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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*North and South Korea: Separate Paths of Economic Development*

**Secret**

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May 1972

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**CENTRAL INTELLIGENCE AGENCY**  
**Directorate of Intelligence**  
**May 1972**

**INTELLIGENCE MEMORANDUM**

**NORTH AND SOUTH KOREA:  
SEPARATE PATHS OF ECONOMIC DEVELOPMENT**

**Conclusions**

1. Since the division of Korea at the 38th parallel in 1945, North and South Korea have developed independently and have compensated for many of the original deficiencies in their respective economies. Thus North Korea has gone its separate route within the Communist world and has established important ties with the USSR, Eastern Europe, and the People's Republic of China for the supply of machinery and technology. In contrast, South Korea has moved within the market-oriented "Western" world and has developed strong economic and technological ties with the United States and Japan. Whereas North Korea - which has always been the heavy industrial area of Korea - has moved to redress its weaknesses in consumer industries and agriculture to satisfy minimum demand, South Korea has been particularly concerned to boost output for the export markets while strengthening such basic industries as chemicals, steel, and electric power.

2. As a result, the potential for trade between the two Koreas has been narrowed by a combination of separate and duplicative economic development, long-established relationships with disparate allies, and small and restricted domestic markets. Furthermore, neither country now imports or exports large quantities of the products that form most of the other country's trade. The potential for trade, on balance, may be no more than \$25 million annually each way - about 1% of South Korea's trade and 7% of North Korea's trade in 1971.

3. Future developments seem likely to reduce rather than to expand the potential for exchange of goods. The economic plans for both North and South Korea are extending the past policies of compensating for

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**Note:** This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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deficiencies. For example, South Korea is building a huge new steel complex, and North Korea is taking measures to increase domestic supply of synthetic fibers and plastics. Although the current "Red Cross" talks between North and South Korea may eventually be extended beyond humanitarian to political considerations, they are hardly likely to be widened solely on the basis of strongly felt economic needs.

### Introduction

4. In August 1971 the governments of North and South Korea agreed to talk on a limited basis after two decades of almost unremitting hostility. Red Cross delegations of both countries - each heavily laden with government officials - began preliminary discussions in September 1971, and plenary talks will begin during June 1972. The talks are ostensibly to help separated families visit each other, but it is widely assumed that the talks may eventually reach beyond humanitarian matters and perhaps include the discussion of economic exchanges. In attempting to determine how much economic stimulus there might be to widening these talks, this memorandum reviews North and South Korea's comparative economic situation in four parts: (1) economic growth, (2) current levels of economic output, (3) potential trade between the two Koreas, and (4) prospects for the future. Key economic indicators are compared in Table 1.

### Discussion

#### Comparative Economic Growth

5. The division of Korea at the 38th parallel in 1945 turned the economy, already subservient to the Japanese economy, into two distorted and unbalanced economic units. The percentage distribution of assets between North and South Korea by major economic sectors was as follows:

	<u>Percent of Total</u>	
	<u>North Korea</u>	<u>South Korea</u>
Heavy industry	65	35
Light industry	31	69
Agriculture	37	63
Commerce	13	82

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Table 1  
North and South Korea: Economic Indicators

	Unit	North Korea					South Korea				
		1956	1960	1965	1970	1971 <sup>a/</sup>	1956	1960	1965	1970	1971 <sup>a/</sup>
Population	Thousand persons	9,311	10,605	12,200	14,155	14,561	22,042	24,695	28,377	31,311	31,849
Grain, polished	at mid-year Thousand metric tons	2,100	2,750	3,250	3,600	3,950	3,969	5,271	7,005	7,476	7,800
Fish products	Thousand metric tons	365	465	785	900 <sup>b/</sup>	N.A.	362	343	637	936	N.A.
Industrial production index <sup>c/</sup>	1960 = 100	28	100	193	332	378	63	100	178	510	605
Electric power	Million kilowatt hours	5,100	9,100	13,400	16,500	17,000	1,118	1,699	3,250	9,169	10,540
Anthracite coal	Thousand metric tons	2,400	6,800	12,800	21,800	23,000	1,815	5,350	10,240	12,394	12,785
Iron ore	Thousand metric tons	678	3,110	4,960	6,500	7,800	63	392	735	636	442
Crude steel	Thousand metric tons	190	640	1,230	2,200	2,600	0	50	185	481	471
Cement	Thousand metric tons	597	2,280	2,400	4,000	4,200	47	431	1,614	5,812	6,872
Chemical fertilizers <sup>d/</sup>	Thousand metric tons	40	127	158	320	350	0	6	75	510	N.A.
Petroleum products	Thousand metric tons	0	0	0	0	0	0	0	1,680	8,407	9,273
Textiles	Million linear meters	77	190	270	400	400	91	186	306	362	385
Tractors <sup>e/</sup>	Thousand units	3	3	4	9	15	0	0	0	0	0
Motor vehicle tires	Thousand units	Negl.	Negl.	Negl.	Negl.	Negl.	1 <sup>f/</sup>	119 <sup>f/</sup>	368	923	1,029
Consumption of primary energy <sup>g/</sup>	Thousand metric tons	N.A.	15,800	24,100	31,600	33,000	12,610	13,920	17,670	25,526 <sup>b/</sup>	N.A.
Inventories of:											
Locomotives	Units	220 <sup>h/</sup>	350	395	490	510	528	552	397	386	N.A.
Railroad freight cars	Thousand units	5	10	15	24	27	12	10	11	14	N.A.
Trucks	Thousand units	N.A.	17	30	55	64	N.A.	13	16	49	N.A.
Merchant fleet	Thousand gross register tons	0	0	3	17	34	N.A.	168	198	877	N.A.
Foreign trade											
Total	Million US \$	140	321	414	685	735	411	377	638	2,819	3,462
Imports	Million US \$	74	167	216	384	405	386	344	463	1,984	2,394
Exports	Million US \$	66	154	198	301	330	25	33	175	835	1,768

