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## **Special Feature: The North Korean Economy, Past and Present**

# **The Position of North-South Trade in the North Korean Economy\***

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## **Introduction**

This article examines the significance of trade and other economic exchanges with the Republic of Korea (“South Korea” or “the South”) for the economy of the Democratic People’s Republic of Korea (“North Korea” or “the North”) and the position those exchanges occupy in the North’s economy. (The term “North-South trade” is used because inter-Korean trade constitutes a special relationship which is not officially between two states. Similarly, exports and imports are referred to as “outbound” and “inbound.” I will use these three terms in this article.)

In previous studies, Miyamoto (2008) has shown that North-South trade is influenced not only by the political situation in the two Koreas, but also by trends in the South Korean economy, an influence that is especially marked in general commerce. Kamisawa (2010) characterizes North-South trade in terms of the North’s trade surplus structure, its high level of dependence on North-South trade,<sup>1</sup> and the fact that trade is easily affected by the political situation. These are important points that must form part of our basic understanding with regard to the nature of North-South economic exchanges, which I discuss in the next section. Also, South Korean researcher Choi Soo-young (2010) has made a comparative analysis of the effect on North Korea of its trade with South Korea and with China; he takes a similar approach to my own in this article, and his work provides much food for thought. The present study seeks to take these analyses a step further by processing the North-South trade statistics into subcategories instead of discussing trade in terms of its total value as has been the tendency to date, especially in Japan, and by examining the data on the basis of these subcategories.

Before analyzing the statistics, I will first discuss the nature of North-South economic exchanges, focusing on their history and periodization and their impact on North Korea. I will then identify and resolve several issues involved in handling North-South trade statistics, and finally will examine the meaning and position of North-South trade for North Korea.<sup>2</sup>

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# **I. The Nature of North-South Economic Exchanges**

## **1. The Original Historical Circumstances**

The Republic of Korea (ROK) and the Democratic People's Republic of Korea (DPRK) came into being in 1948 in the south and north of the Korean Peninsula, respectively, after a series of events including Allied occupation in the aftermath of Japan's defeat, and the outbreak of the Cold War. The structure in which North and South are rivals for legitimacy and effective control remains in place today. As the Korean War (1950-53) became a proxy war between East and West, followed by years of Cold War tensions, relations were such that Pyongyang and Seoul could not even hold formal talks, but with détente between Washington and Moscow and improving US-China relations the first contacts were made between the Red Cross Societies of the North and the South in August 1971. The two governments issued a joint communiqué on July 4, 1972, but relations remained difficult on both the political and military fronts.

Posting steady economic growth in the '70s and '80s, South Korea was chosen to host the Asian Games in 1986 and the Seoul Olympics in 1988. On July 7, 1988, on the eve of the Olympics, President Roh Tae-woo issued a Special Presidential Declaration for National Self-Esteem, Unification, and Prosperity (the July 7th Declaration), calling for increased economic, cultural, and scientific exchanges with the North and an end to diplomatic confrontation. The first inter-Korean summit meeting of heads of government was held in Seoul in September 1990. Further summits took place in 1990 and 1991, in Pyongyang in October and Seoul in December. At the fifth summit, it was decided to conclude a basic agreement between North and South. This series of meetings took place at a time when socialist governments were falling in quick succession in the Soviet Union and Eastern Europe.<sup>3</sup>

Economic contacts and cooperation between North and South started in 1989, and from their beginnings they can be said to have been predicated on the political and economic superiority of South Korea (which was equated with victory in the rivalry between regimes) and to have been designed to allow the South to guide North-South relations. Such a premise was difficult for North Korea to accept, since it did not concede defeat in the rivalry. As the North-South standoff continued, it remained impossible to utilize the North-South Basic Agreement to the full.

When Kim Dae-jung became President of the ROK in 1998, he adopted a policy of pursuing improved relations, known as the Sunshine Policy. On June 13-15, 2000, he held summit talks in Pyongyang with Kim Jong-il, Chairman of North Korea's National Defense Commission (NDC), which resulted in a North-South Joint Declaration.<sup>4</sup> This declared institutional support for economic contacts by the North and South Korean governments rather than the private sector alone, and from that point on the two governments became quite extensively involved in North-South economic exchanges.<sup>5</sup>

## **2. The Periodization of North-South Economic Exchanges**

The development of North-South exchanges and cooperation can be divided into periods in several different ways. Since it is not my purpose here to examine this question, for convenience I will adopt Choi Soo-young's (2010) periodization of North-South economic exchanges.

Choi's study classifies North-South economic exchanges into three periods: (1) the search for a way forward, 1989-1997; (2) promotion and expansion, 1998-2007; (3) stagnation, from 2008 onward. In this very simple classification, the first period extends from the start of economic exchanges, as described in the previous section, to the end of the Kim Young-sam administration; the second corresponds to the administrations of Kim Dae-jung and Roh Moo-hyun, and the third to that of Lee Myung-bak. Although Choi's analysis extends only to the year of its publication, 2010, the years 2011 and 2012 can also be seen

to belong to the third period, as can readily be inferred from the trade data to be discussed later.

