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**DIRECTORATE OF  
INTELLIGENCE**

# Intelligence Memorandum

*North Korea: Imports of Whole Industrial Plants  
for the Six-Year Plan*

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
April 1972

INTELLIGENCE MEMORANDUM

**NORTH KOREA:  
IMPORTS OF WHOLE INDUSTRIAL PLANTS  
FOR THE SIX-YEAR PLAN**

Summary

1. North Korea has been actively seeking whole plants from its major trading partners to implement the goals of the Six-Year Plan (1971-76). Since January 1970, known purchases from the USSR, Eastern Europe, and the Industrial West<sup>(1)</sup> have totaled 48 plants. The 15 plants from the Industrial West are valued at about \$75 million. In addition, the People's Republic of China (PRC) has extended economic assistance to North Korea that probably includes whole plants. Negotiations are currently under way with business firms in Western Europe and Japan for an additional 13 whole plants valued at about \$200 million. During the Six-Year Plan, North Korea may well exceed the previous peak level of whole plant imports set in the late 1950s when the USSR and China were underwriting North Korea's reconstruction efforts.

2. These plants are designed primarily to boost production of iron and steel, petroleum products, electric power, machine tools, and other heavy industrial products. The plant expansion also aims at expanding exports and at reducing dependence on imports. For example, the metallurgical projects will eventually increase production of commodities that already account for more than 40% of North Korea's exports. The oil refinery and the petrochemical complex, on the other hand, will substitute domestically produced goods for imports.

3. The success of this program to import whole plants stems from the willingness of North Korea's major trading partners to provide credit. For the first time since 1961, both Soviet and Chinese financial aid is available for major plant purchases. Moreover, North Korea has been able

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1. Throughout this memorandum, the term Industrial West refers to Japan, Western Europe, Australia, and Canada.

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

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to secure credits from Western Europe for almost all major contracts. Japan is the only exception. Pressure from South Korea has so far prevented any major Japanese concessions on credits to P'yongyang.