a. Preliminary estimates.

b. 1969.

c. This index is totally based on official sources with the exception of the 1971 North Korean figure. Because P'yongyang has not announced the 1971 growth rate, the index has been moved forward based on the average planned rate of growth for the Six-Year Plan (1971-76), 14% annually.

d. Nutrient content.

e. In 15-horsepower units.

f. Truck tires only.

g. In standard fuel equivalents of 7,000 kilocalories per kilogram. Includes firewood, which amounts to less than one million tons for North Korea but to 9.2 million tons in 1956, 8.7 million tons in 1960, 7.3 million tons in 1965, and 6.2 million tons in 1969 for South Korea.

h. 1953.

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The Korean War of 1950-53 reduced many of the productive facilities of both countries to rubble and set the stage for reconstruction and development along two entirely separate routes.

6. Farming continued throughout the war at a reduced level, and output regained the pre-war levels shortly after the fighting ended. South Korea was consistently producing considerably more agricultural goods than North Korea at that time, and this parity has not changed since. For example, grain production, which forms the bulk of total agricultural output in both countries, is consistently about twice as much in South as in North Korea; since 1956, it has grown at an average rate of 4.6% in the South, compared with 4%-4.5% in the North. Clearly the agricultural sectors of both countries have grown at about the same rate during the last 15 years, but only slightly faster than increases in population. Therefore, given allowances for the structural differences of the two economies, a comparison of the growth in industrial output will roughly reflect the comparative growth in total output.

7. The comparative growth of the industrial sectors of the two economies following the Korean War is neatly divisible into three parts (see Figure 1). First, there was a more rapid rate of growth in the North; then, similar rates for both countries; and finally, a more rapid rate in the South.

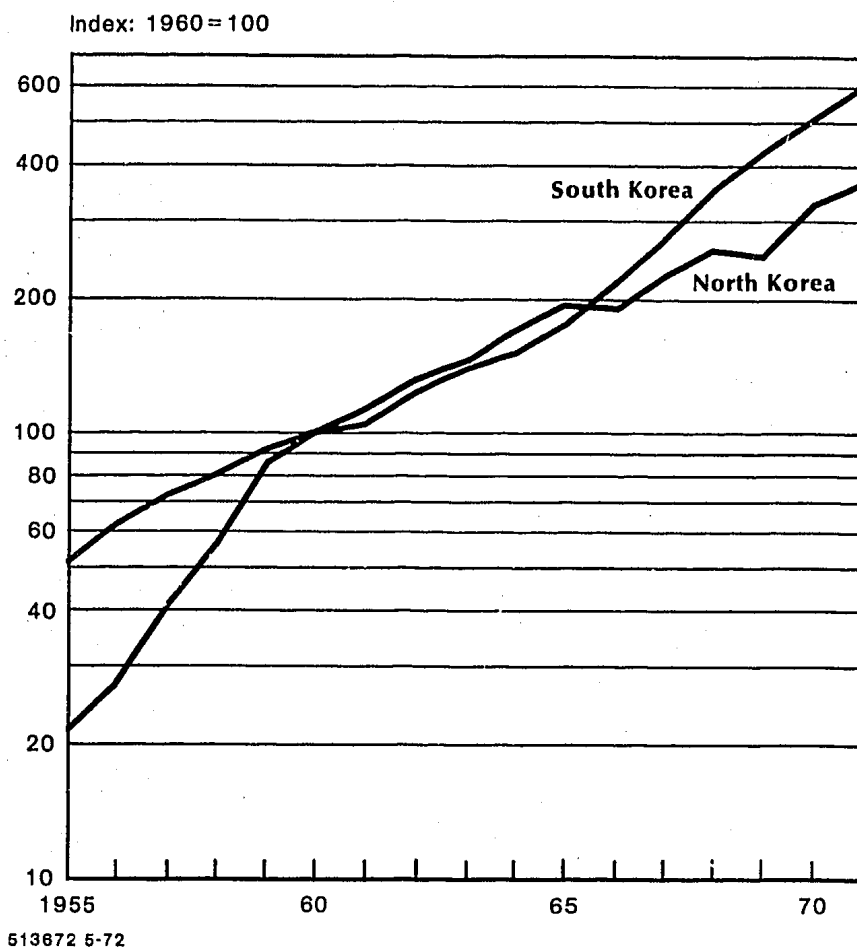
8. More abundant mineral resources and previous industrial experience - together with Communist aid in restoring productive capacity - enabled industry in the North to recover from the war much faster than in the South. In the period 1954-60, North Korea's industrial production grew about twice as fast as did the South's.