### **3. North-South Economic Exchanges from North Korea's Point of View**

As discussed in II-1, the South's confidence in its growing economic power and international status and the historical turning point marked by the end of the Cold War were major factors behind the opening of North-South economic exchanges. From the North's perspective, however, the same situation could be called a tragedy and a threat to national survival; that is, it could be viewed in terms of economic and diplomatic weakness in the competition between the two systems, and the collapse of the socialist bloc and loss of the socialist international market that had supported North Korea since its founding. Thus, given a relationship that is "not being a relationship between states, ... a special interim relationship stemming from the process towards reunification" (to quote the preamble to the Basic Agreement), although North-South economic exchanges could be said to have the aim of peaceful coexistence and economic prosperity, the North is in a position where it must be constantly on its guard against political risks even as it enjoys economic benefits.<sup>6</sup> Accordingly, trends in North-South economic exchanges are not determined solely by economic rationality. Indeed, as previous studies have shown, these trends tend to be extremely sensitive to current events in the arenas of North-South politics, military relations, and diplomacy.

## **II. The Structure and Nature of North-South Trade Statistics**

### **1. The Sources of North-South Trade Statistics and the Problems Involved**

South Korea releases statistics on North-South trade in various publications of its Ministry of Unification; in particular, the monthly "The South-North Exchange & Cooperation Trend" provides statistics with a certain degree of continuity. North Korea, however, does not make the trade figures public. Accordingly, the analysis in this article is based entirely on data published by the South Korean Ministry of Unification.

Unlike normal trade statistics, North-South trade figures include not only ordinary trade and processing-on-commission trade, but also economic cooperation projects (tourism to Mount Kumgang and Kaesong, and the Kaesong Industrial Complex), and assistance or aid to the North. The total annual (or monthly) value of trade listed in the statistics thus includes some items that do not normally form part of bilateral trade figures. Hence, when comparing North Korea's trade with other countries such as Japan or China to its trade with the South, we must, at the very least, exclude the value of aid.

Another problem inherent in North-South trade statistics is the fact that past statistics do not fit neatly into the present categories because, as they grew, North-South economic exchanges extended in scope from simple trade to encompass processing-on-commission trade, economic cooperation, and aid to the North.<sup>7</sup> Ideally, the Ministry would take these problems into account and provide back-compatible detailed figures, but such data are not available at present.<sup>8</sup> Also, since the mid-1990s South Korea has provided large amounts of aid to the North in certain years, and in some of these instances the grant of aid and the amounts involved have been announced but not included in the trade statistics. As a result of these inconsistencies, North-South trade statistics can be difficult to use as chronologically meaningful figures unless they are appropriately processed.

### **2. Division of the Statistics into Categories**

The North-South trade statistics can be broadly divided into commercial and noncommercial transactions. Commercial transactions include general trade (buying and selling), processing-on-commission trade, and economic cooperation (tourism, Kaesong Industrial Complex, and other cooperation

projects), while noncommercial transactions currently include grant aid from the South to the North and social and cultural cooperation.

Thus, in order to generate figures that are equivalent to general trade statistics, among the existing categories only commercial transactions should be used. (Among the categories in earlier use, general trade, processing-on-commission trade, and the figures for cooperation projects, excluding aid, should be used.)

Since 2008, as general trade and processing-on-commission trade have declined, the statistics have come to consist almost entirely of economic cooperation, particularly the figures for Kaesong Industrial Complex. The value of Kaesong Industrial Complex-related trade is characterized by the fact that in the years when major construction was carried out, cross-border movements of construction equipment (motor vehicles, heavy machinery, and construction machinery) were counted repeatedly.<sup>9</sup> In reference to Kaesong Industrial Complex projects, we therefore need data separate from those for general and processing-on-commission trade, and in fact such statistics have been published.

### **3. The Value and Item-by-Item Characteristics of General and Processing-on-Commission Trade**

Table 1 shows the scale of annual North-South trade. Taking general trade first, we find that this initially made up most of the total. Viewed item by item, until the mid-1990s the main goods entering South Korea were iron, steel, and metal products, especially zinc ingots, gold ingots, steel billets, and other refined metals. From 1999 onward, agricultural, forestry and fishery products made up the largest share. This is chiefly attributed to the decline of the North Korean economy, especially heavy and petrochemical industries, in the economic crisis that began in the mid-1990s. The declining share of textiles, which ranked first during the 1990s, is probably due to the general adoption of processing-on-commission trade, with textile production largely being subsumed under this category. For electronics, electrical goods, and machinery, de facto processing-on-commission trade or supply of semi-manufactured goods and parts is thought to account for the major share.

