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V. Foreign Trade and Soviet-Bloc Economic Assistance.

A. Foreign Trade.

1. General.

Due to the unbalanced nature of the North Korean economy and its integration first into the Japanese economy and now into the economy of the Soviet Far East, foreign trade is a significant aspect of the North Korean economic complex. Its significance is underlined by the large number of items which are surplus to the needs of the economy that can be traded for commodities in which the economy is deficient. In the period from 1946 to 1950 the major commodities exported by North Korea were pig iron, steel, nonferrous ores and metals, fertilizer, industrial chemicals, lumber, marine products, grains, and manufactured foods. The major imports were bituminous coal, petroleum, machinery, fabricated metal products, electrical equipment, salt, textiles, paper, pharmaceuticals, and armaments. ^{83/} Since 1950, North Korea's formal trade has been totally disrupted, exports have virtually ceased except for limited shipments of ores, and imports have been financed by loans or outright grants.

2. Trade with the USSR.

During the period from 1946 to 1950 the USSR was North Korea's most important trading partner, with value of trade increasing from \$13.9 million in 1946 to a planned \$17.1 million in 1950. Imports and exports between the two countries generally followed the above listing, with cereal grains, fertilizer and other chemicals, pig iron, and ingot steel accounting for more than half of the value of North Korean exports. Of the imports from the USSR, machinery and armaments constituted 50 percent by value, coal 10 percent, petroleum 10 percent, and technical services 10 percent to 20 percent. ^{84/} Details of Soviet-North Korean trade agreements are not known. Agreements were signed in 1949 and 1950 providing for Soviet shipments of equipment, machinery and parts, crude oil, locomotives, and cotton in exchange for North Korean metals and chemicals products. ^{85/} On 15 March 1954 a trade agreement was signed providing for resumption in 1954 of the former trade which was interrupted during the war. The Soviet-North Korean aid agreement of November 1953 is discussed below.

3. Trade with China.

Trade with China during 1946-48 was likewise important, but not of the magnitude of North Korean - USSR trade, trade value being on the order of about \$10 million in that period. North Korean exports included fertilizer, carbide, graphite, agricultural products, anthracite coal, sheet metal, marine products, and lumber. Imports from China included textiles, foodstuffs, and bituminous coal. Trade agreements with Manchuria (Communist China) were signed in 1948, but no details are known. During the war, trade with Communist China was in the form of Chinese aid. In September 1953, North Korea and Communist China held a trade conference wherein a barter agreement was proposed under which North Korea would supply local agricultural products for Chinese industrial products. It is not certain that this agreement was implemented. ^{86/} The Chinese Communist-North Korean aid agreement of November 1953 is discussed below.

4. Trade with European Satellites.

Little if any trade between North Korea and the European Satellites existed before 1952, and since then economic relations between the two have consisted mainly of Satellite aid. Trade agreements were reported concluded with Poland 87/ and Hungary, 88/ but no details are available.

5. Trade with the West.

During the period 1946-50 Hong Kong was North Korea's most important non-Communist trading partner and provided during this period key commodities not obtainable from the USSR. North Korea exported foodstuffs, fats and oils, metallic ores, textiles, chemicals and pharmaceuticals, fertilizers, and gold to Hong Kong. It imported textiles, paper, chemicals and pharmaceuticals, dyeing and tanning materials, rubber, machinery, vehicles and transportation equipment, electric and electronic equipment, glass, and petroleum products. 89/ During the pre-Korean War period, trade was also carried on with Macao, India, China, and other countries of Southeast Asia. Clandestine trade was carried on with South Korea and Japan.

Available evidence indicates that there has been little North Korean trade with non-Soviet Bloc countries since shortly after the start of hostilities. Many Western nations have imposed embargoes on such trade.

6. Balance of Payments.

Before 1950, North Korean trade was generally in balance, but since 1950, with complete disruption of trade, the country has an extreme negative trade balance. Little has been exported, but much has been imported. Partial rehabilitation of gold and silver mines has enabled the country to export these precious metals to help pay for some of the needed imports, and there has been some export of other products since the truce. Nevertheless, North Korea is heavily dependent on outright grants and loans from Soviet Bloc countries both to satisfy current needs and to effect reconstruction of the war-devastated economy over the next few years.

