	2.5 ^{d/}	4.4
Hong Kong	} 0.4	0.4	0.8	4.1	4.1	8.2	4.6	4.8	9.4	{ 12.7 ^{e/}	11.6 ^{e/}	24.3
Other												
Total	<u>11.7</u>	<u>10.4</u>	<u>22.1</u>	<u>26.0</u>	<u>25.8</u>	<u>51.8</u>	<u>31.2</u>	<u>33.9</u>	<u>65.1</u>	<u>59.4</u>	<u>64.1</u>	<u>123.5</u>

a. Figures are from North Korean sources, ^{11/} stated in North Korean won and converted to US dollars at the following rates of exchange: 1946, 61.3 won to US \$1; 1947, 82.2 won to US \$1; 1948, 140.5 won to US \$1. (See VII, 2, c, p. 32, below.)

b. ^{12/}. Converted from rubles at the official rate of 5.3 rubles to US \$1. Soviet trade is f.o.b. (free on board) border.

c. Estimated to be equal to North Korean exports plus imports estimated to be worth \$5 million under a Soviet loan of 1949.

d. ^{13/}. Stated in won and converted at the rate of 100 won to US \$1. (See VII, 2, c, p. 32, below.)

e. ^{14/}. Stated in dollars. Exports, c.i.f. (cost, insurance, and freight) Hong Kong; imports, f.o.b. Hong Kong.

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III. Commodity Composition.

1. Exports.

North Korean exports consist predominantly of mineral and metal products and some types of chemicals, reflecting the industrial facilities developed by the Japanese. Table 3* shows exports by North Korea to the USSR, by commodity group, 1949-50.

Ten commodities constituted almost three-fourths of the value of North Korean exports to the USSR in 1949. These commodities in their order of importance (converted from rubles) were gold (\$7.4 million), fertilizer (\$6.2 million), magnesium concentrate (\$5.7 million), high-speed steel (\$2.7 million), pig iron (\$2.6 million), tungsten (\$1.9 million), zinc concentrate (\$1.7 million), refined zinc (\$1.6 million), carbide (\$1.6 million), and refined lead (\$1.4 million). ^{15/} The planned exports to the USSR for 1950, although nearly doubling in value above the level of 1949, reflected much the same commodities, with special steels gaining in importance at the expense of chemicals.

Whereas the USSR absorbed nearly all of the mineral and metal products of North Korea in 1949, exports to the Free World and China were restricted to chemicals, primarily fertilizer, and to foodstuffs, primarily grain. Table 4** shows exports by North Korea to China, Japan, and Hong Kong, by commodity group in 1949.

Information on North Korean exports since the Korean armistice is limited to brief announcements of trade agreements with Sino-Soviet Bloc countries. The lists of commodities presented in these announcements indicate that the composition of North Korean exports is approximately the same as before the Korean War, and it appears that North Korea will have to depend upon these traditional exports for several years in the future.

* Table 3 follows on p. 10.

** Table 4 follows on p. 11.

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Table 3

Estimated Exports by North Korea to the USSR, by Commodity Group a/
1949-50

Commodity Group	1949 <u>b/</u>		1950 <u>c/</u>	
	Value (Million US \$)	Percent of Total	Value (Million US \$)	Percent of Total
Nonferrous metals and minerals	20.0 <u>d/</u>	45	30.2 <u>e/</u>	42
Ferrous metals and minerals	12.3 <u>f/</u>	28	27.5 <u>g/</u>	38
Chemicals	8.4	19	11.0	15
Other	3.6	8	3.4	5
Total	<u>44.3</u>	<u>100</u>	<u>72.1</u>	<u>100</u>

a. Figures are given in rubles and converted at the official rate of 5.3 rubles to US \$1.

b. 16/

c. 17/. Planned.

d. Composed of 58 percent base metals, 37 percent concentrates, and 5 percent nonmetallic minerals.

e. Composed of 58 percent base metals, 39 percent concentrates, and 3 percent nonmetallic minerals.

f. Composed of 22 percent ferroalloys, 22 percent high-speed steel, 55 percent metal products, and 1 percent ore.

g. Composed of 24 percent ferroalloys, 31 percent high-speed steel, 44 percent metal products, and 1 percent ore.

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Table 4

Estimated Exports by North Korea to China, ^{a/} Japan,
and Hong Kong, by Commodity Group
1949

<u>Commodity Group</u>	<u>Value b/ (Million US \$1)</u>	<u>Percent of Total c/</u>
Metals and metal products	0.9	5.9
Cereals	4.3	28.8
Processed foods	1.1	7.0
Chemicals	4.9	32.3
Fish products	2.1	13.8
Other	1.8	12.2
Total	<u>15.1</u>	<u>100.0</u>

a. Including both Nationalist and Communist-controlled sections of China.

b. Values were derived by applying percentages to exports for 1949 in Table 2, p. 8, above.

c. 18/

2. Imports.

Only limited data are available on the composition of North Korean imports in the period 1946-50. In 1949, 67 percent of North Korean imports from the USSR were raw materials and machinery for industry and agriculture, and 27 percent were consumer goods, primarily cotton and woolen textiles. 19/ Table 5* shows the commodity composition of North Korean imports from the USSR, 1946-48, and Table 6** shows the commodity composition of North Korean imports from China, Japan, and Hong Kong in 1949.

* Table 5 follows on p. 12.

** Table 6 follows on p. 13.

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Table 5

Estimated Imports by North Korea from the USSR, by Commodity Group
1946-48

Commodity Group	1946		1947		1948	
	Value <u>a/</u> (Million US \$)	Percent of Total <u>b/</u>	Value <u>a/</u> (Million US \$)	Percent of Total <u>b/</u>	Value <u>a/</u> (Million US \$)	Percent of Total <u>b/</u>
Machinery and raw materials for nonconsumer goods industries	4.1	65	8.1	58	14.6	57
Raw materials for consumer goods industries	1.2	19	1.2	9	5.1	20
Consumer goods	0.9	15	2.2	16	5.7	22
Medical supplies	0.1	1	0.3	2	0.2	0.7
Other			2.1	15	0.1	0.3
Total	<u>6.3</u>	<u>100</u>	<u>13.9</u>	<u>100</u>	<u>25.7</u>	<u>100</u>

a. Values were derived by applying percentages to imports in Table 2, p. 8, above.

b. 20/

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Table 6

Estimated Imports by North Korea from China, a/ Japan,
and Hong Kong, by Commodity Group
1949

<u>Commodity Group</u>	<u>Value <u>b/</u> (Million US \$)</u>	<u>Percent of <u>Total</u> <u>c/</u></u>
Metals and metal products	0.7	5
Cereals	2.1	14
Processed foods	0.3	2
Chemicals	1.6	11
Autos and parts	0.9	6
Machinery and equipment	1.6	11
Lumber and coal	2.1	14
Consumer goods	3.3	22
Other	2.2	15
Total	<u>14.8</u>	<u>100</u>

a. Including both Nationalist and Communist-controlled sections of China.

b. Values were derived by applying percentages to imports in Table 2, p. 8, above.

c. 21/

During this period, North Korea relied primarily on the USSR for machinery and equipment and raw materials and on the Free World for consumer goods such as textiles and for some industrial products such as tires. North Korea also imported substantial amounts of grains (including soybeans), particularly from China. For example, North Korea planned to balance imports and exports of grains at 40,000 metric tons* in 1949, after importing 70,000 tons and exporting 20,000 tons of grains in 1948. 22/ This swing in grain imports and

* Tonnages are given in metric tons throughout this report.