9. North Korea entered 1961 riding the crest of seven years of rapid recovery and development. The economy was doing so well that P'yongyang announced the completion of the First Five-Year Plan (1957-61) a year in advance and embarked on a very optimistic Seven-Year Plan (1961-67). Almost immediately the new plan began to sputter as the result of unanticipated problems. Premier Kim Il-song refused to join the Soviet-controlled Council for Mutual Economic Assistance (CEMA) because of his nationalist desires for self-reliance. He then sided with the Chinese on the ideological issues in dispute, and P'yongyang was drawn into the center of the Sino-Soviet struggle. Moscow was quick to react. Soviet economic aid, which had been the source of hundreds of millions of dollars of capital equipment since 1953, slowed to a trickle. North Korea could hardly replace this inflow from domestic output nor could it continue to buy foreign equipment without credit. China could do little to help because its own economy was near collapse in the early 1960s. As a result, the ambitious rate of increase planned for industrial production was only 80% achieved in 1961-65.

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Figure 1

**North and South Korea: Industrial Production Index**

10. On the other hand, South Korea stumbled into 1961, racked by political strife and suffering from a 10%-13% annual rate of inflation and a \$300 million annual trade deficit – about nine times more than 1960 exports – that was financed mostly by aid from the United States. In May 1961, General Pak Chung-hue took control of the government and instituted sweeping changes that remodeled development policy along Japanese lines, with even more emphasis on foreign trade. In pursuing this policy, South Korea has benefited from substantial foreign investment and aid. During 1962, industrial output increased by nearly 17%, the fastest rate since 1956. The five-year average rate (1961-65) exceeded 12%.

11. The growth in South Korea's industrial output in 1966 was the highest in a decade, and the percentage increase since 1960 exceeded that of North Korea. Industrial performance was so outstanding that growth records were also set in each of the next two years. Many of the original

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goals of the Second Five-Year Plan (1967-71) had been met by the end of 1968, were revised upward, and were again surpassed before the end of the plan period. The annual average increase in industrial output for the five-year period (1966-70) was a striking 23%.

12. In 1966, North Korea was suffering the aftermath of the withdrawal of Soviet aid; production was severely affected by electric power shortages caused by drought; and Kim Il-song decided to begin extensive expansion and modernization of the armed forces. The result was the first downturn in industrial output since the Korean War and the announcement of the extension of the ill-fated Seven-Year Plan for three more years -- through 1970. An all-out effort was soon mounted by Kim Il-song to regain high rates of economic growth. He had extricated himself from the Sino-Soviet quarrel and once again began receiving large quantities of military and economic aid from the USSR -- Soviet credits have averaged about \$75 million per year since 1968. China is also helping North Korea, although on a much smaller scale, and some credits to buy machinery and equipment are being received from a few of the West European countries, notably the Netherlands, France, and West Germany.

13. The installation of this new foreign equipment and technology is largely to expand the metallurgical, electric power, and machine building industries. This new equipment, coupled with the constant coercion of the people to reach "new heights", enabled P'yongyang to announce the completion in 1970 of the major goals of the extended Seven-Year Plan. North Korea's claimed five-year average growth in industrial output in 1966-70 was about 11%, a high figure by ordinary standards yet considerably below the euphoric standards of the original plan.

