

## **A Remedy for Survival: The Future of Foreign Economic Cooperation for North Korea**

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### **RECOGNIZING THE NEED FOR CHANGE**

The collapse of its major Eastern-bloc trade partners in the late 1980s had a devastating impact on North Korea's economic cooperative system, which was initiated by the Soviet Union. Failing to come up with any alternative, the North Korean economy suffered through a period of sustained difficulties. North Korea then designated the period between 1994 and 1996 as a new beginning, after which it began to promote as "revolutionary strategies" agriculture, light industries, and trade. With a focus on replenishing its meager foreign reserves, North Korea placed first priority on trade in order to increase its export volume. However, the outcome fell far short of the projected export volume. In response, Kim Jong-il, adopted a new focus: to improve North Koreans' understanding of foreign trade. To this end, he ordered expansion of educational programs in the areas of trade and joint venture.<sup>1)</sup>

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1) Kim Jong-il, "Problems in Implementing the Policy of Trade as First Priority (February 1, 1995)," *Kim Jong-il Anthology, Vol. 14* (Pyongyang: Korean Workers'

Moreover, the North Korean leader stressed the need for a change in the attitudes of the economic experts in an effort to develop foreign trade in the wake of dissolution of the socialist market,<sup>2)</sup> pointing out that outmoded socialist trade practices still persisted, and that new ways were needed to deal with the capitalist market. Advocating the need to make changes in the export structure and trade practices to accommodate the new economic environment, Kim Jong-il proposed five measures: (a) To focus more attention on exportable goods that mostly utilized human resources; (b) To introduce the bonded processing trade; (c) To increase the production of exportable goods and developing foreign trade, as well as improve the trade structure; (d) To expand research of the world economy and capitalist markets; and (e) To reinvest earned foreign reserves in facilities for both increased and higher-quality production.

It is evident that through its economic hardships North Korea realized the importance of economic cooperation with foreign countries, and it is now taking a more realistic approach to foreign trade. In other words, North Korea's efforts to promote foreign trade is motivated by its need to stimulate the domestic economy.

Despite these attitudinal changes, indications are that an import-driven foreign trade policy and a deficit in the trade balance will continue for some time. Because of the extensive depletion of human and material resources in North Korea, implementing projects to promote economic stability has presented its own set of problems. In order to overcome those limitations, North Korea has had no other alternative but to hold fast to foreign economic cooperative business. In a memo to party members in early 1997, Kim Jong-il stressed the importance of earning foreign currency through expansion of foreign economic projects and export goods.<sup>3)</sup>

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Party Press, 2000), pp. 8-11.

2) Kim Jong-il, "Problems in Improving Economic Projects (April 22, 1996)," *Kim Jong-il Anthology, Vol. 14* (Pyongyang: Korean Workers' Party Press, 2000), pp. 164-168.

“Expanding foreign trade by accommodating to changes in the new global environment, and earning foreign reserves are important means to effectively resolve the problems in the economy and to improve living conditions in North Korea. In both foreign and domestic economies, various methods must be utilized to promote foreign economic projects, and increase production of main export goods, and exerting all efforts to earn foreign reserves.”

The primary focus of the paper is on analyzing how the recognition of problem and the efforts for improvement by the North Korean leaders will reflect on the area of foreign economic cooperation.

#### **BUILDING A FOUNDATION FOR FOREIGN ECONOMIC COOPERATION**

Recognizing the inevitable necessity of bringing in foreign capital and technology through economic cooperation with the international community, North Korea concentrated on improving relations with the West, especially the United States. Those efforts have proven partially successful. Although efforts to improve relations with the United States failed, notable successes were achieved in establishing diplomatic relations with European and other advanced countries of the West. In addition to establishing diplomatic ties with Italy, the Philippines, Australia, and the United Kingdom in 2000, early last year, Pyongyang also began diplomatic relations with the Netherlands, Belgium, Canada, Spain, Germany, Luxemburg, Greece, Brazil, New Zealand, Bahrain, the European Union, and other countries in the European Union.<sup>4)</sup>

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3) Kim Jong-il, “Let’s Make This Year the Year of Revolutionary Transition in Socialist Economic Development (January 24, 1997),” *Kim Jong-il Anthology, Vol.14* (Pyongyang: Korean Workers’ Party Press, 2000), p. 283.

