

North Korea's Trade with China in 2019



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As early as 2019, many experts predicted that North Korea would actively participate in the denuclearization negotiations in order to receive support from the international community as sanctions aggravated the North Korean economy. However, North Korea declared a “breakthrough in sanctions” through self-rehabilitation at the Labor Party Central Committee meeting held on December 28-31, 2019. How is the North Korean economy now?

In 2019, North Korea's imports and exports to China each slightly increased compared to the previous year, showing some adaptation to sanctions against North Korea, but the already deformed structure and large deficit have worsened. North Korea's exports to China were \$215 million, similar to the previous year (\$215 million). North Korea exports alternative items that do not violate sanctions, but has not achieved economic results sufficient to offset the effect of sanctions imposed on its economy. Imports from China were \$2.54 billion, an increase of 16.1% from the previous year (2.27 billion), but lower than in 2016-17, before the sanctions against North Korea began to take hold. In 2019, North Korea's

total trade amount was \$2.79 billion, about half of 2016's \$5.3 billion, indicating that sanctions against North Korea have had a negative impact on the North Korean economy. As North Korea's commodity trade balance hits a record deficit, questions have been raised about the sustainability of the North Korean economy. The merchandise trade deficit with China was \$2.36 billion, up 17.7% from the previous year (\$2 billion). In 2018, North Korea's trade deficit exceeded 13.6% of its GDP, reaching a serious level.

Due to UN sanctions, the import of items necessary for production (machinery, electronics, and transportation) was completely banned, and overall industrial production was adversely affected. The decline in imports of industrial production-related items has led to a deterioration in the overall industrial growth rate in North Korea. In 2018, the Bank of Korea announced that the growth rate of all industries in North Korea (excluding electricity and gas and service industries) was negative, and the same trend may have continued in 2019. In addition, as the UN sanctions made it impossible to export North Korea's major items, the mineral, apparel and aquatic industries suffered directly, and the secondary damage to related industries appears to have been considerable. Sanctions are acting as a barrier to the growth of the North Korean economy.

North Korean authorities are trying to minimize the impact of sanctions on the North Korean economy. The most representative measure has been to continuously increase the import of items not subject to sanctions. In early 2018, North Korean economic experts predicted that if sanctions began to affect the North Korean economy in earnest, North Korea would suffer from foreign currency shortages and psychological shock on the part of its residents, leading to a decrease in imports from China. However, imports of non-sanctioned items continued to increase during 2018-19. Imports of items related to consumer goods (increased consumer goods) and the government's economic policy (replacement of imported goods in the food industry with domestic products, construction of tourist facilities) increased, which resulted in increased purchasing power in the private sector and expanded foreign currency spending in the public sector. However, it is not yet clear how North Korea raised its foreign currency to increase imports.

Since 2018, North Korea has responded to the sanctions by diversifying its import regions. Until 2017, most of the trade in North Korea was centered on Liaoning Province and Jilin Province, but after sanctions were strengthened in 2018, Guangdong Province emerged as a major trading area in addition to Liaoning Province and Jilin Province. This is interpreted as a measure to prepare for a situation where trade with Liaoning and Jilin Provinces was suspended

due to international sanctions. In 2019, North Korea's imports from Guangdong Province were 860 million dollars, accounting for 34.7% of total Chinese imports and overtaking Liaoning Province (\$830 million).

Even during the sanctions, North Korea continued to promote the replacement of imported goods in the food industry with domestic products and construction facilities, in line with industrial policies set by Chairman Kim Jong-un, and the import of related items increased. Since Kim Jong-un took office, North Korea has been actively pursuing a policy of replacement of imported goods with domestic products. Given the steady increase in raw and subsidiary material imports used in the food industry and the continuous decline in imports of final materials, it seems that the policy has had some success. In addition, despite the sanctions phase, investment in the construction industry has continued, mainly in the construction of tourist facilities and high-rise buildings (apartments) in major cities.

In addition, as the demand for consumer goods increases, it seems that imports are increasing, maintaining the purchasing power of North Koreans to some extent. In general, if sanctions have a negative effect, the purchasing power of the North Koreans and imports are more likely to decrease. However, it seems that the purchasing power of the residents is maintained by the increase in imports of consumer goods and intermediate goods. The increase in imports of consumer goods is thought to be attributable to an increase in demand for foreign products due to the slowdown in domestic production, aimed at relieving the insecurity of residents about sanctions after entering the third year of sanctions and to increase purchasing power through remittances by North Korean workers from overseas.

In spite of the UN sanctions, it seems that unofficial exports of minerals and textiles from North Korea are continuing along with unofficial imports of crude oil and refined oil. According to the 2018 UN report on North Korea sanctions, North Korea still exports and imports items subject to UN sanctions through illegal maritime transshipment. In particular, unofficial exports of textiles also seem to be continuing. Although exports of textiles were banned in 2019, imports of textiles totaled \$760 million, more than the \$720 million of 2016, when textile exports were still possible. Despite the ban on exports of textiles from North Korea due to sanctions, the continued increase in imports of raw materials for textiles suggests that unofficial exports of textiles continue.

In summary, in 2019, the North Korean economy showed signs of slowing industrial production, but the nation also tried to minimize the adverse effects of sanctions by continuously increasing

the import of non-sanctioned items. Pyongyang wanted to show that the North Korean economy was not affected by sanctions by successfully pursuing the economic policies set by Kim Jong-un even under the sanctions. Nevertheless, these efforts could not prevent the adverse effects on the North Korean economy.

In the first quarter of 2020, the North Korean economy suffered from both sanctions and COVID-19. The main reason is because of the disruption of trade between North Korea and China, and the suspension of Chinese tourism to North Korea. Exports to China amounted to \$11.3 million, down 79.3% from \$56.6 million in the same period last year, which can be said to have been virtually suspended. North Korea's trade in the first quarter shrank sharply, while North Korea's imports to China in the first quarter of 2020 were \$25.3 million, down 52.7% from the previous year's \$45.9 million. If the supply and demand of some items that depend on imports become difficult, the North Korean economy is likely to experience further difficulties.

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