14. The structural differences of the two economies and the varying rates of industrial expansion underlie the diverse records of growth of gross national product (GNP). Industrial production in the North comprised roughly one-third of GNP in 1960, compared with less than 20% in the South. For agriculture, the reverse was true: about 40% in the South compared with about 25% in the North. Because of the much more rapid industrial expansion, GNP grew three to four times faster in the North than in the South during the reconstruction period. However, during 1961-65, when industrial expansion in the North was only slightly faster than in the South, North Korea's GNP grew at roughly one and one-half times the rate of the South. Since 1965, with South Korea's industry growing at more than twice the North's rate, GNP in the South has expanded at about one and one-half times that of the North -- about 12% annually compared with 7% to 8%.

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15. Over the years the structures of both economies have grown more alike as each has sought to build up its weak sectors. For example, in 1971, agriculture contributed more than one-fourth of GNP in the South and perhaps 20% in the North. The contribution of industry was almost 30% in the South and 40% or more in the North. Conversely, services such as wholesale and retail trade accounted for a bigger share of GNP in the South.

16. The available data are insufficient for making a precise comparison of the value of total output by North or South Korea. Clearly, however, (a) total output in the South is greater than in the North because the South's advantage in agriculture, services, and consumer industries more than outweighs the North's advantage in heavy industry, and (b) per capita output in the North exceeds per capita output in the South. The approximate real GNP per capita for five countries for the year 1971 is as follows:

	<u>1970 US \$</u>
Taiwan	More than 400
North Korea	Roughly 300
South Korea	About 250
China	Roughly 150
India	Less than 100

17. Industrial output as a share of total output has been increasing in both countries. In addition, the product mixes of the industrial sectors have been growing more alike. Nevertheless significant differences in the industrial structure of the two countries still remain. The most striking difference is in machine building, which accounts for a much greater share of total industrial output in North than in South Korea. Trucks, tractors, freight cars, machine tools, and electrical equipment are products of North Korea; these products are generally made from domestic raw materials and are generally destined for internal consumption. South Korea's output in machine building consists of about one-fourth each of automobiles and electrical appliances or equipment and 8%-10% each of industrial machinery, electronics, and shipbuilding. Raw materials and semifinished products are typically imported for assembly, and much of the final product is exported.

18. To offset the much lower share of the machine building industry, the shares of total output contributed by nearly all other industries in the South is slightly higher than in the North. Nevertheless, significant differences exist in the composition of output within these industries. For example, chemical fertilizers account for more than one-half of the total

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output and synthetic fibers for another large share of the chemical industry in the North; fertilizer accounts for only about one-third of the total output of chemicals in the South and fibers for about 17%. This example carries over into the textile industry as well, for despite nearly identical quantities of textile production -- about 400 million linear meters each -- about 70% of the output in the North is of synthetic fibers while only about one-fourth of the South's output is of synthetic fibers. Another example of different output is evident from the iron and steel industries. The North mines its own raw materials and produces its steel requirements by integrated processes, importing only small quantities of high-quality steel, which it does not produce. On the other hand, the South must import about one-third of its semifinished steel and still does not produce at all many of the special-purpose construction steels for which it has a large demand.

19. The 1971 output for eight key commodities produced by both countries is presented in Table 2. If each of the eight products were given equal weights to form an overall index, the index for South Korea would be 71% of the North Korean index. Even if proper weights were employed, such an index might not accurately reflect the relationship of the two industrial sectors, because each country produces a number of commodities that the other does not produce at all or only in small quantities. For example, North Korea produces several thousand railroad freight cars and farming tractors each year, whereas South Korea produces none. North Korea annually produces perhaps 50,000 metric tons each of lead and zinc and 20,000 tons of copper. South Korea produces less than 12,000 tons of all three combined. On the other hand, South Korea produces several thousand tons of aluminum and 9 million tons of petroleum products annually, whereas North Korea produces none.\*

20. The contrast in natural resources and development patterns is reflected by the differences in the sources of primary energy consumed in North and South Korea. The following tabulation shows the breakdown of these primary energy sources during 1969, the latest available year, in standard fuel equivalents of 7,000 kilocalories per kilogram:

	<u>North Korea</u>		<u>South Korea</u>	
	<u>Million Tons</u>	<u>Percent of Total</u>	<u>Million Tons</u>	<u>Percent of Total</u>
Coal	19.6	70	9.3	35
Petroleum	1.2	4	10.3	39
Hydroelectric power	6.3	23	0.7	3
Firewood	0.9	3	6.2	23
<b>Total</b>	<b><u>28.0</u></b>	<b><u>100</u></b>	<b><u>26.5</u></b>	<b><u>100</u></b>

\* A 20,000-ton aluminum plant and a 2-million-ton oil refinery are currently under construction in North Korea.