The rapid improvements in relations with the United States, however, abruptly halted last year with the inauguration of the conservative Bush administration. Also, negotiations with Japan hit a snag when issues arose, such as the suspected abduction of a Japanese national in the 1970s and the launching of a Taepodong missile over northern Japan in 1998. With those two efforts deadlocked, Pyongyang decided to concentrate its energies on improving diplomatic relations with member countries of the European Union as well as fortifying its ties with China and Russia. The strategy is assessed to have had a dual purpose: to build bargaining power against the United States as well as to secure political and economic assistance.

North Korea is assessed to have achieved considerable success in building a basis for foreign economic cooperation despite the deadlock in North Korea-U.S. relations. Government-level exchange missions have been actively pursued since 2000. The number of economic exchange missions reported as of the third quarter of last year is up 30 percent from the previous year.<sup>4)</sup> The North's active pursuit of foreign cooperation projects is characterized by four strategies: the first is the attempt to secure raw materials, equipment, and technology through economic missions, a move that seems to be linked to the proposed goal to rebuild technology.

Second, the number of North Korean missions to the United States has increased despite the deadlock in North Korea-U.S. relations, although the North Korean press has been silent about it. This may be interpreted as North Korea's effort to find a way out of the political deadlock by means of promoting civilian exchanges.

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4) As of the end of 2001, of the 15 countries in the European Union, Ireland and France are the only two that have not entered into diplomatic relations with North Korea. Since Ireland has already expressed its intent to establish diplomatic relations with North Korea, France is the only nation to defer.

5) Ministry of Unification, "Recent Activities in Foreign Economic Cooperation," *Weekly Report on North Korea*, Serial No. 559 (September 29-October 5, 2001).

Third, North Korea has concluded several economic and foreign trade agreements with capitalist countries. Following “The Agreement for Promotion and Protection of Mutual Investment,” “The Agreement for Economic Cooperation,” and “The Agreement for Cultural and Scientific Cooperation” (September 27, 2000) with Italy, North Korea adopted last year, the “Dialogue on bilateral cooperation in trade and economy” (April 6) with the Netherlands and the “Dialogue on bilateral cooperation in economy and technology” (May 21) with Bavaria, Germany. These activities show that North Korea is working on building a basis for economic cooperation with leading capitalist countries.

Fourth, it has succeeded in patching up its diplomatic relationship with neighboring countries through high-level talks. In 2001 alone, North Korea has been busy on the diplomatic front with high-level meetings: Kim Jong-il’s visit to China (January 15-20), Swedish Prime Minister and rotating European Union President, Goran Persson’s visit to North Korea (May 3-4), Chairman of the Presidium of the Supreme People’s Assembly, Kim Yong-nam’s visit to three Southeast Asian countries (July 11-20), Kim Jong-il’s visit to Russia (July 26-August 18), and China’s President Jiang Zemin’s visit to North Korea (September 3-5). Among them, Kim Jong-il’s visit to Russia and Jiang Zemin’s visit to North Korea are assessed to be the highlights of last year’s North Korean diplomacy. Through summit diplomacy, North Korea completely restored normal relations with both countries, building the so-called “new northern trilateral relations.” The new trilateral relations based on mutual economic cooperation and on calculated national interests, differ markedly from the past alliances of the Cold War era.<sup>6)</sup>

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6) It is evident that North Korea urgently needs significant economic assistance both from Russia and China, not only in overcoming the current economic crisis but also in securing reliable sponsors in the process of negotiations with the United States. The Russian interest in Siberian development and its political leverage over the Korean peninsula, and the Chinese interest in the stability of the Korean