Looking at processing-on-commission trade item by item, we see that since the statistical breakdown became available, textiles were consistently the main inbound and outbound item, while electronics and electrical goods ranked second almost every year. The third and lower places are mainly occupied by domestic supplies and agricultural, forestry, and fishery products. Although I have not shown the actual figures, textiles account for at least 60 percent of both inbound and outbound value (peaking at around 80 percent). Apparel accounts for most of the processing-on-commission trade between North and South Korea, followed by agricultural products and electronic components. In these labor-intensive fields, there is a complementary relationship between North and South which makes such arrangements commercially viable. Thus, in the absence of government restrictions (such as the economic sanctions imposed by Lee Myung-bak), the tendency to shift production to areas with lower unit manufacturing costs, especially labor costs, is expressed in the economic relations between North and South Korea, and an upward trend can be seen in processing-on-commission trade (together with purchases of North Korean-made goods as part of general trade).<sup>10</sup>

### **4. The Problem of Exclusion of Noncommercial Transactions**

In Table 1, some entries are listed as noncommercial transactions; these consist mostly of South-to-North aid, and the sums are predominantly listed as “outbound.” When construction of Kaesong Industrial Complex commenced in the late 1990s, as the figures in categories related to the Industrial

Complex became larger, economic cooperation projects came to be classified as commercial transactions, while aid to the North and social and cultural cooperation remained as noncommercial transactions. Accordingly, North-South trade can be treated as equivalent to trade with other countries only after these noncommercial transactions have been excluded.

Table 1. Scale of Annual North-South Trade (Unit: thousand US dollars)

Table 1: Volume of Annual North-South Trade (Unit: thousand US dollar)									
Year	Total	Inbound					Noncommercial Transactions		
		Subtotal	Commercial Transactions			Economic Cooperation			
			General Trade	Processing Trade			Kaesong Industrial Complex	Total	Assistance
1989	18,655	18,655	18,655	0	0	0	0	0	0
1990	12,278	12,278	12,278	0	0	0	0	0	0
1991	105,719	105,719	105,719	0	0	0	0	0	0
1992	162,863	162,863	162,225	638	0	0	0	0	0
1993	178,167	178,167	175,181	2,985	0	0	0	0	0
1994	176,298	176,298	161,977	14,321	0	0	0	0	0
1995	222,855	222,855	201,681	21,174	0	0	0	0	0
1996	182,400	182,400	146,161	36,238	0	0	0	0	0
1997	193,069	193,069	150,175	42,894	0	0	0	0	0
1998	92,264	92,264	50,787	41,371	105	0	0	0	0
1999	121,604	121,604	67,746	53,736	122	0	0	0	0
2000	152,373	152,373	78,551	71,966	1,856	0	0	0	0
2001	176,170	176,170	100,897	72,579	2,694	0	0	0	0
2002	271,575	271,575	167,400	102,789	1,387	0	0	0	0
2003	289,252	289,252	177,443	111,639	170	0	0	0	0
2004	258,039	257,994	150,117	107,746	131	52	45	0	45
2005	340,281	341,140	188,916	131,226	19,998	19,794	61	61	0
2006	519,539	517,952	281,952	159,387	76,613	75,943	32	32	0
2007	765,346	764,063	441,244	204,519	118,300	101,179	1,283	16	1,267
2008	932,250	930,983	366,446	257,345	307,192	290,103	1,267	0	1,267
2009	934,251	934,245	245,194	254,044	435,007	417,935	6	4	2
2010	1,043,928	1,043,638	111,423	222,505	709,710	705,268	290	0	290
2011	913,663	912,876	227	3,704	908,945	908,935	787	756	31
2012	1,073,952	1,073,952	843	0	1,073,109	1,073,109	0	0	0

Year	Total	Outbound							
		Subtotal	Commercial Transactions				Total	Noncommercial Transactions	
			General Trade	Processing Trade	Economic Cooperation	Kaesong Industrial Complex		Assistance	Other
1989	69	69	69	0	0	0	0	0	0
1990	1,188	1,188	1,188	0	0	0	0	0	0
1991	5,547	5,547	5,547	0	0	0	0	0	0
1992	10,563	10,563	10,363	200	0	0	0	0	0
1993	8,425	8,425	4,402	4,023	0	0	0	0	0
1994	18,249	18,249	6,906	11,343	0	0	0	0	0
1995	64,436	64,136	39,717	24,718	0	0	0	0	0
1996	69,639	69,639	31,474	38,164	0	0	0	0	0
1997	115,270	106,881	23,844	36,175	46,862	0	8,389	8,389	0
1998	129,679	94,099	21,914	29,617	42,568	0	35,580	35,447	133
1999	211,832	128,894	21,670	45,883	61,341	0	82,938	82,938	