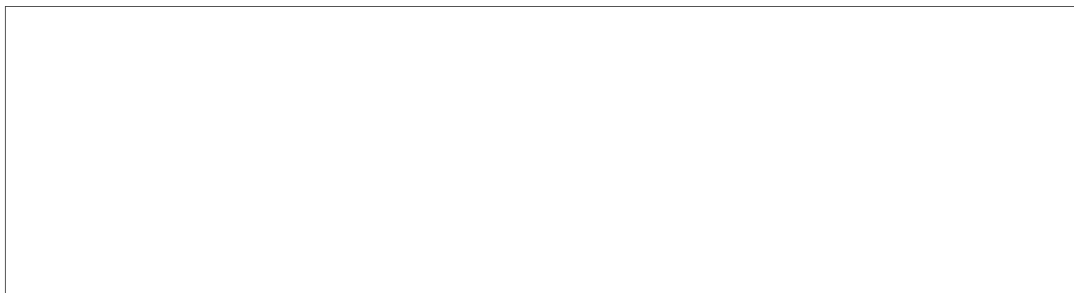
### Discussion

#### Background

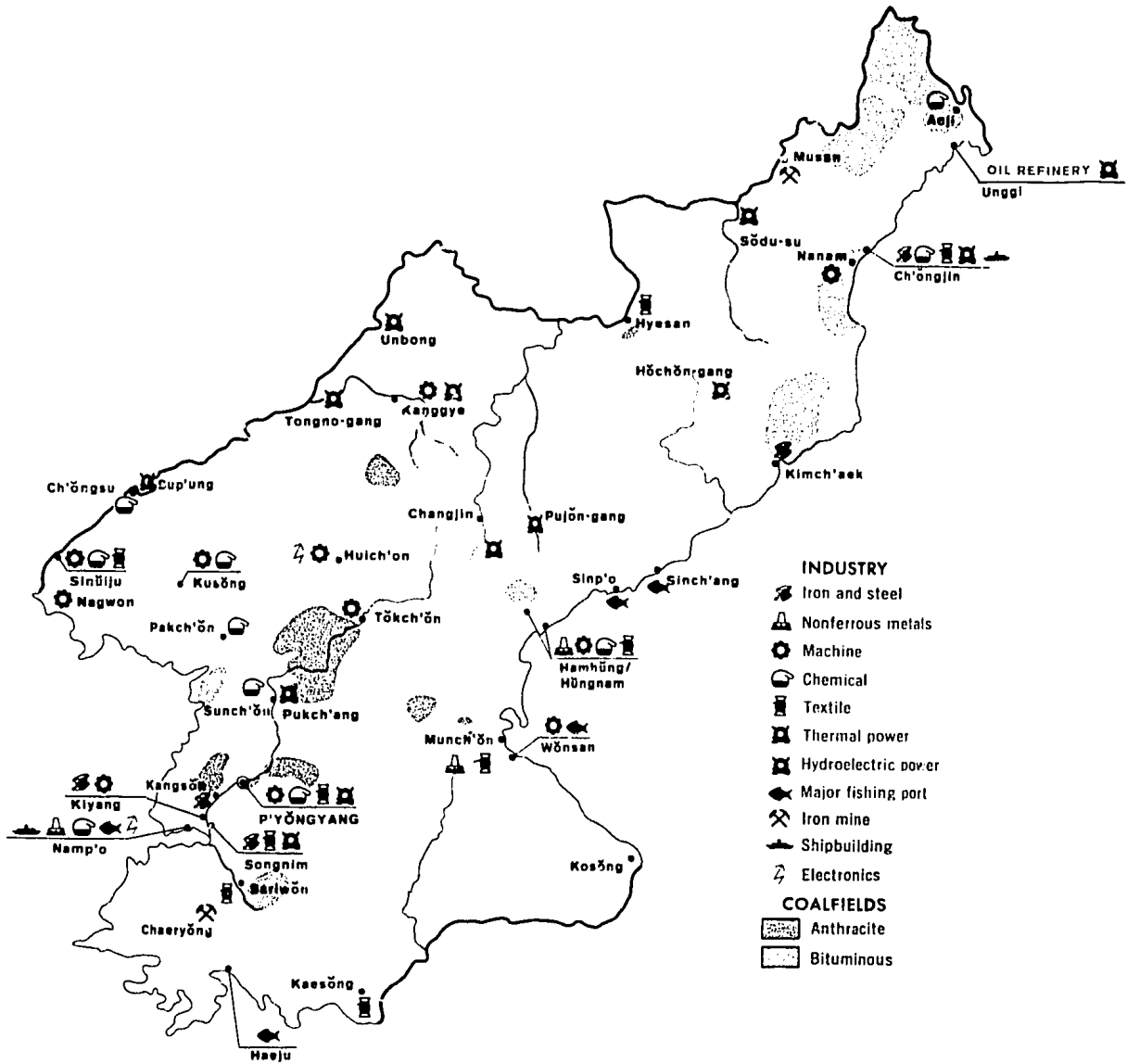
4. During the post-Korean War reconstruction era, North Korea imported a wide variety of industrial plants from its Communist allies under economic assistance agreements. As a result, the North Korean economy recovered rapidly. During 1954-60, industrial production increased ninefold, and by 1960 the output of most commodities had regained the peak levels attained under the Japanese in 1944. During 1961-66, however, North Korea's vacillating position in the Sino-Soviet dispute alienated both the USSR and China. The resulting drop in assistance was a major factor in the stretching out of the Seven-Year Plan (1961-67) by three years to 1970.

5. Late in 1966, North Korea renewed its drive to increase imports of whole plants and thereby improve industrial performance.<sup>(2)</sup> First, Soviet project assistance was restored after the Soviet-North Korean rapprochement. During 1968-70, Soviet credits permitted North Korea to finance a cumulative trade deficit with the USSR of \$212 million. Second, North Korea began negotiations with the Industrial West to import machinery and equipment, including whole plants. Because of Western credit restrictions, North Korea had little success in purchasing whole industrial facilities from Japan and Western Europe. However, substantial purchases of machine tools and other categories of machinery were made. The renewed wave of Soviet project assistance together with the Western machinery enabled North Korea to fulfill major industrial goals of the Seven-Year Plan in 1970.<sup>(3)</sup> (For the geographical distribution of North Korea's industrial and mining activity, see the map).

