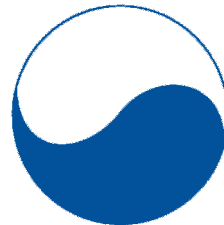

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THE YESTERDAY, TODAY, AND TOMORROW OF THE ECONOMIC RELATIONSHIP BETWEEN JAPAN AND THE DPRK

by *Mimura Mitsuhiro*

Introduction

This paper will discuss the current status of the economic relationship between Japan and the Democratic People's Republic of Korea (DPRK) and will also discuss several obstacles standing in the way of increasing this relationship.

Current Status of the Economic Relationship between Japan and the DPRK

To talk about economic exchange or economic cooperation between Japan and the DPRK, it is necessary to understand the history of interaction between the two countries and to be aware of long-standing issues.

History of Japan-DPRK trade

Trade between Japan and the DPRK started in the late 1950s as a form of indirect trade via China. This turned into direct trade at the beginning of the 1960s. Japanese traders, who had promoted trade with China and the Soviet Union, began trading with the DPRK via China in September 1956 in spite of the Japanese government's embargo on such trade, which was initially imposed because of protests from the government of the Republic of Korea (ROK).

In December 1959, direct trade between Japan and the DPRK began, focusing only on a few items that did not require advance approval and on the condition that settlement be made in a third country. In April 1961, the Japanese government embargo was lifted; but it was not until November 1962 that direct settlements were possible. Agency agreements between Japanese banks and the DPRK took effect immediately afterwards.

There was a drop in Japan-DPRK trade after the conclusion of the Japan-ROK Basic Relations Treaty, but it recovered because of demand in the DPRK and eagerness on the part of those involved in trade between

Japan and the DPRK. On 4 July 1972, the July 4th Inter-Korean Joint Declaration was issued; and the diplomatic relationship between Japan and China was normalized in September of that year. Amid a trend toward the easing of international tensions, the Export-Import Bank of Japan started to permit export finance for the DPRK, which helped Japanese traders expand into the DPRK.

Because of the oil crisis of September 1973, the price of nonferrous metals, the DPRK's main exports, dropped dramatically. In spite of this, the DPRK increased its imports significantly, and in the summer of 1974 the delay in the DPRK's trade settlements became an issue. In December 1974, the Export-Import Bank of Japan ceased granting export finance, and the Ministry of International Trade and Industry (MITI) also discontinued its export insurance for the DPRK.

Traders in Japan tried to avoid applying for insurance payments because this meant a declaration of default. However, because they were suffering from a major change in the foreign exchange rate as a result of the Plaza Accord of 1985, traders applied for export insurance payments in September 1986. After this, Japanese trading firms lost interest in the DPRK.

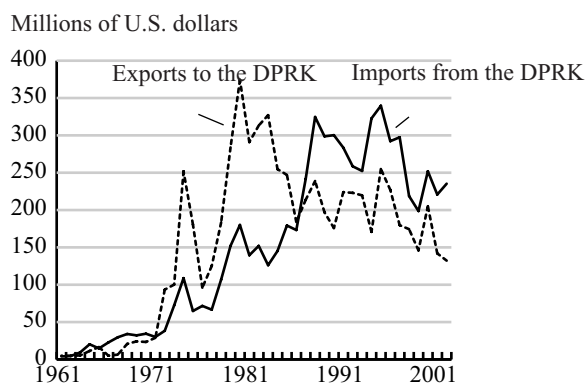
When the traders turned away from trade with the DPRK, trade between North Korean residents in Japan and the DPRK became the focus of Japan-DPRK trade. There was a significant drop in trade, and Japan-DPRK trade tended toward a deficit thereafter (*Figure 1*). The volume of trade decreased in proportion to the difficulties experienced by the DPRK's economy. Trade began to recover in 1999; however, the uncertainty of the Japan-DPRK relationship has caused this growth to be unstable.

Current Status of Japan-DPRK Trade

In 2002, Japan's imports from the DPRK amounted to 29.4 billion *yen* (\$234 million) while its exports to the DPRK totaled 16.5 billion *yen* (\$132 million). The

DPRK has enjoyed a trade surplus with Japan since 1987.¹

Figure 1: Japan's Trade with the DPRK, 1961-2002



Source: Database (Tokyo: Ministry of Finance, December 2002), www.customs.go.jp/toukei/download/index_d012_j.htm. Note: Humanitarian aid provided to the DPRK in 2001 is excluded.