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Table 2  
 Production of Selected Products  
 1971

<u>Products</u>	<u>Units</u>	<u>North Korea</u>	<u>South Korea</u>	<u>Index: South Korea/ North Korea</u>
Electric power	Billion kilowatt hours	17.0	10.5	62
Anthracite coal	Thousand metric tons	23,000	12,785	56
Iron ore	Thousand metric tons	7,800	442	6
Crude steel	Thousand metric tons	2,600	471	18
Cement	Thousand metric tons	4,200	6,872	164
Textiles	Million linear meters	400	385	96
Trucks <u>a/</u>	Units	9,500	13,071	138
Machine tools	Units	10,400	<u>a/</u> 3,205 <u>b/</u>	31

a. 1970.

b. Lathes only.

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North Korea's total consumption of primary energy has always been slightly higher than South Korea's. (During 1960 it was 15.8 million tons in North Korea and 13.9 million tons in South Korea.) The striking difference, however, is in the much greater use of firewood by the South Koreans. If this source of energy -- which is generally excluded from energy available for industrial use -- is not counted, North Korea's consumption of primary energy was one-third higher than the South's during 1969. The use of firewood is decreasing as a source of fuel in South Korea, however, as coal replaces it for home consumption -- firewood, as a percentage of total energy consumed, is down from 63% during 1960. The thermal electric powerplants are primarily fueled by coal in North Korea and by petroleum in South Korea.

21. Many of the dissimilarities in industry have resulted from differences in resource endowment and development policies. In general, North Korea's industrialization program has centered on the exploitation of domestically available resources. South Korea, on the other hand, has developed a trading economy by importing raw materials, processing these raw materials, and exporting a large part of the resulting output. For example, both North and South Korea lack petroleum raw materials. In 1964, however, South Korea opened its first oil refinery, and by 1965 production of petroleum products exceeded consumption. Since then, both production and consumption have increased five-fold. In 1970, South Korea purchased 8.1 million tons of crude oil for conversion into petroleum products. In the same year, North Korea imported 838,000 tons of petroleum products -- a large part of which was gasoline and diesel fuel -- from the USSR. Saving in foreign exchange presumably has been a major factor in P'yongyang's decision to build a 2-million-ton oil refinery.

22. The geographic distribution of industrial activity in North Korea is more widely spread than in the South (see the map, Figure 2), and it is generally located near raw materials or end users. South Korea's industrial development has been concentrated in coastal cities, a reflection of the importance of imported raw materials and exported finished products.