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### NORTH KOREA: Industrial Activity



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Recent Interest in Whole Plants

6. Imported industrial plants will again figure prominently in North Korea's quest for industrial expansion under the new Six-Year Plan (1971-76). Since 1970 North Korea has signed numerous agreements and contracts for whole plants, and negotiations continue for additional industrial facilities, as shown in the tabulation.

	<u>Number of Plants</u>	
	<u>Purchased</u>	<u>Under Negotiation</u>
USSR	28	0
Industrial West	15	13
Eastern Europe	5	N.A.
China	N.A.	N.A.
<i>Total (minimum)</i>	<i>48</i>	<i>13</i>

7. The USSR continues as the major source of supply. Moscow has announced that it is supplying 28 plants over the next several years, which is eight more than it supplied during the 1960s. The East European countries, on the other hand, are only supplying a few plants to North Korea. Single-plant contracts with Poland and with Bulgaria are probably being financed under current account. Romania is reported to be supplying the complete equipment for at least three plants - in the metallurgical, machine building, and building materials industries.

8. For the first time since the early 1960s, China is providing substantial project assistance to North Korea. Under agreements signed in October 1970 and August 1971, China extended economic aid to North Korea's Six-Year Plan.

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9. North Korea has also made substantial purchases of whole plants from the Industrial West. Contracts for plants costing about \$75 million have already been signed, and negotiations for about \$200 million in additional whole plants are currently under way. Negotiations for the purchase of Western plants have typically been long and difficult.

  
Financial Considerations

10. The success of P'yongyang's efforts to buy foreign plants has depended on the availability of credit. In the past, the availability of Soviet and Chinese loans fluctuated with the changing political climate while the North's bellicose attitude toward South Korea inhibited financial arrangements with the West. In recent years, however, North Korea's persistent efforts to expand trade ties and its more flexible posture in a changing international environment have paid off in greater access to credit.

11. Economic aid is financing the bulk of North Korea's imports of whole industrial plants from other Communist countries. North Korea has secured credits from both the USSR and China by observing a neutral policy in the Sino-Soviet dispute. P'yongyang realizes that any imbalance in this policy would tend to affect its aid receipts. Any cutoff in economic assistance -- but especially the assistance from the USSR -- would quickly affect the tempo of North Korea's economic development as it did during the last decade.

12. North Korea's credit position in the Industrial West has improved dramatically. Since the late 1960s, West European firms have been seeking ways to finance North Korea's plant purchases; only recently have they had much success. For instance, in 1971, France issued government guarantees of \$40 million for the North Korean purchase of a petrochemical complex. Other West European countries have either already issued guarantees or have expressed a willingness to do so. In some other recent negotiations, North Korea has been able to make credit arrangements with Communist-owned banks in the West. For example, in 1971, the USSR's Paris-based Banque Commercial pour l'Europe du Nord (BCEN) agreed to purchase North Korean five-year promissory notes for heavy industrial equipment.

13. Japan, on the other hand, has been unwilling to provide government credits or guarantees. Premier Sato has resisted the pressures to extend export-import credits that followed the visit by a delegation of Japanese Dietmen to North Korea in January 1972. Tokyo does not want to risk Japan's investment and trade dealings with South Korea, which outweigh the conceivable gains from increased trade with North Korea. Nonetheless, the Japanese can be expected to move slowly to improve trade relations with North Korea. Japanese government officials have stated that credits will be studied on a case-by-case basis and may be issued for non-military facilities.



Main Areas of Industrial Expansion

14. The whole plants known to have been purchased or still under negotiation are listed in Appendixes A and B. These purchases and negotiations indicate that North Korea is continuing to emphasize the development of heavy industry and is also interested in reducing its dependence on imports and in improving export capabilities. Only a few plants to produce such light industrial goods as paper, shoes, textiles, and leather are known to have been considered. The following tabulation summarizes, by type of industry, North Korea's recent purchases of, and negotiations for, whole plants.