**<Table 1> Key Activities of North Korean Foreign Economic Missions**

Name	The Leader and Activities	Target Country	Date
Electronics Industry Delegation	-Vice Minister, Ministry of Electronics Industry, Lee Seung-kyung -Discussed plans for technological cooperation in IT industry	Malaysia	January 16-18
Foreign Trade Delegation	-Vice Minister, Ministry of Foreign Trade, Kim Young-sool -Discussed about plans for cooperation	China	February 2-11
Foreign Trade Delegation	-Vice Minister, Ministry of Foreign Trade, Kim Dong-myong -Discussed expansion of economic cooperation	Australia, Brunei, Indonesia	February 18 - March 2
Economic Mission	-Deputy Director, Ministry of Foreign Affairs, Han Sung-ryol -Participated in an international trade meeting, visited IMF-IBRD	U.S.	February 27 - March 4
Great Flood Damage Task Force Committee	-Deputy Director, Ministry of Foreign Affairs, Ahn Sung-nam -Discussed preventive measures against flood damage and increasing agricultural productivity	U.S.	February 23 - March 10
Economy and Foreign Trade Delegation	-Minister, Ministry of Metal Machinery Industry, Chun Seung-hoon -negotiated investment in iron and textile industry	Italy	February 28 - March 10
Agricultural Delegation	-Deputy Director, Ministry of Agriculture, Lee Jo-sung -Visited facilities related to livestock	U.S.	March 6 - April 13
Science and Technology Delegation	-Vice President, National Academy of Science, Kang Dong-geun -The 37th meeting of the Committee for Science and Technology Cooperation, discussed the plans for cooperation in IT industry	China	March 26 -28

peninsular, which is necessary in order to build constructing "Great Economic Power," seem to coincide with Pyongyang's needs.

North Korea-Taiwan Civilian Economic and Technology Cooperative Promotion Delegation	-Discussed investment of Taiwanese businesses in North Korea	Taiwan	March 28 - April 5
Foreign Trade Delegation	- Minister, Ministry of Foreign Trade, Lee Yong-nam -Discussed importing rice	Thailand	April 28 - May 2
Economic Mission	-Vice Minister, Ministry of Foreign Trade, Kim Young-jae -Discussed introducing facilities for machinery and securing investments	Spain, Belgium, Germany	June 16 - 29
North Korean Committee for Promotion of International Trade Delegation	-Chief Secretary, Committee for Promotion of International Trade Delegation Chang Rak-joon -Visited Trade, production facilities plant	Japan	June 25 - July 4
Agricultural technology exchange delegation	-Vice Minister, Ministry of Agriculture, Yoon Won-soon -Discussed potato cultivation and food processing technology	Japan	June 26 - July 4
Railway Delegation	-Minister, Ministry of Railway, Kim Yong-sam -Discussed the issues of linking TKR/TSR	Russia	July 24 -
Economic Mission	-Vice Minister, Ministry of Foreign Trade, Kim Young-jae -Held a meeting for investing in North Korea in Bavaria, Germany	Germany	September 19 - 24

Source: Ministry of Unification, *Weekly Report on North Korea*, various issues in 2001.

### ESTABLISHING DOMESTIC SYSTEMS AND LEGAL FOUNDATIONS

According to the constant reports of the North Korean media early last year, Kim Jong-il has emphasized change. The attention of North Korean specialists naturally focused on the fourth meeting of the 10th Supreme People's Assembly that opened April 2001, anticipating that there would be more concrete plans presented at the meeting. However the outcome fell short of expectations. A case in point is the ratification of the Processing Trade Law, merely as an expression of North Korea's intention to broaden the scope of future foreign economic cooperation.<sup>7)</sup> In addition to the Processing Trade Law, the Lock Act and the Copyright Act were also enacted. Indeed, their ratification are seen as part of North Korea's effort to improve the legal and institutional basis for attracting foreign investment since the establishment of the Rajin-Sonbong Free Economic and Trade Zone in December 1991.

