

第1分科会：北東アジア I

China's Fast Capital Outflows into North Korea and It's Implication

Sung-wook Nam (Korea University)

We have to focus on the following questions: why do the Chinese pour their money into such a poor country which has to go a long way to become a market economy; will Pyongyang become a profitable market in the near future; and has the North officially started to accept Chinese commercial capital? In fact, Chinese capital flowing into the North makes economic sense for both the North and China. For the North Koreans, China is the only nation it can rely on to help it survive the international economic restrictions led by the US and Japan in response to the North's nuclear threat. As the UN tightened its 'Weapons of Mass Destruction Proliferation Security Initiative (PSI)', Pyongyang found it harder to export weapons and illegally trade in drugs, which were its major sources of foreign capital. Since General Secretary Kim Jong Il visited China in April 2004 and agreed on the economic cooperation, the trade volume

with China has reached 1.38 billion dollars, up 34% from the previous year. Political and economic factors are critical in the two countries' economic cooperation. Though China strengthened its practical policies with the head of state, Hu Jintao's inauguration in 2004, the cooperation is based not so much on economic logic as on diplomatic preference. China invested for nothing about 30 million dollar for the construction of Daean Friendship glass factory completed on September 2005. The project signals that the size of economic cooperation will be larger and wider than current speed. The state president, Hu visited the factory and emphasized the importance of both country's the economic and political relation on October 2005.

However, such a distorted trade relationship can deprive the North of the opportunities to reorganize its industrial structures into a

<Table 1> North Korea's Trade with Top Five Countries in 2004

(unit: million dollar)

Order	Country	Export Toward DPRK	Import From DPRK	Total amount of Trade	Comparison with Previous Year
1	China	799.50	585.70	1,385.20	+ 35.4%
2	South Korea	439.00	258.04	697.04	- 3.8%
3	Thailand	239.09	90.80	329.89	+ 29.3%
4	Japan	89.04	163.12	252.16	- 5.1%
5	Brazil	169.94	69.80	239.74	+ 67.2%

Source: Ministry of Unification, March 2005, World Trade Atlas 2005, Korea Trade Association 2005.

healthy shape. While imports from China are mostly light industrial goods and raw materials, exported goods are mainly aquatic products and low-end materials. Heavy dependence on China for domestic demand and capital makes it difficult to develop North Korean industries. In particular, after the Chinese government started the Northeast Area Project and institutionalized the investment in the North, the economic dependence is only going to grow. The Chinese reached a conclusion that the amount of investment takes up only a small proportion of their huge economy and that it will give them advantages in claiming their right over North Korean territories by tying the North and three northeast Chinese provinces into one economy. At the current pace, Pyongyang is expected to ask China to cancel its debt caused by its growing trade deficit with China. Further to this, the two countries' cooperation will only further expand, as international work division

and specialization require the North to take advantage of its cheap labor.

For its part, South Korea is forced to show equivocal responses to the growing North-China trade. It can be positive in consideration that the trade with China will help the North recover its economy, which is suffering sanctions imposed by the US and Japan. Since the North-South economic cooperation has its limits at this moment, Seoul should not blame their enhanced trade but hope that the North would normalize its economy with the trade and focus on inter-Korean cooperation. On the other side, however, it is worried that the North's rapid and heavy reliance on Chinese capital would only help Beijing expand the political 'Northeast Area Project' into the economic arena. This will not only hamper inter-Korean economic cooperation but also cause more concerns over China's growing power over the northern Korean peninsula and economy.

COMMENT

I think Professor Nam's study indicated new era in the economic relationship between China and North Korea, and it is an interesting and useful study. I hope that Chinese investment in North Korea will open new doors for North Koreans. In the early 80's Hong Kong capital guided Chinese enterprises to learn western business styles and rules. Now North Korean enterprises can learn western business styles and rules through contact with Chinese enterprises.

However, I still have a question. Is North Korea a profitable country? I agree China supports North Korea. But that means China does not think North Korea is profitable country. I think China believes that if they did not support, North Korea it would suffer economic collapse. If North Korea's economy did collapse, the recovery costs would be higher than the cost of supporting.

The question is that are North Korean labor costs cheap? Of course North Korea wages are cheap, but how about efficiency. I think if North Korean labor does not display good efficiency, then the total cost will become higher. In North Korea, there is no infrastructure (no electricity and no transportation system) and no materials. If Chinese companies earn money, they must invest huge capital to North Korea.

I heard even though much capital come into

IMAMURA Hiroko (University of Toyama)

North Korea from China, but much capital flowed out form North Korea. But unfortunately there is no Chinese statistics concerning outflow from other countries.

The comments are followed. First, North Korea's management improvement policy, implemented July 2002, is not a real reform policy, and their incentive system has not worked at all. The result of this improvement policy has been hyper inflation and a widening income gap.

Second, trade value between China and North Korea is increasing, but the price of oil and petrochemical has risen more than 30% in 2004 and 50% in the first half of 2005, and the 25~30% Chinese export to North Korea is oil and petrochemical. That means trade volume has not increased drastically.

Oil and petrochemical are dealt with central government, then Northeastern Provinces' trade, except Jilin province, have not increased.

Third now China is eager to develop and import some resources (oil, iron ore, non ferrous metal, etc.), and one of the targets is North Korean iron ore. Chinese that activity to North Korea is not special meanings.

About all I think the relationship between China and North Korea is not closely relationship as before 80s, but is normal relationship.