Year	Outbound								
	Total	Commercial Transactions					Noncommercial Transactions		
		Subtotal	General Trade	Processing Trade	Economic Cooperation		Total	Assistance	Other
						Kaesong Industrial Complex			
2000	272,775	156,585	31,978	57,224	67,383	0	116,190	116,190	0
2001	226,787	112,746	10,492	52,345	49,909	0	114,041	114,041	0
2002	370,155	154,919	4,382	68,388	82,149	0	215,235	215,235	0
2003	434,965	164,315	46,227	73,370	44,718	0	270,650	270,650	0
2004	439,001	180,527	21,673	68,213	90,641	41,634	258,474	258,470	4
2005	715,472	619,848	209,777	78,503	157,914	156,943	366,000	364,977	1,023
2006	830,200	621,848	304,130	93,571	224,147	222,853	421,000	419,224	1,776
2007	1,032,550	594,606	20,165	125,393	449,048	339,498	367,000	326,977	40,023
2008	888,117	768,828	32,985	150,965	584,878	518,342	108,000	67,060	40,910
2009	744,830	707,878	10,946	155,670	541,262	522,617	36,952	36,375	577
2010	868,321	845,560	6,243	95,054	744,263	737,588	23,062	23,062	0
2011	800,192	789,454	0	0	789,454	788,698	10,738	10,640	98
2012	897,153	892,978	0	0	892,978	892,120	9,064	9,064	0

Year	Inbound and Outbound								
	Total	Commercial Transactions					Noncommercial Transactions		
		Subtotal	General Trade	Processing Trade	Economic Cooperation		Total	Assistance	Other
						Kaesong Industrial Complex			
1989	18,724	18,724	18,724	0	0	0	0	0	0
1990	13,466	13,466	13,466	0	0	0	0	0	0
1991	111,266	111,266	111,266	0	0	0	0	0	0
1992	173,426	173,426	172,588	838	0	0	0	0	0
1993	186,592	186,592	179,583	7,008	0	0	0	0	0
1994	194,547	194,547	168,883	25,664	0	0	0	0	0
1995	287,291	287,291	241,398	45,892	0	0	0	0	0
1996	252,039	252,039	177,635	74,402	0	0	0	0	0
1997	308,339	299,950	174,019	79,069	46,862	0	8,389	8,389	0
1998	221,943	186,363	72,701	70,988	42,673	0	35,580	35,447	133
1999	333,437	250,498	89,416	99,619	61,463	0	82,938	82,938	0
2000	425,148	308,958	110,529	129,190	69,239	0	116,190	116,190	0
2001	402,957	288,916	111,389	124,924	52,603	0	114,041	114,041	0
2002	641,730	426,494	171,782	171,177	83,536	0	215,235	215,235	0
2003	724,217	453,567	223,670	185,009	44,888	0	270,650	270,650	0
2004	697,040	438,521	171,790	175,959	90,772	41,686	258,519	258,470	49
2005	1,055,754	960,988	398,693	209,729	177,912	176,737	366,061	365,038	1,023
2006	1,349,739	1,139,800	586,082	252,958	300,760	298,796	421,032	419,256	1,776
2007	1,797,896	1,358,669	461,409	329,912	567,648	440,677	368,283	326,993	41,290
2008	1,820,366	1,699,811	399,431	408,310	892,070	808,445	109,267	67,060	42,207
2009	1,679,082	1,642,123	256,140	409,714	976,269	940,552	36,958	36,379	579
2010	1,912,249	1,889,198	117,666	317,559	1,453,973	1,442,856	23,352	23,062	290
2011	1,713,855	1,702,330	227	3,704	1,698,399	1,697,633	11,525	11,396	129
2012	1,971,105	1,966,930	843	0	1,966,087	1,965,229	9,064	9,064	0

Source: “The South-North Exchange & Cooperation Trend” of the Ministry of Unification, Republic of Korea

Note: In the shaded areas, figures published for individual categories and totals are not compatible. The unshaded areas are figures published for individual categories.



### **III. North-South Trade from North Korea's Viewpoint**

#### **1. Composition of North Korea's Trade Partners, and Ratio of Trade with the South to All North Korea's Foreign Trade**

The Soviet Union was by far the most dominant of North Korea's trade partners from the mid-1980s until 1990, while its socialist regime and those of Eastern Europe were strong and they provided a socialist international market. In the post-Soviet era, by the time North Korea began to show signs of recovery from serious economic crisis in the second half of the 1990s, China ranked first, Japan second, and South Korea third among its trade partners. As Japanese trade with North Korea has declined since their first bilateral summit meeting in 2002, due to the abduction issue, the Chinese and South Korean shares have risen, as can be seen in Tables 4 and 5.

Since the turn of the 21st century, and especially since 2003, China's share of North Korea's foreign trade has rapidly increased. While China and South Korea now account together for the vast majority of the North's trade (i.e., North Korea clearly depends on these two trade partners), China is by far the dominant partner, with a share of over 70 percent of the North's total foreign trade. South Korea's share falls between 20 and 25 percent and the gap with China is steadily widening. This can be attributed to several factors: the trend in economic exchanges which sees anthracite (North Korea's main export) and other minerals destined mainly for the Chinese market, with increasing direct Chinese investment in their production; the present state of North-South economic exchanges, with South Korea lacking ready access to projects other than Kaesong Industrial Complex and Mount Kumgang tourism; and events such as the invoking of economic sanctions and travel restrictions which have damped economic contacts as North-South relations have worsened since 2008.