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exports, as well as the large amounts of grain imported from China in 1946 23/ and in 1954-55, suggests that in bad crop years North Korea is dependent on the adjacent Chinese territory for supplements to its food supply.

No information is available on the composition of North Korean imports on current trade account since the armistice, but commercial imports have been relatively unimportant in comparison with the large volume of commodities entering the country through the grant-in-aid program of the Sino-Soviet Bloc. This program has been well publicized, but its commodity composition is available only for 1954.

Table 7* shows the material aid received by North Korea from Communist China in 1954, and Table 8** shows the material aid received from the USSR in the same year. The commodity composition is available for approximately half of the total value of the aid which North Korea reported receiving from these two countries during 1954. Of these commodities, consumer goods accounted for approximately 40 percent, fixed capital goods for 27 percent, and raw and semifinished materials for 32 percent. The primary consumer goods in terms of value were grains, flour, and textiles; the primary fixed capital goods were transport equipment and machinery; and the primary unfinished materials were coal, fertilizer, and iron and steel products. These aid goods reflect not only commodities customarily imported, but also commodities usually exported which were in short supply because of war damage. For example, North Korea received as aid in 1954 a minimum of 129,000 tons of iron and steel products, in contrast to planned exports to the USSR in 1950 of 172,000 tons. There are several other noteworthy examples of North Korean imports of goods usually exported, reflecting the extensive war damage. This extraordinary situation, however, should cease as the economy is rehabilitated. Imports during 1957 and later probably will be along more traditional lines such as coking coal, petroleum products, machinery, and textiles.***

* Table 7 follows on p. 15.

** Table 8 follows on p. 17.

*** Continued on p. 19.

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Table 7

Material Aid Received by North Korea
from Communist China, by Commodity a/
1954

<u>Commodity</u>	<u>Amount</u>	<u>Estimated Value (Thousand US \$)</u>
Consumer goods		
Grain (metric tons)	130,000	13,000
Soybeans (metric tons)	30,000	3,750
Meat (metric tons)	3,000	3,000
Cotton (metric tons)	3,900	979
Canvas shoes (pairs)	610,000	1,830
Blankets (units)	50,000	250
Newsprint (metric tons)	4,000	400
Cotton fabric (million meters)	42	10,500
Subtotal		<u>33,709</u>
Flow capital goods		
Coal (metric tons)	650,000	6,500
Coke (metric tons)	36,000	360
Pig iron (metric tons)	22,000	1,540
Finished steel (metric tons)	30,000	3,600
Cement (metric tons)	131,000	2,620
Sheet iron (metric tons)	2,000	200
Lumber (metric tons)	42,000	427
Subtotal		<u>15,247</u>

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Table 7

Material Aid Received by North Korea
from Communist China, by Commodity
1954
(Continued)

<u>Commodity</u>	<u>Amount</u>	<u>Estimated Value (Thousand US \$1)</u>
Fixed capital goods		
Locomotives (units)	70	2,100
Freight cars (units)	1,382	8,292
Railroad passenger cars (units)	109	1,090
Motors (units)	265	132
Turbine pumps (units)	420	118
Subtotal		<u>11,732</u>
Total flow and fixed capital goods		<u>26,979</u>
Grand total		<u>60,688</u>
Total announced aid from Communist China		122,000 b/

a. ²⁴/. Amounts are as reported by North Korea; values are based on world market prices.

b. See Table 9, p. 23, below.

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Table 8

Material Aid Received by North Korea
from the USSR, by Commodity a/
1954

<u>Commodity</u>	<u>Amount</u>	<u>Estimated Value (Thousand US \$)</u>
Consumer goods		
Food (metric tons)	550	110
Grain (metric tons)	6,000	600
Flour (metric tons)	50,000	6,750
Shoes (pairs)	20,000	100
Drugs (metric tons)	350	1,750
Cloth (metric tons)	60	60
Wool (metric tons)	1,500	2,400
Subtotal		<u>11,770</u>
Flow capital goods		
Cement (metric tons)	1,000	20
Pipe (metric tons)	36	5
Iron (metric tons)	5,525	387
Zinc (metric tons)	50	30
Sulfur (metric tons)	500	75
Aluminum plate (metric tons)	54	32
Chemicals (metric tons)	2,300	460
Fertilizer (metric tons)	126,860	6,343
Steel (metric tons)	69,460	9,724
POL (metric tons)	3,809	190
Aluminum wire (kilometers)	171	3
Electric wire (kilometers)	73	2
Wire cable (metric tons)	16,500	3,300
Sheet tin (metric tons)	62	12
Lumber (carloads)	370	118
Brick (carloads)	5	2
Glass (carloads)	1	10
Ammonium nitrate (metric tons)	1,200	110
Subtotal		<u>20,823</u>

a. 25/. Amounts are as reported by North Korea; values are based on world market prices.

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Table 8

Material Aid Received by North Korea
from the USSR, by Commodity
1954
(Continued)

Commodity	Amount	Estimated Value (Thousand US \$)
Fixed capital goods		
Horse carts (units)	1,000	200
Shapers (units)	15	45
Drill presses (units)	3	30
Winches (units)	15	15
Compressors (units)	4	40
Turbine pumps (units)	7	2
Railroad equipment (metric tons)	24,000	6,000
Belt conveyers (kilometers)	56	20
Scrapers (units)	4	2
Buses (units)	150	1,500
Tractor parts (units)	17,000	34
Boxcars (units)	336	2,016
Passenger coaches (units)	141	1,410
Horses (units)	18,000	1,350
Vehicle cranes (units)	19	162
Motors (units)	113	85
Rails (metric tons)	25,000	2,500
Trucks (units)	762	1,905
Farm tools (metric tons)	300	150
Machines (units)	309	1,000
Subtotal		<u>18,466</u>
Total flow and fixed capital goods		<u>39,289</u>
Grand total		<u>51,059</u>
Total announced aid from the USSR		97,500 b/

b. See Table 9, p. 23, below.

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IV. Technical Services.