B. Soviet Bloc Economic Assistance.

1. General.

North Korea's recent foreign economic relations have been signified by grants in aid rather than by trade. As a result of this aid from the USSR, China, and the European Satellites, North Korea is beginning to show progress in its rehabilitation effort, but despite this aid rehabilitation of most major industrial installations is still in the initial stages and most major industrial facilities are inoperable. 90/ The aid program is interesting as an experiment within the Communist Orbit in a seemingly genuine and coordinated aid program. 91/ Apparently the USSR and Communist China are intent on reconstructing the North Korean economy more rapidly and efficiently - as an integral part of the Soviet Bloc - than the South Korean economy is to be reconstructed by US and UN aid.

2. Aid from the USSR.

Since 1949, aid from the USSR in the form of technical help, loans, and relief has been increasing and has largely taken the place of normal trade relations. In 1949 the USSR concluded a military treaty with North Korea, wherein the USSR agreed to supply all the necessary equipment and know-how for the establishment of 6 infantry division, 3 mechanized divisions, and 7 security force battalions; 92/ and by 1950 it was reported that the North Korean People's Army had been armed and equipped preponderantly with Soviet aid. 93/ In 1949 also, a 10-year Economic and Cultural Pact was signed between the two countries. In addition to providing for trade and cultural interchanges, supplemental agreements provided for Soviet aid to North Korea in the form of a \$40-million loan for the purchase of industrial equipment and raw materials, and in technical assistance for industry and agriculture. 94/ Although this aid was not particularly generous, it was, as far as the US embassy in Seoul knew, the only credit extended until 1953. In 1953 the largest manifestation of Soviet aid occurred, with a grant of one billion rubles (\$250 million), 50 percent of which was to be used for the build-up of military armament, 25 percent for light industry, and 25 percent for heavy industry. 95/ This grant was to be expended over a 3-year period, and there have been no promises of further aid.

Aid thus far arriving from the USSR has been consistent with that promised, with shipments including metals, machinery, electrical transportation and agricultural equipment, and chemical fertilizers.

3. Aid from Communist China.

No substantial amount of aid by Communist China to North Korea was provided before November 1953. In that month a 10-year cultural and economic cooperation agreement between the countries was announced. Three important sections of this agreement provided: (1) that any indebtedness incurred by North Korea to Communist China between 25 June 1950 and 31 December 1953 was to be considered a grant, with no remuneration required; (2) that China was to extend a grant of the equivalent of \$350 million over the 4-year period 1954-57, to be used for coal, cement, clothing, machinery, textiles, metal products, transportation and agricultural equipment, and food; and (3) that China was to provide technical aid, both in personnel in the field and in training in China for Korean students.

It is interesting to compare the aid agreements of the USSR and of Communist China with North Korea. 96/ The value of Chinese aid is larger than that granted by the USSR in 1953. Both countries will supply consumer goods, but the main Soviet contribution is in heavy industrial goods, while the Chinese will supply mainly transportation, light industrial, and raw material items.

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Whether the Chinese can provide the large amount of aid scheduled in the face of their own pressing economic development and industrialization is open to question. It is significant, however, that substantial implementation of this aid took place in January and February 1954, with textiles, grain, shoes, coal, cement, and railroad equipment as well as technicians and laborers, the main items, arriving in North Korea. Sizable shipments of food also arrived in March 1954, but it remains to be seen whether China can deliver the badly needed 130,000 tons of food promised for 1954.

4. Aid from European Satellites.

Although some examples of Satellite aid to North Korea during 1950 and 1951 are available, not until 1952 when East Germany concluded a loan agreement, and the last quarter of 1953, when other Satellites signed aid agreements for the reconstruction and development of North Korea at the instigation of the USSR, was substantial aid forthcoming from the Satellites.