#### **2. The Meaning of North-South Trade to the North Korean Economy**

Under present conditions, what does North-South trade mean to the North Korean economy? First, as discussed earlier, in general trade and processing-on-commission trade there is a complementarity between North and South, and transactions take place on a commercial basis, led on both sides by the private sector. Rather than trade transactions between North and South, these could be viewed as a division of labor according to their respective comparative advantages. For the North, which is short of foreign currency, the income gained in that form through processing-on-commission trade is economically very important.<sup>11</sup>

Though not currently operative in August 2013, the cooperative tourism projects at Mount Kumgang and Kaesong have a large effect on North Korea's foreign currency earnings not only in terms of exchanges of goods but in terms of service income<sup>12</sup> from the provision of tourist services, and income from sales of goods brought in as personal effects, which are not included in the North-South trade statistics. The tours are thus very important to the North Korean economy in that they bring in foreign currency. At the same time, however, the tours are a project in which political and military factors are at play, requiring cooperation between Pyongyang and Seoul, as they are conducted jointly with South Korean operators who hold an exclusive license and they involve travel across a military border. It was the authorities in the South, not the tour operators, who decided to put the tourism project on hold after the 2008 shooting death of a tourist at Mount Kumgang. Clearly, this is a venture that is highly dependent on the state of North-South relations.

The Kaesong Industrial Complex project could be called a quasi-state project, as not only do the corporate partners in the South hold exclusive licenses, but there is extensive investment of public or quasi-public funds, through agencies including the Korea Land and Housing Corporation (in practice,

the Public Procurement Service of the South) and the Korea Electric Power Corporation, for such things as site preparation, provision of infrastructure such as water and sewage systems and waste disposal, management of leased factories, and the supply of electricity from the South. Despite many complications in the North-South relationship, the project was implemented according to plan until the spring of 2013. The area currently provides a stable (albeit small) wage income for the North, and if a taxation system which uses pro forma standards to assess corporate results were created, North Korea might conceivably gain substantial tax revenue. The Industrial Complex is on land adjacent to the military border which was once a key strategic area; today, it could be called the linchpin of North-South relations, a link which neither can easily give up. Thus, while it must presently be a burden to both sides, the project has great significance as a trial run for a future inter-Korean economic community.

Tables 2. Characteristics of General Trade in Terms of Items

Year	1st		2nd		3rd		4th		5th	
	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing
1989	Iron, steel, and metal products	Textiles	Textiles		Minerals		Other items		Agricultural, and forestry products	
1990	Agricultural, and forestry products	Machinery	Iron, steel, and metal products	Chemical products	Minerals	Other items	Other items		Fishery products	
1991	Iron, steel, and metal products	Chemical products	Minerals	Agricultural and fishery products	Agricultural and forestry products	Electrical and electronic goods	Fishery products	Textiles	Other items	
1992	Iron, steel, and metal products	Chemical products	Minerals	Iron, steel, and metal products	Agricultural and forestry products	Textiles	Fishery products	Other items	Textiles	Agricultural and fishery products
1993	Iron, steel, and metal products	Textiles	Agricultural and fishery products	Chemical products	Textiles	Other items	Other items	Agricultural and fishery products	Minerals	Machinery and electronics
1994	Iron, steel, and metal products	Textiles	Textiles	Other items	Agricultural and forestry products	Chemical products	Other items	Iron, steel, and metal products	Fishery products	Agricultural and fishery products
1995	Iron, steel, and metal products	Textiles	Textiles	Chemical products	Agricultural and forestry products	Other items	Other items	Iron, steel, and metal products	Minerals	Agricultural and fishery products
1996	Iron, steel, and metal products	Textiles	Textiles	Chemical products	Agricultural and forestry products	Other items	Other items	Machinery and electronics	Fishery products	Agricultural and fishery products
1997	Iron, steel, and metal products	Textiles	Textiles	Chemical products	Fishery products	Light-water reactor materials	Chemical products	Other items	Agricultural and forestry products	Agricultural and fishery products
1998	Textiles	Machinery, transport machinery	Agricultural, forestry, and fishery products	Textiles	Iron, steel, and metal products	Nonferrous metal and mineral products	Other items	Primary products	Electrical and electronic goods	Chemical and industrial products
1999	Agricultural, forestry, and fishery products	Primary products	Iron, steel, and metal products	Machinery and transport machinery	Minerals	Electronic and electrical goods	Other items	Textiles	Textiles	Chemical and industrial products
2000	Agricultural, forestry, and fishery products	Electronic and electrical goods	Iron, steel, and metal products	Primary products	Other items	Nonferrous metal and mineral products	Minerals	Machinery and transport machinery	Textiles	Chemical and industrial products
2001	Agricultural, forestry, and fishery products	Agricultural, forestry, and fishery products	Iron, steel, and metal products	Machinery	Minerals	Chemical and industrial products	Other items	Electronic and electrical goods	Domestic supplies	Textiles
2002	Agricultural, forestry, and fishery products	Agricultural, forestry, and fishery products	Other items	Machinery	Iron, steel, and metal products	Electronic and electrical goods	Minerals	Textiles	Chemical and industrial products	Domestic supplies
2003	Agricultural, forestry, and fishery products	Other items	Iron, steel, and metal products	Electronic and electrical goods	Minerals	Machinery	Chemical and industrial products	Agricultural, forestry, and fishery products	Domestic supplies	Minerals