As seen in **Table 1**, half of Japan's imports from the DPRK consist of animals and animal products. Most of these products are fresh and processed seafood. The next largest share of Japan's imports is accounted for by fabrics and textile products, which is due to foreign direct investment (FDI, joint ventures or contract manufacturing) by North Korean residents in Japan. A significant proportion of the mineral products category consists of magnesia clinker. Matsutake mushrooms (*songi bossot* in Korean) are the main item in the plants and plant product categories. The DPRK's main exports are primary products, with the share of value-added products remaining small.

As far as Japan's exports are concerned (**Table 2**), the largest share is occupied by transportation equipment, mostly in the form of cars and trucks, with buses accounting for a smaller share. Fabric and textile products comprise woolen and synthetic fabrics, which are exported to the DPRK for processing. Ex-

Table 1: Japan's Imports from the DPRK in 2002

Item	Price (1000 yen)	Share (%)
Animals and animal products	14,136,408	48.080
Fabric and textile products	6,829,241	23.227
Mineral products	2,474,488	8.416
Plants and plant products	2,052,292	6.980
Electronics	1,665,702	5.665
Steel products	747,928	2.544
Nonferrous metal products	702,706	2.390
Fat, processed food, drinks	255,420	0.869
Plastic and rubber	235,045	0.799
Wood and carpentry	88,052	0.299
Machinery	55,274	0.188
Jewels and precious metal products	51,063	0.174
Special items (reimported goods, etc.)	47,993	0.163
Minerals, ceramics and glass	23,229	0.079
Miscellaneous items	16,722	0.057
Materials for paper manufacturing and paper products	11,070	0.038
Leather and fur	6,313	0.021
Transportation equipment	1,319	0.004
Chemical products	991	0.003
Metalworking products	507	0.002
Precision and measuring instruments	363	0.001
Miscellaneous goods	0	0.000
Arms and ammunition	0	0.000
Total imports	29,402,126	100.000

Source: Database (Tokyo: Ministry of Finance, December 2002), www.customs.go.jp/toukei/download/index_d012_j.htm.

ports of electronic products consist of magnets and their components, cables, generators, and equipment for electrical circuits.

The current trend in Japan-DPRK trade is for Japan to export industrial products while the DPRK exports such goods as forestry and fishery products and rare earths.² After 1986, the year in which Japanese trad-

1. Data are from online database (Tokyo: Ministry of Finance, December 2002), www.customs.go.jp/toukei/download/index_d012_j.htm. Japan granted the DPRK a great deal of humanitarian aid in 2001, but this aid has been excluded from these data to assist in comparisons.

2. The principal economic sources of rare earths are the minerals bastnasite, monazite, and loparite and the lateritic ion-adsorption clays; see http://minerals.usgs.gov/minerals/pubs/commodity/rare_earths/.

Table 2: Japan's Exports to the DPRK in 2002

Item	Price (1000 yen)	Share (%)
Transportation equipment	4,691,585	28.341
Fabric and textile products	4,143,021	25.027
Electronics	2,140,111	12.928
Machinery	1,687,961	10.197
Special items (reexported goods, etc.)	941,593	5.688
Plastic and rubber	846,994	5.116
Chemical products	342,838	2.071
Steel products	316,386	1.911
Miscellaneous items	261,183	1.578
Fat, processed food, drinks	250,777	1.515
Animals and animal products	203,419	1.229
Precision and measuring instruments	168,499	1.018
Minerals, ceramics and glass	128,694	0.777
Nonferrous metal products	109,060	0.659
Materials for paper manufacturing and paper products	74,881	0.452
Mineral products	68,959	0.417
Wood and carpentry	52,933	0.320
Metalworking products	47,715	0.288
Miscellaneous goods	34,755	0.210
Plants and plant products	32,726	0.198
Leather and fur	7,102	0.043
Jewels and precious metal products	3,088	0.019
Arms and ammunition	0	0.000
Total exports	16,554,280	100.000