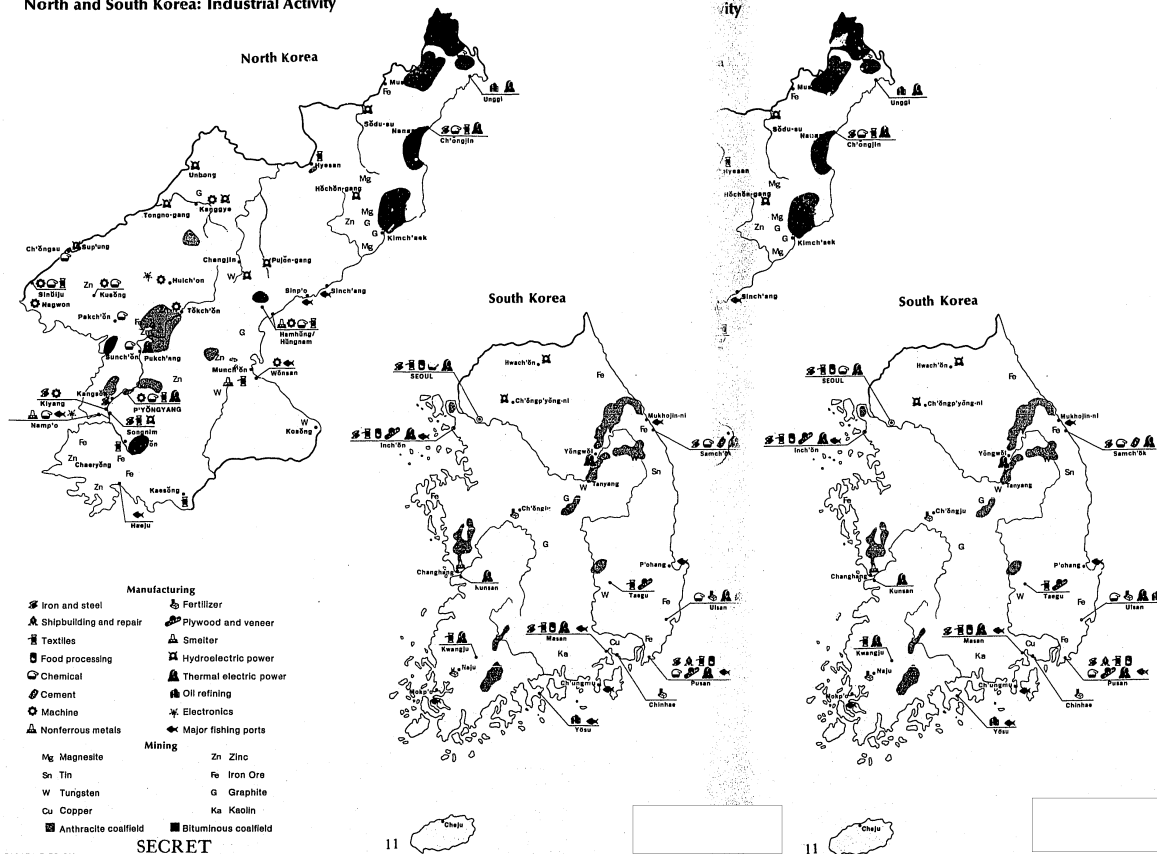
23. Despite North Korea's having roughly one-fourth more land mass than South Korea, both countries have approximately the same area suitable for farming -- about 2.1 million hectares. South Korea's farm land, however, is much better suited for agricultural uses and yields a larger crop. For instance, both North and South Korea have more than 85% of their cultivated land sown in grains, but the yields during 1970 amounted to about 4 tons per hectare in the South as opposed to 2 in the North. There are a number of reasons why the grain yields in South Korea are consistently about twice those of North Korea: (a) South Korea double crops nearly 1.4 million hectares of land, about twice the area double cropped in the North; (b) more than one-half of South Korea's farm land is in paddy fields,

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North and South Korea: Industrial Activity

Figure 2  
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Figure 2



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times the amount that North Korea imported. This relatively greater importation of machinery and equipment was a prime factor enabling South Korea to maintain a higher investment ratio than the North in recent years -- 28% of GNP during 1970 as opposed to perhaps 15%-20% -- despite a much higher level of domestically produced machinery in North Korea.

26. The trade deficits being generated by these credits are also much greater in South Korea than in the North. South Korea's deficits have been more than \$1 billion annually since 1967 -- the deficit in 1970 was 138% of exports. In North Korea the deficit was \$83 million during 1970 -- 28% of exports. By the end of 1971 the South Korean foreign debt had accumulated to about \$3 billion and required nearly 30% of exports receipts for servicing. Total foreign debt in South Korea is equal to about 30% of GNP and perhaps to 5%-10% in the North. South Korea clearly is growing much faster than the North, partly because of the foreign financing, but the economy of the South also is more vulnerable to outside influences than is that of the North.

**Potential Economic Exchanges**

27. At the time of partition, the economies of North and South Korea were complementary, and an extensive trade program would have been natural. Indeed, until April 1949 South Korea exchanged raw materials, such as cotton and rubber, for North Korean fertilizer, calcium carbide, and wood pulp. The border was closed at that time, however, and has never been reopened. During the ensuing years, both North and South Korea have made compensations for their natural economic deficiencies. Hence the economic reasons for an extensive exchange of goods have become progressively fewer.

28. To determine the potential of trade exchanges under current conditions, the 1970 trade data for both North and South Korea are investigated in general and in detail. The broad categories of foreign trade conducted by both countries during 1970 is shown in Figure 3. The largest category of imports of both countries is machinery and equipment. The next largest for South Korea is crude materials -- chiefly lumber and textile fibers -- and for North Korea, fuels -- mainly petroleum products and coking coal. North Korea's largest exports are of metal products and a variety of other manufactured goods, such as building materials, whereas South Korea's leading exports are clothing, wigs, and wood veneer panels.