Year	1st		2nd		3rd		4th		5th	
	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing
2004	Agricultural, forestry, and fishery products	Electronic and electrical goods	Iron, steel, and metal products	Machinery	Minerals	Minerals	Textiles	Agricultural, forestry, and fishery products	Domestic supplies	Textiles
2005	Agricultural, forestry, and fishery products	Electronic and electrical goods	Iron, steel, and metal products	Machinery	Minerals	Agricultural, forestry, and fishery products	Textiles	Textiles	Domestic supplies	Plastic, rubber, and leather goods
2006	Agricultural, forestry, and fishery products	Machinery	Iron, steel, and metal products	Electronic and electrical goods	Minerals	Textiles	Domestic supplies	Agricultural, forestry, and fishery products	Other items	Minerals
2007	Agricultural, forestry, and fishery products	Chemical and industrial goods	Iron, steel, and metal products	Agricultural, forestry, and fishery products	Minerals	Machinery	Machinery	Iron, steel, and metal products	Electronic and electrical goods	Electronic and electrical goods

Source: “The South-North Exchange & Cooperation Trend” of the Ministry of Unification, Republic of Korea

Notes: As there were few trade items in the years 1989-1991, not all have been entered in full. Until 1997, general trade was not distinguished from processing trade. There are no entries from 2008 onward as general trade has almost ceased due to South Korean economic sanctions.

Table 3. Characteristics of Processing Trade in Terms of Items

Year	1st		2nd		3rd		4th		5th	
	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing
1998	Textiles	Textiles	Electronic and electrical goods	Electronic and electrical goods	Domestic supplies	Other items	Plastic, rubber, and leather products	Chemical and industrial products	Miscellaneous products	Machinery and transport machinery
1999	Textiles	Textiles	Electronic and electrical goods	Miscellaneous products	Other items	Domestic supplies	Chemical and industrial products	Electronic and electrical goods	Machinery and transport machinery	Plastic, rubber, and leather products
2000	Textiles	Textiles	Electronic and electrical goods	Electronic and electrical goods	Agricultural, forestry, and fishery products	Primary products	Other items	Machinery and transport machinery	Chemical and industrial products	Domestic supplies
2001	Textiles	Textiles	Electronic and electrical goods	Electronic and electrical goods	Domestic supplies	Machinery	Agricultural, forestry, and fishery products	Plastic, rubber, and leather products	Iron, steel, and metal products	Chemical and industrial products
2002	Textiles	Textiles	Electronic and electrical goods	Electronic and electrical goods	Agricultural, forestry, and fishery products	Agricultural, forestry, and fishery products	Domestic supplies	Domestic supplies	Machinery	Machinery
2003	Textiles	Textiles	Electronic and electrical goods	Electrical and electronic goods	Domestic supplies	Agricultural, forestry, and fishery products	Agricultural, forestry, and fishery products	Machinery	Machinery	Domestic supplies
2004	Textiles	Textiles	Electronic and electrical goods	Electronic and electrical goods	Domestic supplies	Agricultural, forestry, and fishery products	Agricultural, forestry, and fishery products	Chemical and industrial products	Machinery	Machinery
2005	Textiles	Textiles	Electronic and electrical goods	Electrical and electronic goods	Domestic supplies	Chemical and industrial products	Machinery	Machinery	Iron, steel, and metal products	Iron, steel, and metal products
2006	Textiles	Textiles	Electronic and electrical goods	Electrical and electronic goods	Domestic supplies	Chemical and industrial products	Agricultural, forestry, and fishery products	Machinery	Iron, steel, and metal products	Agricultural, forestry, and fishery products
2007	Textiles	Textiles	Agricultural, forestry, and fishery products	Agricultural, forestry, and fishery products	Electronic and electrical goods	Electrical and electronic goods	Domestic supplies	Domestic supplies	Iron, steel, and metal products	Chemical and industrial products
2008	Textiles	Textiles	Agricultural, forestry, and fishery products	Electronic and electrical goods	Electrical and electronic goods	Agricultural, forestry, and fishery products	Domestic supplies	Domestic supplies	Iron, steel, and metal products	Machinery
2009	Textiles	Textiles	Electronic and electrical goods	Electronic and electrical goods	Agricultural, forestry, and fishery products	Agricultural, forestry, and fishery products	Domestic supplies	Domestic supplies	Iron, steel, and metal products	Iron, steel, and metal products
2010	Textiles	Textiles	Electrical and electronic goods	Electronic and electrical goods	Agricultural, forestry, and fishery products	Agricultural, forestry, and fishery products	Domestic supplies	Domestic supplies	Iron, steel, and metal products	Iron, steel, and metal products

Year	1st		2nd		3rd		4th		5th	
	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing
2011	Textiles	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2012	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: “The South-North Exchange & Cooperation Trend” of the Ministry of Unification, Republic of Korea

Notes: Up to and including 1997, no distinction was made between general trade and processing-on-commission trade in the itemized statistics, and these cannot be separated. There was practically no outbound processing-on-commission trade in 2011 and no inbound and outbound processing-on-commission trade in 2012. “n/a” refers to amounts too small to be significant.