North Korea has required extensive technical services during the various attempts to reconstruct and expand the economy. In the period 1946-50 these services came almost exclusively from the USSR in the form of technicians and specialists in an advisory capacity. It was reported that Soviet advisers were located at nearly all mines and factories and in many ministerial units. 26/ In other cases, specialists were sent to designated plants to solve specific production problems. 27/ It is probable that most of these technicians were responsible to the representative in North Korea of the Soviet Ministry of Foreign Trade, indicating that technical services were a part of the regular commercial agreements and that their costs were covered by North Korean exports to the USSR. 28/ It is estimated that from 10 to 20 percent of North Korean payments to the USSR in 1946-49 were for technical services. 29/

A large number of military specialists possibly were sent to North Korea as a result of an agreement reported in 1949 which obligated the USSR to supply the equipment and advisers for the development in North Korea of 9 army divisions and 7 security battalions. 30/ Military advisers from several countries of the Sino-Soviet Bloc were reported in North Korea during the Korean War, but it is unlikely that these specialists were obtained under commercial agreements.

Since the armistice, North Korea has received technical services under two programs. A large number of technicians have been sent under the economic aid program from the Sino-Soviet Bloc. These services exist in many fields of industry and agriculture and include such activities as technical advice, training of North Koreans, assembling of data, and preparation of surveys. 31/ These activities are an integral part of particular aid projects -- for example, the 54 million rubles appropriated by East Germany for the North Korean diesel engine factory includes, in addition to cost and delivery of equipment, the costs of sending specialists to gather data, of all planning, and of the training of North Koreans. 32/ In addition to this assistance under the economic aid program, North Korea has signed bilateral Technical and Scientific Cooperation Agreements with the countries of the Sino-Soviet Bloc providing for the exchange of technical information. Services exchanged under these agreements, at no cost to the recipient countries, include blueprints, information on technological processes, and discussion of agricultural problems.

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V. Sino-Soviet Loans and Grants-in-Aid.

The strategic importance of North Korea to the Sino-Soviet Bloc is reflected in the credits and the economic and military aid which the country has received during the decade since World War II. Soviet occupation forces provided the initial assistance in renovating some production facilities during 1945-46 under the North Korean interim government. For the most part this assistance appears to have been carried on locally without a national plan. In spite of its informal nature this assistance and other help rendered by the USSR were repaid in March 1947 through transfer to the USSR of half ownership in the oil refinery at Wonsan. 33/

With the formulation of the Two Year Plan for 1949-50 there was anticipated an import surplus from the USSR of equipment, raw materials, and technical services required for the expansion of the North Korean economy. The USSR formally agreed in March 1949 to finance these imports with a 3-year loan (1949-51) of 212 million rubles (\$40 million) at 2-percent interest, to be repaid in 3 years after July 1956. 34/ The USSR canceled half of this debt in 1953 and extended the period of repayment for the remainder. 35/

In June 1952, East Germany extended a loan of 30 million rubles (\$7.5 million) to North Korea at 1-percent interest to finance a specified list of imports to be delivered by June 1953. 36/ The most significant of these imports were lathes, drills, oxygen installations, laboratory and medical office equipment, electrical and testing instruments, pharmaceuticals, blankets, and gauze. The agreement stated that all commodities were to be priced at world market prices of October 1950.

During the Korean War the Sino-Soviet Bloc sent large quantities of military equipment to North Korea as well as food, medicine, hospitals, blankets, and similar commodities. Most of this aid to North Korea during the war was extended as a gift or was subsequently written off as a gift in the agreements setting up postwar economic aid from the Sino-Soviet Bloc. North Korea is known to have received additional military equipment during the period 1954-56, but the terms are unknown.

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The economic disruption and low levels to which consumption had fallen in North Korea at the close of the Korean War required extensive assistance from the Sino-Soviet Bloc. A Three Year Plan of reconstruction was developed with economic aid and technical assistance forming an indispensable part of the plan. The total value of Sino-Soviet Bloc aid commitments announced through April 1957 was \$797 million.* It is estimated that during the Three Year Plan total aid deliveries will be approximately \$641 million and that aid deliveries after 1956 will be \$156 million. A North Korean delegation toured the Soviet Bloc during mid-1956 and obtained a very small amount of additional economic aid.

The USSR offered a 3-year grant of 1 billion rubles (\$250 million) to North Korea in 1953. Soviet material and technical aid has been identified at 35 specific projects in North Korea, ranging from ferrous metallurgy to machine construction plants and from consumer goods plants to broadcasting stations. The Soviet aid includes designs, technicians, technical data, and training for North Korean personnel.

In 1953 the Chinese Communists extended a grant of 800 million yuan (\$325 million) to North Korea extending over a 4-year period (1954-57) to assist in the rehabilitation of the North Korean economy. Few specific projects receiving Chinese aid have been reported, although Chinese assistance has been acknowledged in the construction of buildings, railroad facilities, and light industries. Although the total value of the aid of Communist China to North Korea exceeds that of the USSR, its long-run impact on the North Korean economy probably is not so great. It appears that a large proportion of the Soviet contribution is designed for the reconstruction of basic industries, whereas the greater share of Chinese aid is in the form of consumer goods and the rehabilitation of buildings and transport facilities.

The European Satellites have promised to extend at least \$222 million worth of aid to North Korea over a period of years. East Germany is the major contributor, accounting for approximately 52 percent of the value

* This aid, as stated in past announcements, appeared to be in the form of grants free of repayment. The series of announcements released by North Korea during April 1957 concerning Polish and Czechoslovak aid, however, contain ambiguities that suggest some repayments may be involved. Also the interpretation of the value of Czechoslovak aid may be too low, but these announcements have been too vague and ambiguous to form a basis for a new interpretation. 37/

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of European Satellite aid, followed by Czechoslovakia and the other Satellite nations. Deliveries during 1954 amounted to \$36 million, consisting for the most part of machinery and equipment but including some consumer goods. The East German aid program of 463 million rubles (\$116 million) has been reported in detail as follows 38/:

1. 1955, 79 million rubles, as follows:

15 million rubles in materials
3 million rubles for construction of a diesel engine factory
1 million rubles for a printing combine
1 million rubles for rehabilitation of the Hwang-hae Iron Works
52 million rubles for rehabilitation of Hamhung

2. 1956, 67 million rubles, as follows:

24 million rubles for the diesel engine factory
8 million rubles for the printing combine
35 million rubles for rehabilitation of Hamhung

3. 1957, 72 million rubles, as follows:

27 million rubles for the diesel engine factory
9 million rubles for the printing combine
35 million rubles for rehabilitation of Hamhung

4. 1958-64, 35 million rubles each year for rehabilitation of Hamhung

Additional aid commitments were made by Albania and Mongolia. These commitments consisted of specific materials without monetary values. Albania promised to deliver bitumen and construction materials. Mongolia promised to deliver livestock and various animal products.