Source: Database (Tokyo: Ministry of Finance, December 2002), www.customs.go.jp/toukei/download/index_d012_j.htm

ers withdrew from the DPRK, the volume of trade decreased, and the DPRK began to enjoy a trade surplus.³

Current Status of Japan's FDI in the DPRK

In September 1984, the DPRK enacted its law on equity joint ventures. The DPRK's strategy for external economic relationships focused on the socialist

market, however; this was followed by South-South cooperation—cooperation between developing countries—and the lowest priority was given to cooperation with capitalist countries. This policy differed significantly from the policy of China. China already had a special economic zone and had opened its door to capitalist countries.⁴ Some businesspeople visiting the DPRK were asked to cooperate with the DPRK; but, with the DPRK's debt remaining unpaid, Japanese enterprises did not wish to invest in the DPRK until the situation was resolved. These circumstances have yet to change, although it is reported that some Japanese companies are undertaking contract manufacturing in the DPRK.

Investment by North Koreans in Japan began in 1986, when President Kim Il-sung spoke to a delegation of businesspeople from the North Korean community in Japan. For North Koreans in Japan “it was unthinkable for us to make a foray into international business . . . [However], in participating in joint ventures, we could engage in such key industries in our homeland as heavy industry, light industry, and machinery.”⁵

The General Association of Korean Residents in Japan (Chongryon) began holding workshops on joint ventures in June 1986 and formed the Chongryon Committee for the Promotion of Joint Ventures. In the DPRK, the General Company for International Joint Ventures of Korea was formed in November 1986 to coordinate business between trading companies in the DPRK and North Korean residents in Japan. The Korea Joint Venture Bank was also set up in April 1989; this made it possible to provide a settlement service for joint-venture companies in the DPRK, in cooperation with the General Company for International Joint Ventures of Korea and the Chongryon Committee for the Promotion of Joint Ventures.

Most investment in the DPRK by North Korean residents in Japan was carried out in the late 1980s, after

3. This, of course, does not mean that the DPRK really “enjoys” that situation; on the contrary, the DPRK suffers because of it.

4. For more on the DPRK's enactment of foreign investment-related laws, see Mimura, Mitsuhiro, “Chosen Minshushugi Jinmin Kyowakoku ni Okeru Hou no Kinou to Genkai: Soren, Touou Houkaigo wo Chushin ni” [The role and limits of laws in the Democratic People's Republic of Korea: Focusing on the period following the collapse of the Soviet Union and Eastern European socialist countries], *Handai Hougaku* [Law Journal of Osaka University] 47-6 (1998): 163–87.

5. *Choson Shinbo*, www.korea-np.co.jp/sinboj/sinboj1997/sinboj1997/sinboj97-4/sinboj970411/sinboj970411067.htm.

which time little investment took place. This was because, in the initial stages, investment in the DPRK was carried out as a result of patriotic feeling instead of with any expectation of profitability.

During a meeting of the Chongryon Committee for the Promotion of Joint Ventures held on 2 August 2001, after “summing up the history of 15 years of equity joint ventures, contractual joint ventures, and processing trade,” it was decided to transform the committee into the Association of Japanese Koreans for Joint Venture Economic Interaction and allow the participation of “those who belong to the Korean Residents Union in Japan (Mindan), those who do not belong to an organization, Korean compatriots with Japanese passports, and Japanese organizations that wish to have economic interaction with the DPRK in cooperation with businesspeople of North Korean descent who are resident in Japan.”⁶ This does not imply that they desired an expansion of economic interaction because it was successful; rather, they had to seek investors simply because fewer and fewer people were interested in investing in the DPRK.

Position of the DPRK as a Trading Partner of Japan

What position does the DPRK occupy as a trading partner of Japan? As a region, East Asia accounts for a larger share of Japanese trade than North America; therefore, East Asia is a very important region as far as Japan is concerned. East Asian countries and economies other than the DPRK have emerged or are emerging as some of the world’s leading fast-growing economies. These countries have emphasized export-led economic growth, which is why they have become major trading partners of Japan.

What share does the DPRK account for in Japan’s trade with East Asia? China (47.74 percent) is predominant, followed by the ROK (20.7 percent), Taiwan (18.71 percent), and Hong Kong (12.6 percent).⁷

Trade with the DPRK accounts for only 0.17 percent of Japan’s trade with East Asia, making it a minuscule trading partner from the Japanese perspective.