Table 4. Trading Partners’ Share of North Korean Trade (Adjusted)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
China	21.4%	21.4%	28.8%	27.5%	36.0%	42.0%	43.8%	44.3%	45.9%	50.5%	53.0%	57.2%	70.2%
Russia	2.9%	2.0%	2.7%	3.0%	4.2%	6.5%	6.1%	5.5%	3.7%	2.0%	1.2%	1.8%	1.4%
Japan	20.3%	20.3%	18.5%	13.8%	9.3%	7.7%	5.4%	3.2%	0.2%	0.1%	0.1%	0.0%	0.0%
South Korea	14.5%	13.5%	11.3%	15.9%	15.9%	13.3%	16.9%	21.9%	31.6%	30.8%	32.5%	31.2%	21.2%
Thailand	2.2%	9.1%	5.1%	8.1%	8.9%	10.0%	9.1%	9.8%	5.3%	1.4%	0.9%	0.8%	0.5%
India	8.2%	7.8%	6.2%	7.1%	5.6%	4.1%	1.0%	3.0%	2.9%	2.2%	1.2%	1.0%	0.6%
Brazil	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.6%	1.5%	1.0%	0.4%	0.4%
Others	30.5%	25.8%	27.4%	24.7%	20.1%	16.4%	17.8%	12.3%	8.7%	11.5%	10.1%	7.7%	5.7%
Total	1730.1	2281.4	2559.4	2686.9	2844.9	3295.6	3611.3	3837.3	4299.7	5515.5	5055.9	6063.6	8018.3

Sources: The South-North Exchange & Cooperation Trend of the Ministry of Unification, Republic of Korea; Trend of North Korea’s External Trade of the Korea Trade-Investment Promotion Agency

Table 5. Trading Partners’ Share of North Korean Trade (Before Adjustment)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
China	20.4%	20.4%	27.6%	26.8%	36.2%	42.0%	38.9%	44.2%	49.1%	58.4%	64.5%	58.6%	75.6%
Russia	2.8%	1.9%	2.6%	2.9%	4.2%	6.5%	5.5%	5.5%	4.0%	2.3%	1.5%	1.9%	1.5%
Japan	19.3%	19.3%	17.8%	13.4%	9.4%	7.7%	4.8%	3.2%	0.2%	0.2%	0.1%	0.0%	0.0%
South Korea	18.4%	14.2%	10.5%	17.9%	15.4%	13.3%	22.9%	22.1%	26.8%	20.0%	17.9%	17.1%	15.2%
Thailand	2.1%	8.7%	4.9%	7.9%	9.0%	10.0%	8.1%	9.7%	5.7%	1.6%	1.1%	0.9%	0.5%
India	7.9%	7.4%	5.9%	7.0%	5.6%	4.1%	0.9%	3.0%	3.1%	2.5%	1.5%	1.0%	0.7%
Brazil	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.7%	1.7%	1.3%	0.4%	0.5%
Others	29.1%	28.1%	30.8%	24.1%	20.2%	16.4%	19.0%	12.3%	9.3%	13.3%	12.3%	20.1%	6.1%
Total	1813.0	2397.5	2673.5	2752.0	2826.3	3296.2	4057.4	3847.7	4019.5	4771.4	4158.6	5911.1	7449.6

Sources: The South-North Exchange & Cooperation Trend of the Ministry of Unification, Republic of Korea; Trend of North Korea’s External Trade of the Korea Trade-Investment Promotion Agency

## Conclusion

In this article, I have made some preliminary observations on the position of North-South trade within North Korea's foreign trade, after first breaking down the structure of the trade statistics and establishing which categories constitute trade and which assistance, since these data have not been available in a consistent form and therefore have yet to undergo thorough analysis. Many instances of incompatibility still remain in the published figures, and I have indicated these in the tables. The main reason is probably that figures released in the past have never been explicitly adjusted, and newer statistics have been released on a modified basis without this being announced. Further, while Kaesong Industrial Complex can in some ways be considered a quasi-state enterprise, it is difficult to tease out the influence of this status on the North-South trade statistics. I intend to analyze this problem at the earliest opportunity, starting by finding the ratio of public to total investment in the Kaesong Industrial Complex.