The importance of the aid program to North Korea is indicated in the fact that approximately 22 percent of the budget revenue during the Three Year Plan is from aid deliveries. 39/ These aid materials have been the key to restoration of the North Korean economy. North Korea is completely dependent on imports for bituminous coal needed in metallurgy and the railroads. Under the aid program from Communist China, North Korea received 650,000 tons of bituminous coal in 1954 and 1 million tons in 1955. The North Korean production of cotton fabrics was about 40 million meters in 1955. Aid receipts in that year were

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36 million meters and in 1954 were 42 million meters. Imports of food grains and shoes in 1954 represented approximately 7 percent of the internal supplies of these commodities. Imports of cement in 1954 amounted to 132,000 tons, and domestic production was 225,000 tons. Imports of chemical fertilizer of about 130,000 tons in 1954 provided almost all of the North Korean supply of that commodity. Imports of transport equipment and machinery have made significant contributions to North Korean transportation and industry. ^{40/} The estimated aid by the Sino-Soviet Bloc to North Korea, 1954-64, is shown in Table 9.

Table 9
Estimated Aid by the Sino-Soviet Bloc to North Korea ^{a/}
1954-64

	Million US \$					
<u>Country</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958-64</u>	<u>Total</u>
USSR	97.5 <u>b/</u>	85.0 <u>b/</u>	67.5 <u>c/</u>			250.0 <u>b/</u>
Communist China	122.0 <u>b/</u>	89.4 <u>b/</u>	56.9 <u>d/</u>	56.9 <u>d/</u>		325.2 <u>b/</u>
European Satel- lites	35.6 <u>b/</u>	31.0 <u>b/</u>	56.0 <u>d/</u>	26.0 <u>d/</u>	73.4 <u>d/</u>	222.0 <u>e/</u>
Total	<u>255.1</u>	<u>205.4</u>	<u>180.4</u>	<u>82.9</u>	<u>73.4</u>	<u>797.2</u>

a. The value of aid was announced in zlotys, rubles, and yuan and has been converted into US dollars at the rates of 4 rubles and 2.46 yuan to US \$1. See Appendix B for valuation of the Polish aid announced in zlotys. Albania and Mongolia are not included, because of lack of data.

b. Announced values.

c. Residual.

d. Residual prorated over the remaining years of aid programs.

e. Total of announced Satellite aid commitments through April 1957.

Most of the information on the Sino-Soviet Bloc aid program has been derived from North Korean announcements, and a definitive evaluation of the program is precluded. It is possible that the announced value of the aid grossly overstates the world market value of the commodities,

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although earlier information indicated that prices in North Korean trade with the Bloc were quite close to world market prices.* Inflated prices, however, could account for the discrepancy between the announced total value of the aid of the USSR and Communist China in 1954 and the estimated value, based on world market prices, of the lists of commodities North Korea announced were received from these two countries during the year. (See Tables 7 and 8.***) The estimated value of the commodities is roughly half of the announced value of the aid. There are several possible explanations of this discrepancy, including the possibility that the list of aid goods was incomplete.

Some minor setbacks are to be expected in an aid program of this magnitude and character. A few instances have been noted, although there may be others. In 1955, East Germany sent at most only 38 percent of deliveries planned for the year.*** This underfulfillment, however, is thought to have been made up during subsequent periods, because there have been no reported cancellations of contracts. The recent announcements indicate that Polish aid deliveries may have been slow. 42/ (See Appendix B.) The 1956 revolt in Hungary undoubtedly caused delays if not cancellation of some Hungarian deliveries, but only the fourth and last year of Hungarian aid would be affected.

The announced intent of the aid program was to assist North Korea to rehabilitate its economy after the Korean War. About 80 percent of the aid deliveries were planned to be completed by the end of 1956, which coincided with the end of the North Korean Three Year Plan. The very small amount of additional aid announced during the tour of the North Korean delegation through the Soviet Bloc in mid-1956 indicates that the large-scale assistance to North Korea which characterized the reconstruction phase will not be extended as each of the bilateral agreements reaches the terminal date. Apparently the Sino-Soviet Bloc considers the North Korean economy viable, and further development depends on North Korean effort and resources. Should North Korea face the prospect of a serious failure in the goals of its First Five Year Plan (1957-61), however, additional loans or grants may be forthcoming.

* See VII, 2, d, p. 32, below.

** Pp. 15 and 17, respectively, above.

*** Based on planned deliveries shown on p. 22, above, and East German exports to North Korea as shown in the East German Statistical Yearbook for 1955. 41/

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VI. Elements in the Balance of Payments.

1. Estimated Balance of Payments.

Fragmentary data available on the international transactions of North Korea do not permit a definitive estimate of the balance of payments. Furthermore, some of the available statistics tend to distort the actual magnitudes which they purport to represent: for example, the Korean Trading Company, responsible for all foreign trade except that with the USSR, included in its exports the value of commodities surrendered to other North Korean companies in settlement of debts, although the commodities did not leave North Korea. ^{43/} It was possible, however, to eliminate these transactions from the 1949 data. Other statistical anomalies were encountered which caused similar distortions. The level of North Korean statistical procedures was low and rendered any statistic much less reliable than in most Free World countries.

These limitations in the data have restricted an estimate of the North Korean balance of payments to the year 1949. The estimated balance of payments of North Korea in 1949 is shown in Table 10.* Merchandise trade, intended for the most part to balance bilaterally, was significantly more important than any other type of transaction in the international accounts of North Korea during that year. The value of services rendered by Soviet technicians in North Korea could not be estimated separately, although it may have constituted about 10 to 20 percent of the value of imports from the USSR. ^{44/} A number of elements in the balance of payments have been omitted completely because available data do not reveal their magnitude. These include (a) the value of North Korean deliveries to Soviet armed forces in North Korea, (b) the value of noncommercial remittances between the USSR and North Korea, and (c) the value of possible withdrawals by the USSR of profits from the Soviet-Korean joint companies.

The balance of merchandise trade of North Korea with countries other than the USSR was slightly unfavorable in 1949. This imbalance was covered in part by current net earnings of the Soviet-Korean Joint Shipping Company (Mortrans) in carrying cargo for foreign shippers.

* Table 10 follows on p. 26.

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Table 10

Estimated Balance of Payments of North Korea a/
1949

	Million US \$		
	<u>Receipts</u>	<u>Payments</u>	<u>Net Credit</u>
Merchandise trade <u>b/</u> (imports and exports, f.o.b.)			
Soviet	36.3	49.3	-13.0
Non-Soviet	14.1	14.6	-0.5
Gold and silver movements to the USSR <u>c/</u>	8.0		8.0
Shipping <u>d/</u>	0.7	0.4	0.3
Receipts under loan from the USSR <u>e/</u>	5.0		5.0
Changes in balances abroad and residual (net)	0.2		0.2
Total	<u>64.3</u>	<u>64.3</u>	<u>0.0</u>

a. For omitted items, see p. 25, above.

b. Figures are from Table 2, p. 8, above. Exports of gold and silver are deducted from figures for Soviet trade. Figures for non-Soviet trade are adjusted to f.o.b. (free on board). 45/

c. The North Koreans apparently treated movements of gold and silver as a part of merchandise trade rather than as balancing items. Such treatment results in merchandise exports to the USSR of \$44.3 million as shown in Table 2, p. 8, above.

d. 46/. Shipping receipts are estimated from cargo hauled by the Soviet-Korean Joint Shipping Company (Mortrans) for non-Korean shippers. Shipping payments are North Korean payments to Hong Kong shipping firms.

e. Receipts under the Soviet loan of March 1949 are estimated on the basis of the probable rate of utilization over a 3-year period.