All in all, some sixty laws related to foreign investment have been ratified and supplemented. With the promulgation of the Foreign Trade Law in March 1998, North Korea sought to systemize trade regulations, and the constitution was revised in September so as to recognize the rights of social cooperative organizations to participate in foreign trade activities. Through the enactment of the "Law on the People's Economic Plan" in April 1999, The North

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7) The Processing Trade Law, a revised and supplemented version of "the Regulations on Processing Trade in the Free Economic and Trade Zone promulgated in February 1996," has been expanded to include trade with cooperatives. It also allows foreign companies to claim compensation for breaches of agreement by the North, easing the possible risks faced by foreign companies, and it guarantees continuous oversight by quality-control inspectors. These new regulations have been assessed as positive steps in creating favorable trade environment, however, the effectiveness of the law depends on North Korea's commitment to implementing them.

prioritized the production of export goods, and the subsequent enactment of the “External Economic Arbitration Law” in August of the same year provided a systematic means and method for resolving disputes with foreign investors. Moreover, the Ministry of Economy underwent restructuring by late 2000, and a staff with experience in international trade was appointed. In October 2000, former Minister of Finance Kim Wan-soo was appointed to the presidency of the Central Bank, a critical post for trade, and Moon Il-bong, former trade representative at the North Korean embassy in Russia, took office as the new Minister of Finance. Subsequently in December, Lee Kwang-geun, a former president of General Equipment Export Company with extensive experience and knowledge in international trade, was appointed to head the Ministry of Trade. In his new post he will oversee foreign investment in North Korea and the expansion of trade.

#### **THE GROWING ENTHUSIASM TO LEARN ABOUT CAPITALISM**

North Korea’s efforts to broaden the scope of international economic cooperation are evident in the increased number of overseas training programs in capitalist countries. These programs are part of Kim Jong-il’s “Augmentation of Research in Global Economy and Capitalistic Market” policy mentioned early on. Acknowledging the need to understand the capitalist economy in order to expand foreign economic cooperation, North Korea is actively pursuing research in the area. Since the mid 1990s, North Korean universities have established trade departments and invited foreign scholars to lecture on the subject of market economy.<sup>8)</sup> Following the establishment of a course on capitalist economics at

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8) Lim Kang-taeg, *Characteristics of North Korean Foreign Trade and Prospects of Change in Trade Policy* (Seoul: Korea Institute for National Unification, 1998), p. 39.

Kimilsung University in 1997, North Korea founded institutes in 1998, such as Rajin Business School and Rajin Information Center, for the purpose of training trade specialists. In addition, the Research Center for the Study of the Capitalist System was established under the Ministry of Foreign Trade in 2000 for collecting information and conducting research on the capitalist market economy.

Over 400 economic bureaucrats are reported to have been dispatched to countries such as China, Australia, and Hungary for training since 1998.<sup>9)</sup> The scope of overseas training has increased even more this year, with economic bureaucrats, trade personnel, and students being sent to various countries, including the United States and EU member-countries. In the past, programs for the purpose of studying capitalism had been sponsored primarily by international organizations and were carried out sporadically, contingent upon the political situation. Since 1997, however, there has been a steady increase in North Korean training programs dealing with market economy, with some 100 North Korean economic specialists participating in training programs provided by the International Monetary Fund (IMF) and United Nations Development Programme (UNDP) in Singapore, Thailand, Hungary, and other countries in 1998.

Information indicates that North Korea is enthusiastically promoting overseas training programs in Australia. According to the UN Office for the Coordination of Humanitarian Affairs (OCHA), North Korea, with the financial support of the Australian Government's Overseas Aid Program (AusAID), will be sending four bureaucrats from the Central Statistics Bureau for a two-month intensive training program sponsored by the Research Institute for Asia and the Pacific, University of Sydney.<sup>10)</sup> Beginning October 15, they will learn the method of analysis for women and children-

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9) Ministry of Unification, *Changes in North Korea after the Inter-Korean Summit Meeting* (Seoul: Ministry of Unification, June 1, 2001).

10) <http://www.reliefweb.int/w/rwb.nsf/> (searched in September 2001).

related statistics. AusAID is also providing financial support to six North Korean graduate students for a two-year course on economic development and market economics, which will aid in North Korea's effort to participate in the international community and reform its domestic economy. In addition, North Korea reportedly has sent sixteen professors in agriculture to Australian universities, companies, and research institutes for short-term training programs in soil management, state-of-the-art bioengineering, and insect control.