<u>Type of Industry</u>	<u>Number of Plants</u>	
	<u>Purchased</u>	<u>Under Negotiation</u>
Petroleum	1	0
Petrochemical	3	1
Metallurgy	6	1
Machine building	7	1
Electric power	4	0
Other	12	10
Unspecified	15	0
<i>Total (minimum) a/</i>	<i>48</i>	<i>13</i>

a.

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15. Of the 48 plants purchased, the oil refinery from the USSR and the petrochemical complex from the Industrial West are the most significant. The cost of the Soviet equipment and technical assistance for North Korea's first oil refinery at Unggi, based on US equipment costs of similar capacity, is estimated at \$40 million.<sup>(4)</sup> The plant is scheduled to process 2 million tons of imported crude oil into various petroleum products including aviation fuels and lubricants and to provide raw materials for the petrochemical complex. The \$52 million petrochemical complex - which is being supplied by a West European consortium - is the most expensive single Western project ever purchased by any Far Eastern Communist country, including China. The three plants in the complex will be able to produce a wide range of petroleum derivatives, notably synthetic fibers, plastics, insecticides, and chemical intermediaries. Since North Korea has

4. Throughout this memorandum, the cost of the whole plants represents only the foreign exchange cost of the equipment and technology.

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been importing sizable quantities of these products, considerable foreign exchange should be saved when these plants are in operation.

16. Included in the major purchases are at least six metallurgical plants;  Contracts have been signed to import a tin processing plant from Austria, a pipe rolling mill from Japan, and an aluminum plant from the USSR, and negotiations for a British lead-zinc plant are in the final stages. In addition, the import of two Soviet rolling mills and continuous casting equipment is designed to more than double production of rolled steel. Because ferrous and nonferrous metals account for more than 40% of total exports, these plants should generate additional foreign exchange earnings.

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17. Machine building is a third branch of industry emphasized by North Korea in its search for foreign technology. Under the Soviet assistance agreement, the USSR will supply plants to produce automobile batteries, bearings, machine tools, micrometers, and railroad cars. The output of these plants will be exported to the USSR as repayment, thus guaranteeing a foreign market for some of the added production. The sole major machine building project under consideration with the Industrial West is a \$110 million motor vehicle plant from Japan. Negotiations for this facility are only in the beginning stages and will require lengthy discussions. At the moment, the outlook does not appear too promising for this purchase during the Six-Year Plan.

18. North Korea is also importing thermal electric power equipment as part of its program to achieve better balance in its thermal and hydro power supplies. The equipment is being imported from the USSR for the expansion of the Pukch'ang Thermal Powerplant (from about 200 to 1,200 megawatts - MW) and for the construction of the Ch'ongjin Powerplant (400-600 MW) and the Unggi Powerplant (100 MW). The only known purchase of hydroelectric equipment is from Austria and West Germany for the long-delayed Sodu-su Hydroelectric Powerplant (100-110 MW). These four plants will account for approximately three-fourths of the 2,200 MW in additional electric generating capacity planned for 1976.

19. A wide range of additional facilities have either been purchased or are being seriously considered. The 12 other identified plants that have been purchased include six chemical plants, a magnesia clinker plant, and industrial facilities to produce building materials, shoes, and textiles and to process fruit and leather. Of the 10 other plants under negotiation in the Industrial West, a television plant, and a paper complex are the most important. The contract for the television plant is awaiting credit financing



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with Japan. The paper complex under negotiation with a Finnish firm, if purchased, will cost about \$40 million and will be constructed underground.

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Perspectives

21. Whole plant purchases will play a major role in North Korea's industrialization program throughout the Six-Year Plan. A growth rate of 14% in gross industrial production is planned, the same as that achieved during 1968-70. Moreover, North Korean officials have stated that the new plan may be completed one year ahead of schedule. Given the limitation in domestic machine building capabilities, imported machinery and equipment, especially whole plants, will be the crucial element in achieving North Korea's industrial goals.

22. Among the ambitious goals are the substantial expansion of capacity in metallurgy, electric power, chemicals, and machine building. These fields are precisely the ones for which North Korea has purchased whole plants from its major trading partners. In addition, unlike the preceding Plan, North Korea's Six-Year Plan will receive a significant boost to productive capacity and technological capabilities from the advanced equipment embodied in the whole plants to be supplied by the Industrial West.

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