As seen above, economic interaction between Japan and the DPRK mainly involves trade. This is principally because it was only after 1984 that the DPRK began to accept FDI; this was when it was unable to repay its debts to Japan and Japanese companies were reluctant to invest there. After 1986, it was North Korean residents of Japan who conducted trade with the DPRK, so trade between Japan and the DPRK became Korea-Korea trade. Since the mid-1980s, no Japanese company has supplied a significant amount of FDI to the DPRK, so investment from Japan has also been Korea-Korea investment.⁸

On the other hand, Japan was the second-largest trading partner of the DPRK in 2001, and the third largest in 2002. The second-largest trading partner of the DPRK in 2002 was the ROK. This decrease in the volume of trade between the DPRK and Japan had partly to do with the obstacles to an economic relationship between Japan and the DPRK that will be discussed in the next section.

From a Japanese perspective, trade with the DPRK is so small it is almost nonexistent. There is no direct investment in the DPRK by Japanese companies. Only North Korean residents in Japan handle trade and direct investment. Therefore, Japan has little economic incentive to normalize its economic relationship with the DPRK. In contrast, China and the ROK account for more than 65 percent of Japan’s trade in East Asia.

The stability of East Asia would be enhanced, however, if the DPRK became better integrated in the international community and in Northeast Asia. This, then, is Japan’s incentive to assist the DPRK in becoming a full-fledged participant in Northeast Asia activities.

6. *Choson Shinbo*, www.korea-np.co.jp/Sinboj/sinboj2001/8/0806/82.htm.

7. Data are from online database (Tokyo: Ministry of Finance, December 2002), www.customs.go.jp/toukei/download/index_d012_j.htm.

8. At an investment seminar held on 2 September 2002, which was hosted by the Association of Japanese Koreans for Joint Venture Economic Interaction, some Japanese companies expressed complaints about contract manufacturing in the DPRK.

Obstacles to the Promotion of an Economic Relationship between Japan and the DPRK

Because Japan does not consider the economic relationship between Japan and the DPRK to be crucial, a small obstacle may prevent an economic relationship between the two countries. As of the end of December 2003, there are three main obstacles—two diplomatic-political obstacles and one economic obstacle—in the way of promoting an economic relationship between the two countries.

The Abduction Issue

When summit talks took place in Pyongyang in September 2002,⁹ the Japanese government was able to verify that DPRK agents had abducted 11 Japanese citizens. Kim Jong-il admitted to the DPRK's involvement in 13 cases—the 11 people whom the Japanese government had already classified as abductees as well as an additional 2 people. The Japanese government has added a total of 4 persons to its list, so the number now stands at 15. The Association of the Families of Victims Kidnaped by the DPRK (AFVKN) and the National Association for the Rescue of Japanese Kidnaped by North Korea (NARKN) claim that the number is 22. Most of the abductions took place in the late 1970s and the 1980s.

It took a considerable amount of time for the Japanese government to formally recognize that the disappearance of these citizens was due to their abduction by North Korea. The case of Ms. Yokota Megumi, who is reported to be dead, was mentioned in the Diet in 1997. In 1997, the Japanese government finally recognized that 11 Japanese citizens had been abducted by the DPRK. The families of the victims had to suffer for more than 20 years before society finally took heed of their plight. Mr. Yokota Shigeru, Megumi's father, formed the AFVKN in November 1997.

Kim Jong-il frankly admitted the DPRK's involvement in the abduction cases. Eight of the 11 abductees were reported to be dead. Only 3 of the original 11 are alive, plus a further 2 who had not originally been listed. This news shocked the Japanese public, who were enraged by the way in which the DPRK announced the reasons for the deaths of the 8 abductees. The reasons seemed so improbable that many Japanese people believed there must be more Japanese abductees still alive in the DPRK.