One notable trend in North Korea's overseas training activities is an increase in cooperation with Western countries, such as the United States, EU member-countries, and Australia. In addition to concentrating on the areas of insurance, finance, international negotiation, statistics, and accounting, the North has recently expressed interest in learning industrial technology in the areas of energy, agriculture, livestock, and medicine.<sup>11)</sup> Yet, some have expressed doubts about the effectiveness of the educational programs, because most training programs are merely month-long visits to industrial plants or one-year study programs at most. Nevertheless, the fact that North Korea continues to increase its overseas training programs signifies its commitment to adjust to the changed international environment and to expand foreign economic cooperation.

#### **IMPROVED TRADE PERFORMANCE THROUGH FOREIGN AID**

Visible results of North Korea's efforts in foreign economic cooperation would be indicated by improvements in the foreign trade performance. Consequently, the recent upward trend in foreign

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11) Ministry of Unification, "The Current Trend of North Korea's Overseas Economic Training," *Weekly Report on North Korea*, Serial No. 552 (August 11-17, 2001).

**<Table 2> Recent Trend in North Korea's Foreign Trade**

(Unit: 1 million dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
Exports	1,733	945	933	990	858	736	727	905	559	515	556	290(280)
Imports	2,437	1,639	1,622	1,656	1,242	1,316	1,250	1,272	883	965	1,413	1,220(550)
Total	4,170	2,584	2,555	2,646	2,100	2,052	1,977	2,177	1,442	1,480	1,969	1,510(830)
Balance of Payments	-704	-694	-689	-666	-384	-580	-523	-367	-324	-450	-857	-930(-270)
Portion of B/P (%)**	16.9	26.9	27.0	25.2	18.3	28.3	26.5	16.9	22.5	30.4	43.5	61.6(32.5)

Source: Korea Trade-Investment Promotion Agency, *Trend in North Korea's Foreign Trade: 1990-2000*; Ministry of Unification, *Weekly Report on North Korea*, Serial No. 549 (July 21-27, 2001).

\* The values for 2001 are estimated figures for the first two quarters and the values within the parentheses on the right are the actual figures for the same period in 2000.

\*\* The portion of balance of payment is for the total volume of foreign trade.

trade may be said to signify the gradual expansion in North Korea's foreign cooperation. Indeed, North Korea's foreign trade performance reversed its downward trend and began moving upward starting from 1998. According to the findings by Korea Trade-Investment Promotion Agency (KOTRA), the foreign trade performance for North Korea for 2000 is up 33 percent from the previous year, and the data gathered by the Ministry of Unification also shows that performance for the first half of last year is up 81.9 percent from the previous year.<sup>12)</sup> Accordingly, North Korea's foreign trade performance last year is expected to increase substantially compared to that of the previous year. Although it is premature to expect a continued rapid upward trend, it is safe to presume that North Korea has come through the worst of its situation in terms of

12) The total foreign trade volume for the first half of 2001 is 1.51 billion dollars, up 81.9 percent from the previous year's 830 million dollars. Ministry of Unification, *An Estimate of North Korea's Foreign Trade Performance for the First Half of the Current Year*, July 27, 2001.

&lt;Table 3&gt; North Korea's Trade Activities with China

(Unit: 1 million dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
Exports	124.6	85.7	155.5	297.3	199.2	63.6	68.6	121.6	57.3	41.7	37.2	20
Imports	358.2	524.8	541.1	602.4	424.5	486.2	497	534.7	355.7	328.7	450.8	290
Total	482.8	610.5	696.6	899.7	623.7	549.8	565.6	656.3	413	370.4	488	310
Balance of Payments	-234	-439	-386	-305	-225	-423	-428	-413	-298	-287	-414	-270
Portion of B/P (%)**	33	63	56	46	59	73	82	113	92	64	48	29

Source: Korea Trade-Investment Promotion Agency, *Trend in North Korea's Foreign Trade: 1990-2000*; Ministry of Unification, *ibid*.