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The remainder of the deficit apparently was met by drawing down the Mortrans balances in Dairen, Manchuria, which had accumulated through earnings in 1947 and 1948. ^{47/} The Korean Trading Company employed some Hong Kong shipping in 1949, which resulted in small expenditures.

The balance of payments for 1949 reflects not only important foreign economic transactions of North Korea but also the preponderance of bilateral exchange. Transactions with the USSR were almost entirely on a bilateral basis, accounted for in rubles (some of the Mortrans dealings with Soviet organizations in Dairen were conducted in Chinese yuan). ^{48/} Relations of North Korea with countries other than the USSR also tended to be bilateral, partly because the North Koreans lacked information on markets abroad. Much of the trade with Hong Kong and China was on a barter basis in 1946-48. ^{49/} Although this barter system was ostensibly dropped in 1949, the trade continued in much the same pattern -- that is, North Korean goods shipped to Hong Kong were marketed at prevailing prices and the foreign exchange was used to buy cargo in Hong Kong for the return voyage. This ignorance of market conditions in various countries apparently prevented North Korea from using its foreign exchange earnings to purchase in lower priced markets.

Because most productive facilities were destroyed during the Korean War, economic grants-in-aid have constituted the major element in the postwar balance of payments of North Korea. Commercial trade has been small and confined almost completely to bilateral exchange with Sino-Soviet Bloc countries, primarily the USSR and Communist China. Apparently there have been no earnings from shipping, reflecting the loss or deterioration of Mortrans vessels during the war, and it is probable that only small repayments, if any, have been made on the 1949 loan from the USSR.* Technical services granted by Bloc countries to North Korea appear to be included in the value of economic aid. No estimate is possible of the value of the Soviet share in three Soviet-Korean joint stock companies which were retroceded to North Korea in 1955, although payment is to be made by North Korea over a period of several years. The two major elements known to have entered the North Korean balance of payments in 1955 were merchandise trade, representing imports and exports estimated at \$25.3 million each, and imports of aid materials and assistance from the Bloc amounting to \$205.4 million. For 1956, commercial imports and exports are estimated at \$34.4 million each and Sino-Soviet Bloc aid imports at \$180.4 million.

* See V, p. 20, above.

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2. Foreign Exchange Reserves.

North Korea has had no significant foreign exchange holdings. There is no evidence that the domestic currency (won) requires gold or foreign exchange backing. Any foreign exchange earned through exports appears to have been used to purchase imports, although, during 1947-48, Mortrans accumulated 39 million Manchurian yuan (probably \$100,000 to \$500,000 depending on the type of currency and the exchange rate) in Dairen from shipping services. Half of these holdings were in loans to Dairen shipping firms (including one Soviet firm), and the other half were used for Mortrans operations in Dairen. 50/ These Manchurian yuan do not appear to have been available for regular trade operations. In 1949, Hong Kong recorded an import surplus of about \$1 million in its trade with North Korea, but North Korea expended this exchange on shipping charges to move cargoes to and from Hong Kong.

North Korea is an important gold-producing country. There are indications, however, that it treats gold as a regular export commodity and keeps no significant reserves for currency or exchange purposes. In March 1946, North Korea apparently had 33 tons of gold worth approximately \$37.5 million, 51/ although this gold presumably was shipped to the USSR during subsequent years. The Ministry of Industry in 1949 turned over to the North Korean government for export 7.6 tons of gold, of which 6.5 tons with a value of \$7.4 million were exported to the USSR. 52/ In 1950, North Korea planned to export 9 tons of gold to the USSR, valued at \$10 million. 53/ In both this earlier period and after the Korean War, nearly all North Korean gold production was probably exported, and only insignificant amounts were held as reserves or for industrial purposes.

VII. Organization and Procedures.

1. Organization. 54/

a. Ministerial Control.

The first governmental organization in North Korea following the Japanese surrender in 1945 was the Interim Peoples Committee. Under the interim government a Commission on Foreign Trade was established to exercise control over foreign trade. In August 1946 the Committee nationalized a large number of industrial and commercial facilities, primarily Japanese holdings, thereby facilitating the control functions of the Commission on Foreign Trade.

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When the government was reorganized in August 1947 as the Peoples Committee of North Korea, a Department of Commerce was established. Within this department there was created a Bureau of Foreign Trade, which engaged in foreign trade operations and controlled the foreign transactions carried out by state and private firms.

After the constitution was adopted in September 1948 establishing the Korean Democratic Republic, the former Department of Commerce was continued as the Ministry of Commerce, and an Administration of Foreign Trade became a division of this Ministry. The constitution provided that foreign trade was to be conducted by the state or under the control of the state. Cabinet and Ministry decisions consolidated most of the foreign trade operations in the Administration for Foreign Trade and abolished many of the companies under state and public organizations which had formerly carried on foreign trade. The increased trading operations brought about a division of the Administration of Foreign Trade into one bureau to control and regulate foreign trade and a second "Trade Bureau," which actually carried out foreign trade operations. In early 1950 the Trade Bureau was further divided into an Export Administration and an Import Administration, which together carried on the bulk of the foreign trade of North Korea. A small amount of foreign trade by private firms in specific commodities was permitted under strict control of the Ministry of Commerce.

During the Korean War, foreign trade was greatly diminished and was conducted entirely by state organizations. In October 1952 a Ministry of Foreign Trade was established, separate from the Ministry of Commerce, with two main subdivisions -- Export Administration and Import Administration -- whose functions included operations, control, and regulation. Most of the actual trading operations, however, were handled by the state trading companies.* A separate Ministry of Foreign Trade continued until September 1956, when it was again merged into the Ministry of Commerce. 55/

b. State Foreign Trading Companies.

There were no state trading companies in the usual Communist pattern in North Korea until 1952. In the period 1946-52, trade with the USSR, which comprised the bulk of North Korean foreign trade, was handled by the Trade Bureau under the Ministry of

* See b, below.

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Commerce and its forerunners. Trade with the non-Soviet sector was conducted by companies under the direct control of state and public organizations, such as the Korean Trading Company, whose stock was owned by the North Korean Labor (Communist) Party, and companies operated by the Ministries of Education, of Internal Affairs, and others. Most of these companies were abolished or brought under control of the Ministry of Commerce in 1948. The Ministry of Commerce assumed control of the foreign trade section of the Korean Trading Company and delegated back to that Company control over all non-Soviet trade. The Trade Bureau and the Korean Trading Company accounted for about 98 percent of North Korean foreign trade in 1948,* and most of the foreign trade continued to be conducted by these two companies until 1952.