The abduction issue was ignored for a long time, and those who helped the abductees' families were right-wing activists who were strongly opposed to the DPRK. Three of the six leaders of NARKN are history revisionists who are known advocates of the Society for Composing a New Textbook on History¹⁰ or the Association for the Advancement of a Liberalist View of History.¹¹ One leader is of an extremely hawkish mentality, advocating preemptive strikes against the DPRK as a deterrent. Their ideology is not representative of the thinking of the average Japanese person, but their arguments have acquired prominence in Japanese society. An intensive anti-DPRK campaign has been under way since just after the summit talks in Pyongyang. This trend has been deleterious to the image of the DPRK, causing the country to be predominantly perceived as evil. Even if there were to be positive developments in the relationship between Japan and the DPRK, the image of the DPRK among the Japanese general public is likely to remain a negative one for a considerable period of time.

Control of the Export to the DPRK of Materials for Weapons of Mass Destruction

To prevent the DPRK from embarking upon further development of its weapons of mass destruction (WMD) program as well as to hinder any such programs undertaken by other countries, the Ministry of Economy, Trade, and Industry (METI) introduced "catchall controls" on 1 April 2002. Catchall controls

9. For the Japan-DPRK Pyongyang declaration, see www.mofa.go.jp/region/asia-paci/n_korea/pmv0209/pyongyang.html.

10. www.tsukurukai.com/.

11. www.jiyuu-shikan.org/e/index.html.

refer to a system under which authorization is required from the export control authorities for the export of all goods or technologies that may be used in the development of WMD.

According to guidelines on the METI Web site,¹² in principle, all goods are included in controlled goods except for some items considered to be unconnected with the development of WMD such as food products and timber. Apart from 25 countries (mostly OECD countries in Europe and North America), all regions are subject to controls. Technologies that have been specially developed for the design, production, and use of goods covered by these catchall controls and that have been translated into physical form are also controlled.

There are two main ways to control trade: objective conditions and the public announcement of the list of foreign users. Objective conditions involve two criteria:

- In cases where the exporter has information that the goods or technologies in question that are going to be sent overseas may be used in connection with the proliferation of nuclear, biological, or chemical weapons or missiles, the exporter should apply for a license for the export of the goods or technologies.
- In cases where the exporter has information that the end user of the goods or technologies in question will be involved in, is involved in, or has been involved in the development, manufacture, use, and storage of nuclear, biological, or chemical weapons or missiles, the exporter should apply for a license for the export of the goods or technologies.

However, applications for authorization are not necessary if, given the usage or type of transaction, the said goods or technologies are clearly not going to be used in the development, manufacture, use, and stor-

age of WMD, even if the end-user conditions apply. The latter criterion means that, if the end user is included in the list issued by METI, the exporter should apply for a license for the export of the goods or technologies. Seventeen DPRK companies are on the current end-user list.

Because the DPRK is known to be a country that is running a WMD program, these catchall controls play a significant role in causing Japanese exporters to hesitate before embarking on merchandise trade with the DPRK. Even though the end user has nothing to do with a WMD program, it is very hard to declare in all confidence that even the simplest goods exported to the DPRK will never be used for its WMD program.

Accumulated Debt

One of the biggest obstacles to economic interaction between Japan and the DPRK is the accumulated debt of the DPRK, which was about 90 billion *yen* as of the end of 2002.¹³

Many of the trading companies that were positive about trade with the DPRK have claims on DPRK entities, and their priority was the recovery of these claims rather than investment in the DPRK. The Japanese government has frozen export finance and export insurance for new investment in the DPRK. Therefore, in spite of the DPRK's positive attitude toward investment by Japan, Japanese companies are very negative about investment in the DPRK.

Conclusion

It is essential that Japan increase economic development and stability in East Asia. Economic development and stability in the DPRK would have a positive effect not only on the Japan-DPRK relationship but also on the prosperity of such East Asian countries as the ROK and China, which would in turn increase Japan's prosperity. An awareness of this allows Ja-

12. The material can be obtained on the METI Web site in Microsoft® PowerPoint® format, www.meti.go.jp/policy/anpo/catch-all/eigo-shiryō/document/eigo-setsumeī.ppt.

13. Lee, Chan Woo, "Niccho Keizai Koryu no Hoan" [The plan for Japan–North Korea economic cooperation] (Niigata: Economic Research Institute for Northeast Asia [ERINA], 2002), 39.

pan to sustain a positive attitude regarding the development of a good relationship with the DPRK. It is important for Japan that the DPRK emerge from its isolation and become an active player in the region, as the resulting prosperity of other countries in East Asia will benefit Japan's own national interests.

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