\* The values for 2001 are estimated figures for the first two quarters.

\*\* The portion of balance of payment is for the total trade volume.

the economic and foreign trade slump.

The most conspicuous feature of North Korea's foreign trade activities is the deficit in the balance of payments due to an excess of imports. The recent hike in foreign trade performance is also due primarily to the sudden increase in imports. The export volume, when excluding the massive exportation of gold bullion to Hong Kong in 1997,<sup>13)</sup> has continued to decrease, with performance showing an insignificant increase even after 1998, the year that marked the beginning of recovery for the North Korean economy.<sup>14)</sup> Considering the overall reduction in the amount of trade deficit until 1998, it is safe to say that there is a correlation between the performance of North Korea's foreign trade and the trade deficit. In order to comprehend the significance of this phenomenon, the

13) The net amount of gold bullion and jewelry that North Korea exported via Hong Kong in 1997 totaled 158 million dollars.

14) The negligible increase in exports can be understood to have resulted from restraints imposed on export of primary manufactured goods due to the urgency of stabilizing the domestic economy.

characteristics of the excess of imports should be analyzed.

Looking at North Korea's trade activities with China, with which it has a negative trade balance, it is evident that North Korea's trade deficit stems primarily from its trade relations with China. Particularly during the period between 1995 and 1998, when the North Korean economy suffered the most, the biggest portion of the trade deficit arose from North Korea's trade with China. The abnormal phenomenon in 1997, when the negative trade balance exceeded 100 percent, seems to have resulted from a sharp decline in the trade deficit due to export of large quantities of gold bullion. Of the trade deficit with China, grant-type aid seems to account for 10 to 20 percent of the deficit, while credit and aid-type transactions account for the rest.

However, the reduction in the trade gap with China and the increase in North Korea's trade activities and imports in the first half of 2000 and 2001 cannot be explained solely by North Korea's transactions with China. Relief aid to North Korea from the international community is the key reason. Excluding Chinese and South Korean contributions, the total amount of aid to North Korea during the two-year period between 1996 and 1997 reached 345 million dollars. It was 267 million dollars in 1998, 280 million dollars in 1999, and 164 million dollars in 2000. Accordingly, considering the amount of grant-type aid received from the West and excluding trade with China, North Korea can be said to have gained a surplus of 286 million dollars during the two-year period between 1996 and 1997, 241 million dollars and 117 million dollars in 1998 and 1999, respectively, whose net surplus not only compensates for the 279 million-dollar deficit in 2000, but also leaves a margin of 365 million dollars. In short, the recent sharp increase in imports was possible due to the good offices of China and the aid from the international community, including South Korea.

**EXPANDING FOREIGN TRADE:  
POTENTIAL AND LIMITATIONS**

North Korea's heavy dependence on aid from China and the international community in foreign trade, which is the main source of North Korea's weakness in foreign trade, demonstrates that North Korea has yet to adjust to the rapidly changing international environment and to normalize its production activities in the wake of the collapse of its socialist market. The recent rise in electrical/electronic and chemical exports, shifting away from the traditionally strong textile and steel products, can be viewed as encouraging, demonstrating North Korea's efforts to make a gradual move towards high-value-added goods. However, the fact that primary industrial goods such as agricultural products and minerals account for 32 percent of the total exports demonstrates the still underdeveloped structure of North Korea's export industry.

Another encouraging sign is the continuous rise in the proportion of electrical/electronic goods among the total imports. This fact seems to be a result of the "emphasis on science and technology," a policy line recently championed by North Korea as its strategy for economic development.<sup>15)</sup> North Korea's shift in focus to the value-added high-tech industry, with high potential for growth, as a new strategy for economic growth is understood to have been motivated by its efforts to strengthen economic power as quickly as possible. In sum, it realized that trying to recover the deteriorated existing industrial infrastructure would be not only be time consuming and a drain on capital, but also ineffective. North Korea also imported various machinery, including power generators to alleviate electricity shortages, and equipment for repairing plant facilities.<sup>16)</sup> In addition, there has been an increase in the import of

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15) The policy line seems to reflect Kim Jong-il's interest in the information technology area and his stress on developing the IT field.

motor vehicles to facilitate the transport of goods. The country's expansion of investment seems to be motivated by its goal to normalize industrial productivity, which indicates that North Korean economy is on its way to gradual recovery.<sup>17)</sup> However, it is still doubtful as to whether North Korea's investment activities can resuscitate its devastated economy, given its closed institutional characteristics and weak social infrastructure, particularly since there has been no apparent move to open the market or to make institutional reforms, the two prerequisites for development.