The total value of these Satellite aid programs concluded between September and November 1953 is expected to be about \$250 million. They consist mainly of heavy construction programs aimed at North Korean rehabilitation, and extend in some cases to 1959. 97/ Generally the agreements by the various countries were to provide the following: 98/ Czechoslovakia is to construct factories, including an auto works, and auto parts and tool factories, and is to rehabilitate a cement works and three power generating stations. Poland is to construct a locomotive repair works and passenger and freight car works, and is to renovate three coal mines and provide other material and technical aid. Hungary is to construct a production workshop, organic chemical works, and a machine factory, as well as supply machinery and technical aid. East Germany, in addition to supplying the industrial equipment called for in the 1952 agreement, is to construct a diesel engine plant, an electrical equipment factory, and a publishing and printing plant between 1954 and 1956. Rumania is to construct a new cement factory, a new acetylene factory, and the facilities for manufacturing bricks, as well as providing some transportation equipment. Bulgaria is to provide between 1954 and 1956 various goods including cotton yarn, cotton fabrics, and canned food; and Albania and Mongolia are to provide unspecified items.

The Satellites have sent limited quantities of aid during the first few months of 1954, including horses, farm implements, and various types of machinery, textiles, shoes, and medicine. Czechoslovakia has sent the largest number of technicians, but some have also arrived from Poland, Hungary, Bulgaria, and possibly East Germany. As most of the Satellite aid programs are long-range, it will be some time before actual implementation can be observed.

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VI. Comparison of Economic Activity in North and South Korea.

A. Dependence of North and South Korea on Foreign Economic Assistance.

Since the surrender of Japan in 1945 and the withdrawal of Japanese administrators and technicians, both North and South Korea have been dependent on outside assistance in support of their industrial and governmental base. In North Korea this assistance has come primarily from the USSR, as outlined in the preceding sections. In South Korea, the US has been the primary assistor, with aid concentrated primarily in the welfare and social sectors.

Before the Korean War, North Korea was able to pay her way in the economic sector with exports of metallic ores and the like. South Korea, predominantly agricultural, with little to export, was required to accept US grants in aid. It is estimated that through June 1954 the US will have given the Republic of Korea almost \$1.4 billion, exclusive of direct costs of the US war effort in Korea and US support of the Republic of Korea Army (ROKA). 99/

During and since hostilities both nations have been alike in their positive requirement for foreign assistance. Assistance to North Korea has come from many of the Soviet Satellites as well as from the USSR and Communist China, and South Korea has been assisted by the US and by other countries of the West through the UN. However, the US continues to carry the heavy share of the aid. Of the approximately US \$444.5 million UNKRA aid grants received by September 1953, the US government and private agencies supplied over 95 percent. 100/ Since 1953 (that is, fiscal year 1954), in addition to the US \$30 million contributed to UN funds for Korean Relief and Reconstruction, and funds for support of the Republic of Korea Army, the US has allocated about US \$290.1 million through the FOA program for Korean reconstruction and the Department of the Army. 101/

Over-all, foreign reconstruction assistance monetarily since 1950 has been much greater to South Korea than to North Korea. More important than the amount of aid granted, however, are the programs for the use of this aid. Aid to North Korea has been primarily for use in capital construction, with imports of consumer goods and the welfare of the population receiving only a secondary share. The USSR, controlling Soviet Bloc aid, allocates its use in integrating the reconstruction program into Bloc economic plans, with the objective of eventually making North Korea a part of the Bloc industrial base.

In South Korea, on the other hand, foreign assistance has supported an objective directed primarily toward developing a viable, independent economy, raising the standard of living of the people, countering inflationary pressures, and maintaining an adequate military force for defense of the country. The US and UN in granting the aid do not have unilateral control of funds but share control with the Republic of Korea through the Combined Economic Board. This fact, and South Korean governmental policies, have resulted in some inefficient use of foreign aid, and even if South Korean production can return to the 1949-50 levels within five years, 102/ it will require policy changes within the South Korean government to effect economic independence and stability.

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