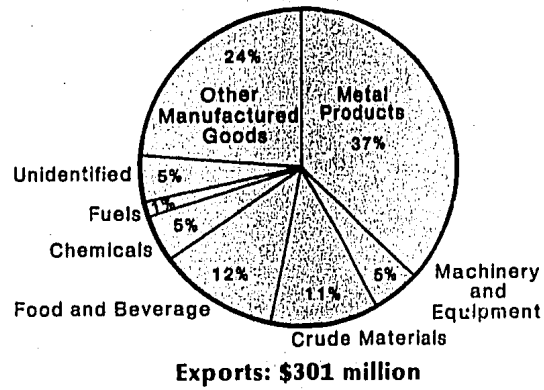
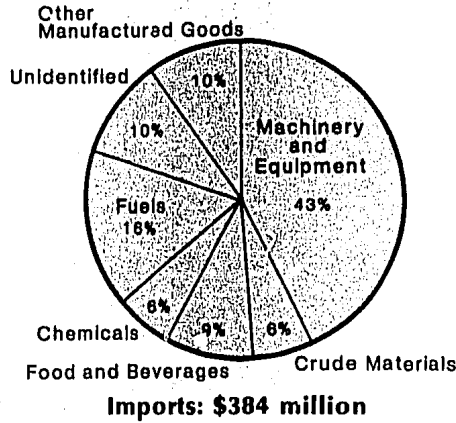
29. To get a more specific determination of potential products suitable for exchange, a detailed analysis was conducted of 171 specific

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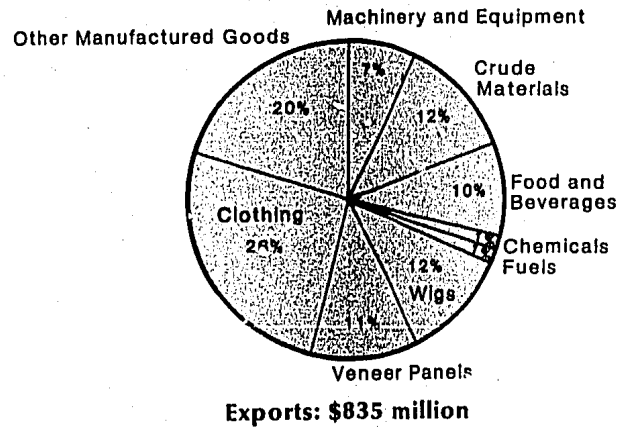
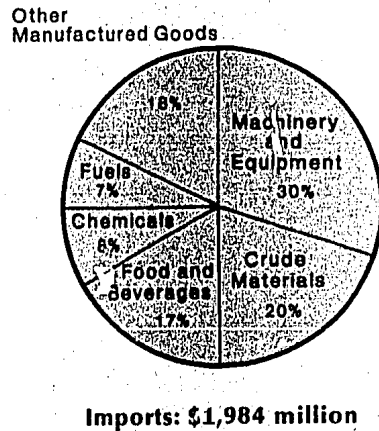
Figure 3

**Commodity Composition of Foreign Trade, 1970**

**North Korea**



**South Korea**



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commodities imported and exported by North and South Korea during 1970, with the following results\*:

\* The major products in all of South Korean trade and in North Korean trade with the USSR and non-Communist countries -- 74% of its total -- were surveyed. Detailed commodity breakdowns are not available for North Korean trade with China or Eastern Europe, but the commodities traded with these countries are probably similar to those in North Korea's trade with the surveyed countries. The survey covered all products of importance to the countries' total trade and also those insignificant in total trade volume but potential North-South exchange items. The sampling covered 72 products imported and 99 products exported by either North or South Korea. The total value of the surveyed products accounted for more than 90% of the trade conducted with the surveyed countries.



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<u>Category</u>	<u>Items</u>	<u>Percent of Total</u>
Total commodities surveyed	171	100.0
Of which:		
South Korea imports and North Korea exports	10	5.8
North Korea imports and South Korea exports	5	2.9
Both import	23	13.5
Both export	16	9.4

30. Of the 171 items in the trade of the two Koreas, only 15 could be identified as likely candidates for mutual exchange. These 15 commodities and their value in 1970 trade of North and South Korea are presented in Table 3. Several factors suggest, however, that the maximum potential level of exchange in these commodities would not take place if trade were resumed. In the first place, the trade would be greatly unbalanced in North Korea's favor, something that South Korea would not be likely to want. Second, both North and South are tied to established trading relations in these commodities. For example, most of South Korea's rice is imported on low-cost loans from Japan, and North Korea's rice exports are tied to wheat imports from the USSR. Much of the iron and steel that South Korea could purchase from North Korea is now imported into South Korea in connection with foreign investment or foreign credits.

31. South Korea already has established raw material sources, mainly in the United States and Japan. Its problems are finding markets for exports rather than finding alternative suppliers for imports. About the only items that South Korea could supply in significant quantities to the North are consumer goods; Kim Il-song's philosophy is hardly conducive to the large-scale import of such luxury items as wigs or veneer panels.