After September 1952, North Korea created four state trading monopolies in the usual Sino-Soviet Bloc pattern (others may have been established but have not been identified). These companies were created as juridical persons responsible for their own obligations. Each of the companies is headed by a chairman and includes such basic administrative sections as planning, accounting, currency, cadres, and management. These companies also have operating sections which reveal the primary commodity groups handled. Their names, dates of formation, and operational departments are as listed below.

<u>Company</u>	<u>Date of Formation</u>	<u>Operational Departments</u>
Raznoimport Foreign Trade Company	October 1952	Fuel and lubricants Chemical goods Miscellaneous goods
Mashinoimport Foreign Trade Company	October 1952	Machinery and equipment Electrical equipment Transport machinery
Tekhoimport Foreign Trade Company	1953	Sets of equipment, prob- ably by industry desig- nations such as electric power and chemicals
Foreign Trade Transport Company	1953	Transport and storage of commodities

* See c, p. 31, below.

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In addition, the Newspaper Administration of the Ministry of Communications imports newspapers and periodicals, and the Book Administration of the Ministry of Trade imports books. The Korean Trading Company has been retained and has an office in Peiping which signed an unofficial trade agreement with a group of Japanese businessmen in 1956. 56/

c. Role of Private Traders.

Historically, a large portion of Korean foreign trade was controlled by private Japanese traders. With the nationalization decree of 1946, most of these commercial facilities in the north were transferred to North Korean state and public organizations. This transfer and the shift in direction of trade toward the USSR restricted the private trading firms to a very small percentage of North Korean foreign trade. By 1948, private traders accounted for only about 2 percent of total foreign trade, and even this activity was supervised by the Korean Trading Company.* The Korean War resulted in complete cessation of the activities of private trading companies. The private traders attempted to reestablish themselves after the war but were limited to the business that the Ministry of Foreign Trade passed on to them. Thus North Korea has, through state companies and controls, established a state monopoly of foreign trade.

2. Financial Structure.

a. Banking.

There is little information available on North Korean banking in relation to foreign trade, but it is presumed that stringent controls were placed on foreign exchange shortly after the Communists came to power. The North Korean Central Bank contains a foreign exchange department and is probably the only agency authorized to deal in foreign exchange at the present time. There is evidence, however, that a branch of Vneshtorg Bank, the Soviet foreign trade bank, was handling foreign currency transactions in North Korea during 1949-50. 58/

Financial arrangements between North Korea and the Sino-Soviet Bloc are based on a bilateral clearing system, similar to the Sino-Soviet Bloc pattern. The North Korean Central Bank acts as the

* The North Koreans announced that private foreign trade was 10 percent of total trade in 1948, but available records indicate this was 10 percent of the non-Soviet trade. 57/

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clearing agent. The unit of account for the clearing during 1946-48 was the US dollar 59/ but was subsequently changed to the ruble. 60/ Because all announcements concerning the aid of Communist China to North Korea have been in Chinese yuan, this may be the unit of account currently used between North Korea and Communist China. North Korean trade with countries such as China and Hong Kong was on a direct barter basis until 1949, when this system was dropped in favor of transactions in local currencies. 61/

b. Customs. 62/

The Customs Administration in North Korea was under the Ministry of Finance in 1949-50, but its present ministerial subordination is unknown. The only available information on customs duties was published in 1948, and it is presumed that the general tariff structure is still applied in the post-Korean War period.

The tariff schedule was designed mainly for revenue purposes, but it also carried out trade and developmental policy by discouraging nongovernmental trade, by encouraging trade in certain commodities, and by discouraging trade in others. Revenue was derived from ad valorem duties of 20 to 30 percent on primary exports and 5 to 15 percent on primary imports. Nongovernmental trade was discouraged by levying a tariff 50 percent above that on government trade. Imports of certain commodities such as raw materials, foodstuffs, and chemicals were encouraged by admitting them duty free, and trade in other commodities was discouraged by export or import duties of 40 to 50 percent.

c. Exchange Rates.

North Korea has not announced an official exchange rate for the won. It appears, however, that at least before the Korean War there was not a single rate. Instead there were a number of exchange rates between the won and certain foreign currencies approved by the North Korean authorities. These rates were used for particular conversions, but the rates were mutually inconsistent when converted to a single currency. For example, during 1949, when US \$1 equaled 5.3 rubles at the official exchange rate, 4 won to the ruble appears to have been the usual rate for making conversions between won and rubles. 63/ Mortrans used a rate of 500 won to US \$1 (later reduced to 300 won to US \$1) for certain freight calculations, 64/ and the Korean Trading Company used two rates, 46 won and 100 won to the \$1 (Hong Kong) for some of their calculations. 65/

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Stating these various rates in terms of US dollars, the rates range between 21.2 won and 500 won to US \$1 during 1949. The inconsistency between these various rates was employed as a source of profit by at least one company, Mortrans, which anticipated that 18 percent of its won profits for 1950 would be derived from this source. 66/

The lack of consistent exchange rates makes it extremely difficult to convert the considerable data on foreign trade into meaningful figures. The situation is further complicated by the possibility that some of the trade may be recorded in terms of internal buying and selling prices. 67/ Fortunately, however, some limited data on foreign trade expressed in two currencies have allowed the calculation of a series of implicit exchange rates which affords an approximation of the dollar value of the foreign trade of North Korea, which is at least as reliable as North Korean recording procedures. These implicit exchange rates are as follows*:

1946, 61 won to US \$1
1947, 82 won to US \$1
1948, 140 won to US \$1
1949, 100 won to US \$1

For certain freight payments in 1954 and 1955 a won-ruble exchange rate of 30 to 1 was used which represents a crossrate of 120 won to US \$1. 68/ This exchange rate is currently used by the intelligence community for the lack of anything better, but the extensive system of rates known to have been in use before, particularly for freight calculations, suggests that this rate may be only one of several and its applicability limited to freight calculations.

d. Pricing of Exports.

The prices received for North Korean exports to the USSR during 1949 and 1950 as stated in rubles bear no consistent relationship to internal North Korean prices 69/; the ratios of domestic won prices to export ruble prices range from less than 1:1 to 36:1. These varying price ratios indicate that export prices were not derived by applying a single exchange rate to internal prices.

Prices of exports by North Korea to the USSR remained almost constant during 1949 and 1950 and compared favorably with the average prices for similar products on world markets during 1949. For most

* For methodology, see Appendix A.

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North Korean exports the USSR paid prices slightly higher in 1949 than those which obtained on world markets. For gold, North Korea was paid a price which was less than 0.1 percent below that of the US Treasury buying price.

The price information available on North Korean exports in 1949-50 indicates that despite Soviet domination of North Korean trade the USSR did not use foreign trade prices to exploit the North Korean economy and supports the claims of the Sino-Soviet Bloc that trade is carried on in constant prices established by negotiation and based on world market prices. Furthermore, this price information reveals how well insulated is the North Korean internal price structure from external influences.