#### PROSPECTS AND TASKS FOR INTERNATIONAL ECONOMIC COOPERATION

As mentioned above, North Korea's dependence on support from China and the international community for the imports necessary for economic recovery is an indication of the tough challenges it will face if it wants to expand foreign economic cooperation. To be sure, North Korea's efforts to expand foreign economic cooperation will be based on the establishment of diplomatic relations with other countries, centering on European countries, and the strengthening of ties with China and Russia. In particular, tangible results are likely to emerge from economic cooperation with European countries,<sup>18)</sup> and there will be an increase

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16) The volume of North Korea's import of machinery from Japan, including building equipment and components for industrial plants for the first half of this year, increased by 76 percent compared to last year.

17) That there was a sharp increase in the import of mineral oil (112%) and grain (89%) as well as in the export of steel (241%) in trade with China supports the assessment that the North Korean economy is on the road to gradual normalization.

18) Following the agreement of December 2000 between North Korea and the Swiss-Sweden multi-national engineering corporation ABB (Asea Brown Boveri), in which ABB agreed on comprehensive long-term cooperation to improve the industrial base and the outmoded electric a transmission system, ABB established

in economic aid from China and Russia with the newly established “northern trilateral relations.” However, for these opportunities to be actualized, North Korea must create an environment conducive to foreign investment, and furthermore, must redouble its efforts to increase export capacity by revamping the economic structure.

To effect this transformation, it must undertake a full-fledged reform program to eliminate bureaucratic inefficiencies, as well as to change the attitudes within politics, and the government bureaucracy. At the same time, it has to increase investment in the reconstruction of its dilapidated industrial infrastructure. For this, foreign capital will be necessary since the country has no financial resources to do this alone. Foreign investors are skeptical about North Korea’s future, however, and the only way to secure foreign investment will be for the North to demonstrate its commitment to reform. Moreover, expanding economic cooperation necessitates improving its relations with South Korea and the United States in order to ease tensions on the Korean peninsula. Unfortunately, with the Bush administration’s negative perception of the North and his hard stance against Pyongyang, the prospects for improvement of North Korea-U.S. relations in the short term appear rather bleak.

In sum, the solution to achieving economic recovery through expansion of economic cooperation is to lay out a concrete plan for reform and an open-door policy, and then to show commitment in implementing the plan. However, even if the North Korean leadership acknowledges the importance of reform and of opening its economy, it will be reluctant to embrace such a policy for fear of weakening the Kim Jong-il regime. Therefore, North Korea is likely to opt for a limited reform program that would pose little threat to the status quo, and then gradually expand the scope. There are

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an office in Pyongyang in June 2001, announcing plans to begin work in the areas of power supply, railway, and light and heavy industries first. In addition to ABB, Siemens of Germany, Alstom of France, and other European energy corporations are believed to have plans to enter the North Korean market.

indications that North Korea has already embarked on a reform of its economy. Moreover, North Korea's active expansion of exchange missions with other countries and its tacit allowance of private business activities by farmers is definite progress. Nonetheless, it has not reached the level of reform demanded by the international community, including the U.S.<sup>19)</sup>

North Korea's economic cooperation with other countries is likely to increase with the recently improved foreign relations. However, without the fundamental reform of its regime, substantial opening of its economy, and visible improvement in Pyongyang-Washington relations, North Korea cannot make substantial gains in foreign economic cooperation.

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19) Lim Kang-taeg, "Current Status and Future Prospects of North Korea's Foreign Economic Cooperation," paper presented at the 27th seminar on North Korean Economic Forum, October 13, 2001.