32. The survey of commodity flows in the current trade of North and South Korea shown in Table 3 covers only the obvious items that might be exchanged. In addition, a number of lesser items might be candidates for a small volume of exchange between the two countries. However, it seems unlikely that the total value of potential trade exchanges would be more than doubled by inclusion of these goods. If it is assumed that trade were kept roughly in balance, the potential for trade would likely be no more than \$25 million each way.

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Table 3

North and South Korea:  
Exchangeable Commodities a/

	Million US \$	
	<u>South Korea Imports</u>	<u>North Korea Exports</u>
Rice	145.4	12.5
Pig iron	0.9	9.5
Steel ingots	35.5	2.5
Structural steel	31.9	38.9
Steel wire rods	3.6	0.3
Copper	5.2	1.5
Zinc	3.1	8.0
Metalworking machine tools	17.3	6.0
Electric motors	2.7	0.6
Pharmaceuticals	15.2	0.1
Total	<u>260.8</u>	<u>79.9</u>
	<u>North Korea Imports</u>	<u>South Korea Exports</u>
Synthetic textile fabrics	3.0	10.0
Plastic materials	2.2	1.8
Clothing	4.1	213.6
Footwear	1.7	17.3
Pharmaceuticals	0.8	1.4
Total	<u>11.8</u>	<u>244.1</u>

a. Based on an analysis of North and South Korean international trade in 1970.

Prospects Through 1976

33. North and South Korea should have similar rates of economic growth over the next few years. According to the goals of the Third Five-Year Plan (1972-76), industrial output in South Korea is to slow to 13% yearly; industrial output under North Korea's Six-Year Plan (1971-76) is to continue to grow at its 1968-70 rate of 14% annually. Agriculture in both the North and the South are also expected to continue the growth

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rates established during the 1960s, about 4%-5% annually. The economic plans for both North and South Korea appear at the outset to be realistic and achievable, barring unforeseeable political and military events.

34. Despite its large debt, South Korea continues to offer a high return and reasonable safety for foreign investors. Inflows of foreign capital are expected to continue at high levels as long as favorable economic policies and a relatively stable political situation continue. Moreover, the full production potential of many of the country's new export industries has not yet been reached, and the recent international monetary adjustments have improved Seoul's competitive position because its currency was devalued along with the dollar. In general, South Korea remains heavily dependent on foreign funds and domestic credit expansion to meet the investment requirements of its rapid economic growth. This heavy dependence on borrowed capital could magnify the effect of any prolonged slowdown. If export growth slowed – exports in 1976 are to be more than triple the 1970 level – and South Korea were forced to reschedule its debts because of inability to meet payments, foreign financing might dry up and in turn affect the ability of industry to expand exports.

35. Seoul is trying to relieve both the inflationary trend (wholesale prices were up an average of 8.6% in 1971) and the foreign debt obligation problem by taking steps to slow the economic growth. These measures include ceilings on local credit expansion, higher interest to increase domestic savings, and programs to improve the export-import ratio. To achieve its goals, Seoul will have to follow tightrope economic policies that avoid a financial crisis on one hand and a sharp economic downturn on the other. With its past experience in handling these problems, it has a good chance of avoiding either extreme. Of critical importance are continued access to world markets and maintenance of a stable domestic political situation that will insure a steady inflow of foreign capital.

36. The development pattern that North Korea has laid out for itself during the Six-Year Plan continues the pattern of the late 1960s. As previously noted, gross industrial production is to continue to grow at 14% yearly, and investment during the six years is to exceed the amount expended during the previous ten years. Priorities will continue to favor the expansion of heavy industry even though the shares going to agriculture and transportation will be larger than during the previous plan. Investment is to concentrate on the early completion of several major projects now under way, make fewer new starts to reduce construction time, and emphasize projects in the sectors that may be potential bottlenecks.

37. North Korea has not announced any overall economic reports since 1970, but available information indicates that the general outlook for the economy over the next five years is good. North Korea has a small

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but strong industrial base and is not encumbered by a large foreign debt. Defense expenditures are high, but the relative burden on the economy has not increased in recent years. Finally, prospects for foreign aid for industrialization are at their best. To achieve its goals, P'yongyang must maintain its friendly relations with the USSR and avoid costly military buildups. Under these conditions, the economy should expand at much the same pace as in the past few years.

38. In sum, the continued emphasis on policies to overcome the original deficiencies in the respective economies suggests that the two Koreas will need each other even less in 1976 than they do today -- from the economic point of view. The separate international orientations developed over the past quarter of a century seem likely to continue; they underscore the position of North Korea as a largely self-sufficient "command economy" and the position of South Korea as a "market economy" with strong international ties.