The Korean Trading Company, which was responsible for non-Soviet trade in the period before the Korean War, appeared to have had no consistent price policy and very little information about world market prices. In some cases, export cargoes carried to Hong Kong had less value than the shipping charges for the voyage, and in a few instances, storage charges accumulated in Hong Kong which were greater than the value of the goods. 70/ The company's general practice was to sell a cargo of goods in Hong Kong for the best current prices obtainable and, with this exchange, to purchase commodities for the return trip. During 1949 and 1950 the company introduced some steps to improve marketing techniques. The valuation of imports and exports in the North Korean custom statistics, moreover, appears to have been the internal won buying and selling price of the goods, at least for those handled by the Korean Trading Company. Thus when the company increased the selling price of imports by 20 percent to counteract a deficiency in working capital in 1949, the foreign trade import statistics presumably showed a corresponding increase, although no price or volume change had occurred in the foreign markets. 71/

VIII. Soviet-Korean Joint Stock Companies.

The three Soviet-Korean joint stock companies operating the North Korean airlines, ocean shipping, and the oil refinery at Wonsan were the only significant property holdings by foreign interests in North Korea after 1946.* Only limited information is available on the operations of the airlines company, but the shipping company and the

* There was a department store, I.A. Churin and Company, in P'yongyang, owned by several Soviet foreign trade corporations, which appears to have been small and intended to serve the Soviet colony in North Korea. 72/ There were reportedly some small Chinese firms also.

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petroleum company appear to have been profitable organizations. It is estimated that the Soviet share in the profits (50 percent) of these companies amounted to 100 million won in 1949, but the North Korean multiple exchange rates preclude valuation of this profit in external currencies.*

The joint stock companies were not without drawbacks to North Korea. The country gained the advantage of having a shipping and air service at its disposal and a refinery in operation. Furthermore, these companies provided excellent training for Korean management and technical personnel, and North Korea received half of the profits. On the other hand, North Korea probably had to make a larger repayment in the form of yearly profits plus repurchase of the Soviet interests than if the Soviet assistance had been in the form of a straight credit.

The Soviet shares in the three joint stock companies were sold to North Korea in 1955 in return for a North Korean commitment to export goods to the USSR over a period of years. 74/ Limited data do not permit an estimate of the value of the Soviet shares in 1955. The refinery of the Wonsan Petroleum Company appears to be completely inactive as a result of war damage; the vessels of Mortsans, which were obsolete in 1947, probably are of small value; and the value of the airline apparently is small. The fact that North Korea will make payments over a period of years, however, suggests that the appraised value of the Soviet shares was not insignificant.

1. Petroleum Joint Stock Company. 75/

The Soviet-Korean Petroleum Joint Stock Company, the Wonsan Petroleum Company, was formed in April 1947 under an agreement between the North Korean government and the Soviet Ministry of Foreign Trade. The physical assets of the company were the refinery and its property. The Soviet contribution to the capital of the company (50 percent) was its half interest in the refinery which had been acquired in March 1947 in return for earlier Soviet aid to North Korea, and the North Korean contribution was represented by its half ownership of the refinery. The refinery and all invested material were to be appraised on the basis of 1938 prices, and it is probable that the valuation of the assets of the company (20 million North Korean

* Based on the anticipated profit of the shipping company in 1950 (in turn based on 1949 experience) and the earnings of the petroleum company in 1947 and 1948. 73/

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won) was a simple conversion of the Japanese valuation of 1938 (20 million Japanese yen). This equality of won and yen appears in other business records of the joint stock companies. Inasmuch as the Japanese valuation of the refinery had increased two and one-half times by 1944, it appears that the Wonsan Company's use of 1938 values greatly understated the net worth of this joint venture. In addition to these physical assets, each partner was to contribute to the company 20 million won in cash as a reserve capital fund. The Soviet shareholders were the All-Union Combine of Soviet Oil Export, the Sakhalin Oil Trust, and the Main Office of the Synthetic Fuel Company. The North Korean shareholders were the West Coal Trust, the Wonsan Plant of the Nonferrous Metal Trust, and the North Korean Central Bank.

The Wonsan Petroleum Company was established for a period of 30 years for the purpose of operating the refinery and selling petroleum products in North Korea and abroad. Control of the company apparently was lodged in the managing director, a Russian. The company has been given authority to engage in foreign trade and to utilize foreign exchange from these operations to purchase necessary imports, subject to the North Korean foreign exchange restrictions. In practice the company apparently did not carry on any foreign trade but relied on the North Korean government to import crude oil and other necessary supplies. In receiving profits the Soviet shareholders could select payment in North Korean currency, foreign currency, or company products.

The Wonsan Petroleum Company appears to have been unable to obtain sufficient crude oil to operate at full capacity, but it developed sidelines in the salt and fishing industries to supplement its income. Little information is available on profits of the company, although there is evidence they were substantial during 1948, 1949, and part of 1950. The refinery was destroyed by bombing in 1950, and no reconstruction has been noted.

2. Sea Transport Joint Stock Company. 76/

The Soviet-Korean Sea Transport Joint Stock Company (Mortrans) was formed in March 1947 by agreement of the North Korean government and the Soviet Ministry of Foreign Trade. The Soviet shareholders were four Soviet transportation companies, and the Korean shareholders were the Hungnam Chemical Combine and the Northern Coal Trust. The share capital was 28 million won, equally contributed. The Soviet contribution

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consisted of the use of 3 freighters and 1 passenger vessel for 30 years -- the USSR retained ownership of the vessels but contributed the charter funds to Mortrans as its share of the capital. The North Korean contribution was the use of the ports and installations at Ch'ongjin, Najin, and Unggi for 30 years, the yearly lease payments being recorded as North Korean payments of its share of the capital. The valuation of the lease payments for the vessels and the port facilities was to be based on 1938 prices. In addition, each side contributed 10 million won in cash for a reserve capital fund.

Mortrans was established to develop and handle the ocean transport service of North Korea. In practice the company engaged in the overland transport of foreign trade goods from interior points with a fleet of trucks, as well as quayage and ocean-shipping activities. The company was given the status of a North Korean state-owned enterprise and was excused from paying certain taxes. The managing director, a Russian, exercised primary control in the company. The North Korean Central Bank granted favored treatment to the company in foreign exchange transactions and allowed it to hold deposits and make loans in Chinese yuan in Dairen, Manchuria. The company obtained permission from North Korea to engage in foreign trade in order to obtain supplies not available in North Korea.

Mortrans encountered initial problems with the vessels and facilities turned over to it by the shareholders. The Soviet vessels were badly in need of repair, which the company was compelled to undertake: for example, one of the vessels contributed by the USSR was shortly afterward denied permission to operate in Soviet ports until repairs were made in accordance with Soviet safety standards. A second problem was encountered in maintaining supplies of bituminous coal for ship operations; activities of the company were severely limited in late 1947 and early 1948 because coal apparently could be obtained neither from North Korea nor from the USSR.