Although South Korea's share of North Korean trade continues to fall, this does not necessarily mean that North-South trade is becoming less important to the North Korean economy. Unlike the economic relationship between China and North Korea, in which private-sector transactions (mainly trade) play the central role, economic exchanges such as Mount Kumgang tourism and Kaesong Industrial Complex, in which the South makes a substantial investment while drawing on the North's tourism resources and manpower, are strongly suggestive of investment intended to create a future "national economic community," and the success or failure of such projects should not be judged solely on the basis of how much foreign currency they generate. The sectors which appear to behave no differently than normal bilateral trade relations are general trade and processing-on-commission trade, and these are likely to go on expanding for some time to come, as long as tensions between Pyongyang and Seoul do not lead to trade restrictions.

For the North Korean economy, North-South trade in both the general and the processing-on-commission sectors is in many ways a form of trade on the international market, while economic cooperation projects are strongly suggestive of investment intended to create an inter-Korean economic community. (Notably, these projects were not necessarily required to be profitable overall in their early stages.) When one considers these characteristics, together with the circumstances in which North-South economic exchanges began, North Korea can hardly be expected to maintain the pace set by South Korea. Thus, until progress in building trust can be made, the two sides will be adopting the approach of allowing economic exchanges based on general trade and processing-on-commission trade to develop first, to be followed by advancement of economic cooperation projects accompanied by substantial investment, such as Kaesong Industrial Complex, once a certain amount of trust has been built. However, in view of the economic sanctions imposed by South Korea since 2010 and the suspension of operations at Kaesong Industrial Complex in 2013, it is clear that trust has yet to be built between North and South, and their economic relationship remains at the mercy of the political situation. Yet this problem is, in effect, inherent in the very nature of North-South economic exchanges, and even if North-South relations take a superficially favorable turn, the underlying elements of instability will most likely persist for quite some time.

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- 1 Kamisawa argues that because South Korea trades actively with the rest of the world, quantitatively its trade with the North makes up a negligible proportion of its total trade, whereas for the North, with its small total trade value and limited number of trading partners, North-South trade is very important; thus, the structure of inter-Korean trade consists of dependence by the North on the South.
  - 2 It should be noted that, as used in this article, “North-South economic exchanges” does not refer solely to North-South trade in the narrow sense (exchange of goods through general trade, processing-on-commission trade, the Kaesong Industrial Complex and other channels), but encompasses a variety of exchange activities, including bilateral investment, assistance to the North by the South, tourism to locations including Mount Kumgang and Kaesong (which is included in North-South trade statistics when goods are exchanged), and cultural, artistic, technical, and scientific cooperation (which may come under private-sector assistance). An alternative term for these is “North-South exchanges and cooperation.” In this article, as space does not allow me to discuss all North-South economic exchanges in this broader sense, from III. onward I will discuss North-South trade in the narrow sense, focusing on the various problems encountered in studying North-South trade statistics.
  - 3 Shortly after the first meeting, on October 3, 1990, East and West Germany were unified, and the Soviet Union collapsed on December 25, 1991, shortly before the fifth meeting.
  - 4 According to Lim Dong-won (2008), who was in charge of this process, the Sunshine Policy was by no means an appease-ment policy but an “offensive” to induce change in the North by utilizing the economic power of the South, which had prevailed in the competition between systems.
  - 5 Starting with cabinet-level talks, which were held on an almost monthly basis from 2000, intergovernmental dialogue grew as projects that required cooperation progressed. Because of the detailed preparations these projects required, by around 2006-2007 meetings at various levels and on various scales were being held as often as once a week.
  - 6 In this connection, in the above periodization, the rate of expansion of North-South economic exchanges seems to be directly related to the direction of Seoul’s policies toward the North in terms of whether they posed a threat to the North’s system.
  - 7 For example, inbound and outbound processing-on-commission trade began to be itemized in 1992, but the inbound and outbound figures for each item were not divided into general trade and processing-on-commission trade until 1998.
  - 8 Some reports, such as the annual *Unification White Paper*, are back-compatible to a certain extent, but unfortunately they are not detailed enough to serve as a supplement to the statistical data.
  - 9 Almost all the equipment was transported from the South to Kaesong, then, in the case of leased equipment, returned when no longer needed; even machinery that was returned to the South for repair or maintenance and then taken back to Kaesong was counted in the inbound and outbound statistics each time. Although considered commercial activity, the Complex is also characterized by government involvement in many areas, such as construction of factories on loan from the Korea Land and Housing Corporation, which is a state enterprise.
  - 10 As Miyamoto (2008) points out, trends in the South Korean economy, which constitutes the market (demand), are another important factor governing the rise or fall of processing-on-commission trade.
  - 11 It may well be true, as South Korean critics argue, that the unknown uses to which this foreign currency is put could include developing nuclear weapons or weapons of mass destruction. However, the program offers a chance to induce North Korea, which has never had export-oriented industries till now, to shift to an economy linked to international markets by earning foreign currency through processing-on-commission trade; to close off this possibility would ultimately delay North Korea’s entry to international markets—a change of great international significance—and could even nip change in North Korea in the bud. I cannot address this problem fully here, but I suggest that the international community needs to weigh the advantages of North Korea’s opening to the outside world against the disadvantages of nuclear development.
  - 12 This is not listed directly in North-South trade statistics.