

For Comrade Nicolae Ecobescu, Deputy Foreign Minister
For Comrade Nicolae M. Nicolae, State Secretary, Ministry of Foreign Trade

Following the instructions we have received through telegram no.09/0447175, dated December 5, 1972, we are sending you the monthly report regarding the state of the economy and of foreign trade in the DPRK.

Economic development

The economic potential is being materialized through the annual and long-term plans conceived by the 7th Congress of the Korean Workers' Party.

Currently the 6-year plan for 1971-1976 is being implemented, and from the information we gathered, it seems that this plan underwent modifications at the end of 1971 and last year, especially after the North-South Joint Declaration of July 4, further modifications were necessary with respect to the directions, priorities and the rhythm of certain economic sectors. In this respect, all production sectors had to fulfill their quotas planned for 1973 by the end of 1972, which was impossible except for some large industrial machinery-building factories and for some chemical plants. Some of these fulfilled the quotas planned for 1975.

In the first two years of the six-year plan, the production quotas were not met, and there is a significant lag between various economic sectors. This leads to stagnation in terms of the quantity and quality of goods set aside for exports. These phenomena are largely caused by the significant amounts of money spent on consolidating national defense, which leads to scarce work-force.

2. The evolution of foreign trade

According to the directions set at the 5th KWP Congress 'foreign trade will grow continuously on the basis of the development of our national economy through our own means.' In this respect, at the end of the 6-year plan, the volume of foreign trade is supposed to treble.

Priority is given to trade relations with socialist countries but relations with other countries are concomitantly being developed. From the unofficial information we managed to gather, the following modifications to the structure of foreign trade, compared to that from 1970, appear (in percentages):

| Total volume | 1970 | 1971 | 1972 | 1975-1976 |
|-------------------------------------|------|------|------|-----------|
| Trade with: | 100 | 100 | 100 | 100 |
| Socialist countries | 82 | 84 | 55 | 55 |
| Capitalist and developing countries | 18 | 16 | 45 | 45 |

These structural modifications acquire a special meaning given the long-term agreement signed with Japan at the beginning of 1972, amounting to approximately \$2 billion. Given that the DPRK does not release official data concerning foreign trade or any other economic sectors, our estimates are based on the information gathered from the economic sections of socialist countries, present in Pyongyang and on foreign publications.

Given these circumstances, it appears that the DPRK's foreign trade volume in 1972, according to the commercial protocols and contracts signed with its partners to the 'West,' amounted to 1 billion rubles, out of which 600 million with socialist countries, and approximately 450 million rubles with capitalist and developing countries. We cannot make any statements with respect to the fulfillment of the plan but it is clear that North Korean export quotas to socialist countries, which according to the commercial agreements signed amounts to 330 million rubles, were only 70-72 percent fulfilled.

Given our observations from last year, we can draw certain conclusions about these phenomena, which carry on from year to year:

- The availability of competitive export goods is inferior to the responsibilities assumed every year through commercial protocols;
- The quality of goods and packaging has not improved;
- Prices are extremely inflated compared to similar goods (which are produced with better technical means);
- Quality benchmarks and delivery timetables specified in commercial contracts are not fully respected;
- Penalties and complaints are not taken into account;
- By the end of each year, goods which are not delivered on time are usually overlooked.

3. Trends in DPRK's foreign trade which may be relevant for our exports:

There are two broad categories of goods the North Koreans are interested in: goods produced by the machinery-building industry and chemical goods.

The main problem is the fact that the DPRK is facing serious problems in terms of its export capabilities, due to the diversification of its exchanges with other states, especially with Western countries: Japan, France, Federal Republic of Germany, United Kingdom etc. The array of high quality Korean goods has shrunk considerably. At the same time, the North Koreans are trying to improve their export capabilities, increasing the share of machinery and equipment to the detriment of raw materials.

Because the Heavy Machinery Industry Ministry and the Light Equipment Construction Industry Ministry are not interested in purchasing the quantities specified in the commercial protocol, the leadership of the DPRK Foreign Trade Ministry stopped signing contracts with us on the following categories of goods we export: heavy trucks, diesel and electrical locomotives, etc. etc.

4. DPRK supplies of raw materials and other goods:

- Most goods the DPRK produces have been included in our 1971-1975 trade protocol. Other important goods like cadmium, brass, iron-manganese, copper ore and concentrate, zinc, wolfram, etc. etc., are not available for export to Eastern countries (socialist). Some laminates containing copper, zinc, and lead, even when they are available, they are exaggeratedly highly priced for socialist countries.

Given the raw materials existing in North Korea, we believe it useful to send a delegation of specialists from the Heavy Machinery Production Ministry to explore these resources.

5. The prospects of North Korean economy and foreign trade

For 1973, the DPRK will undertake efforts to develop key branches of the economy, prioritizing on certain objectives of higher importance, such as:

- a. Vehicle and machinery-building: new types of tractors, extractive industry equipment, automated tools, trucks, with a view to reaching the following figures in 1-2 years: 30,000 tractors; 15,000-30,000 trucks and vans. Moreover, special attention will be given to the electronics industry and to the automation of modes of production.
- b. Metallurgy: developing the production of various types of steel and laminates, non-ferrous metals, etc. The following steel mills will start producing: Kim

Chaek (current capabilities will be expanded by 1,000,000 tons per year with the help of Japanese and Soviet technology); Songrim (with a capacity of 850,000 tons per year, producing tin, construction steel and large frames. The metallurgical plants in Hwanghae and Kangseon will be expanded, where recently discovered iron ore in the Anju-area will be exploited (approximately 10 billion tons).

- c. Chemistry. Two refineries will be built over the course of this year: at Unggi (with a capacity of 1.5 million tons per year, to be built by the Soviet Union) and Namheung (to be built by the People's Republic of China). Crude oil is imported from the USSR, and PRC respectively. Two other refineries are under construction, and they will process crude extracted in the DPRK. Estimates point out that in 5-6 years the DPRK will no longer have to import petroleum products.
6. Electricity: the network of hydro- and, especially, thermal plants will be expanded by putting online the thermal plant in Bukchang (with a capacity of 800 MW) and the hydroelectric plant at Seodusu (produced with Austrian and West German technology). Two other thermal plants are under construction at Namheung and Hamheung.

With respect to foreign trade, it is to be expected that the DPRK will diversify its trade with capitalist and developed countries, especially with Japan, France and Federal Republic of Germany.

We would like to draw your attention to the fact that the DPRK has demanded massive amounts of equipment and technology for industrial plants from many countries, so as to modernize and rapidly provide certain important economic sectors with high tech production means. We are aware of 35 such demands made to socialist countries, but especially to capitalist countries, which would cover the majority of sectors lagging behind.

Acquiring these means of production would obviously entail extraordinary financial efforts over the short-term.

Signed: Aurelian Lazar

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