In dealings in various foreign currencies the company employed to advantage the nonuniform rates of exchange in North Korea. In 1949, some transactions were computed at 300 won to US \$1 and others at 21.1 won to US \$1. About 18 percent of the planned profits of the company in 1950 were to be derived from such use of the foreign exchange rates. On the basis of planned earnings in 1950, it appears likely that Mortrans had a total profit in 1949 of about 100 million won. This profit was realized despite old equipment, constant need for repair, and

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high costs of operation. Mortrans handled freight for the North Korean government, the USSR, the Chinese Communists, and the Japanese, but its largest and most profitable customer was the Korean Trading Company. In 1949 the Korean Trading Company shipped over half its cargoes with Mortrans, in spite of the fact that charges were approximately double those of a British shipping firm in Hong Kong.

3. Air Transport Joint Stock Company. 77/

The Soviet-Korean Air Transport Joint Stock Company (Sovetsko-Koreskoye Aktisionernoye Obshchestvo Grazhdanskoy -- SOKAO), was formed in 1950. It halted operations during the Korean War but resumed flights in 1953. The schedule of the company consists of domestic flights connecting P'yongyang with a few North Korean cities and one international flight between P'yongyang and Chita in the Soviet Far East, connecting with the trans-Siberian route of the Soviet carrier, Aeroflot. It is probable that the USSR contributed the aircraft to this company and that North Korea contributed airfields and ground facilities.

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APPENDIX A

METHODOLOGY FOR DERIVING IMPLICIT EXCHANGE RATES

The implicit exchange rates shown in VII, 2, c,* represent the ratios between parts of North Korean foreign trade stated in won and foreign currencies. For the period 1946-48 the implicit rates were the ratios each year between total Soviet - North Korean trade stated both in won and in rubles. 78/ The resulting ratios were converted from rubles to dollars at the official rate of 5.3 to 1. For 1949 the ratio was derived from several sets of figures relating to North Korean - Hong Kong foreign trade and stated in won and US dollars. The resulting ratios varied from 87 won to 115 won to US \$1; 100 won to US \$1 was selected as the approximate implicit exchange rate.

It was assumed that the implicit rates calculated from total Soviet - North Korean trade figures applied equally to all North Korean foreign trade as well as to imports and exports. A partial check on this assumption is afforded through another table which shows North Korean imports from the USSR in dollars for 1946 through 1948 distinct from the figures used to derive the rates above. 79/ In 1947 and 1948 the estimated rates based on total Soviet - North Korean trade convert won values of imports from the USSR into dollars within 2 percent of their actual value. In 1946, however, the conversion by the estimated rate differs by 25 percent from the actual dollar value of imports from the USSR. This large disparity may have been caused by noncomparable data because the sources differ, or it may indicate that the same exchange rate cannot be applied to both imports and exports. It is assumed, however, that the 2 comparable years (1947 and 1948) confirm the initial assumption that the same rate can be used for both imports and exports. The validity of the implicit rate for 1949 is weakened by the fact that it was derived from a smaller sample of North Korean trade than for the previous years. This implicit rate is used in Table 2** to convert only 4 percent of North Korean trade in 1949, however, so that the dollar value conversion of North Korean trade in 1949 is probably as reliable as in the other years. Furthermore, the general low level of North

* P. 31, above.

** P. 8, above.

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Korean statistical procedures, plus the conflicting documentary material on identical subject matter, renders any North Korean statistical material only a rough approximation. These implicit exchange rates appear as reliable and accurate as the material they are used to convert. In fact, the lack of precision in the implicit rates is largely the result of the poor North Korean statistical and recording techniques.

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APPENDIX B

VALUE OF POLISH AID TO NORTH KOREA

During the visit of the Polish governmental delegation to North Korea in March and April 1957, North Korea made the first announcement concerning the value of the Polish aid commitment. The Polish commitment was stated to be 364 million zlotys covering the period 1954-57. ^{80/} Conversion of this pledge from zlotys into dollars at the official exchange rate appears greatly to overstate its value, although the other Sino-Soviet Bloc aid commitments, announced in terms of rubles and Chinese yuan, have been converted at official rates. The Polish commitment converted at the official gold parity rate of 4 zlotys to US \$1 totals \$91 million. Polish aid of this magnitude appears too large in comparison with aid from East Germany, which is committed to an aid program only 25 percent larger than that of Poland but covering a period two and one-half times as long, and Czechoslovakia, which is committed to an aid program only 30 percent as large as Poland but covering a period twice as long. ^{81/} Moreover, the yearly North Korean announcements concerning aid deliveries show that Poland has delivered a maximum of \$25 million (converted from rubles at the official rate) of aid during the period 1954-56. ^{82/} If the zloty commitment is converted at the official rate, a balance of at least \$66 million of aid is left for Poland to deliver in 1957 to fulfill its commitment on time. Deliveries of this magnitude appear too large when the largest yearly total of aid sent by Poland was \$11 million in 1955. ^{83/} Furthermore, the aid commitments of the other European Satellites and the USSR have been stated in terms of rubles. The statement of the Polish aid in terms of zlotys differs from this pattern and suggests a different valuation process.

The Polish commitment in zlotys appears to represent a value in internal Polish prices which, unfortunately, are difficult to convert to dollars. The Poles have stated that the best approximation of the exchange rate between internal zloty values and dollars is 24 zlotys to US \$1, although individual goods may have rates varying between 10 and 40 zlotys to US \$1. ^{84/} If the Polish aid commitment of 364 million zlotys is converted at 24 zlotys to US \$1, the aid amounts to \$15 million. It is known, however, that Poland sent \$16 million (converted from rubles) worth of aid in 1955 and 1956 alone, thus indicating

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that the exchange ratio for the Polish deliveries must be something less than 24 zlotys to US \$1. The precise amount of Polish deliveries in 1954 is unknown but is believed to be about \$5 million, with a maximum of \$9 million. Assuming that Poland will make deliveries of approximately the same magnitude during 1957, the approximate dollar value of the Polish commitment is in the neighborhood of \$25 million. This is the value for Polish aid that has been used in Table 9.*

* P. 23, above.

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APPENDIX C

METHODOLOGY

The methodology used in arriving at estimates of the foreign trade of North Korea differs by time period. For the 1946-50 period the methodology consisted primarily of selecting and consolidating data from the extensive documentary material obtained during the Korean War. The chaotic state of North Korean statistical and financial procedures caused many conflicts in data, and selection had to be on the basis of what appeared most reasonable. For example, there is a complete translation of the statistics of the North Korean Statistical Bureau for 1946 85/; the trade figures are identical with figures in a Ministry of Foreign Trade table for 1946-48 86/ except that there is a large difference in the imports from China. The figures of the Ministry of Foreign Trade were used on the basis that there would be a consistency in data for 1946-48 and that probably this table would include any revisions after the publication date of the figures of the Statistical Bureau.

For the period since the Korean War the methodology consists primarily of the compilation of statements both from Sino-Soviet Bloc sources [redacted] The statements varied in scope from announcements of over-all value of aid imports to reports of the movement of individual items. From the source material and the two methodologies it has been possible to derive a reasonably accurate estimate of North Korean foreign trade, as well as its composition and direction.

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