Policy Forum 03-45A: Seoul’s Secret Success

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Seoul's secret success

by Aidan Foster-Carter

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I. Introduction

In his essay, Aidan Foster-Carter, honorary senior research fellow in sociology and modern Korea at Leeds University in England, asserts that the numbers regarding North Korean trade as reported by South Korea's Korea Ministry of Commerce, Industry and Energy are distorted. On the surface, it appears Japan and China are North Korea's main market, but closer scrutiny of the number reveals how much inter-Korean trade is in fact transpiring. In the first half of 2003, North-South Korean trade totaled US $269 million, comprising $112 million in Northern exports and $157 million in imports. South Korea is well on track to gain the pole position of Pyongyang's top market, and second place in trade overall. So why obfuscate it?

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II. Essay by Aidan Foster-Carter

"Seoul's secret success"
By Aidan Foster-Carter, Leeds University in England

China has just surpassed the United States as the main market for South Korea's exports which poses the question concerning the other Korea: Which nation last year overtook which other nation as the principal buyer of North Korea's distinctly more meager exports?

This one is harder, for several reasons. First, find the figures. Ask Pyongyang? Forget it. Despite boundless official wishful thinking in Seoul, North Korea's slow-motion shuffle in the direction of economic reform doesn't yet extend to publishing any regular statistics. Not any. None. Nada. Even this year's budget speech, which gave a few percentages, did not contain one single actual hard number.

That in itself tells you something important. Normal countries publish figures. Even less than normal countries manage a few. The numbers may be lousy, or indeed lies, but this is what states do; for their own self-respect, because the World Bank and International Monetary Fund (IMF) insist upon it and above all, because without numbers no one can be sure what is really going on, and so how can investors or other economic actors commit themselves and make meaningful market decisions? Therefore, when the DPRK (Democratic People's Republic of Korea) Central Statistics Bureau starts doing its job in public, then (and only then) will we know that reform in North Korea is for real and irreversible.

Until then, others must struggle to plug the gaps. For obvious reasons, the most and the best of them are in South Korea. There was a time when these sources were tainted with propaganda, but no longer. Or rather, the bias has gone into reverse. Whereas before they did their damnedest to put the red swine down, these days, if anything, the folks in Seoul bend over backwards to bathe their Northern brethren in the kindliest light. Yet on certain matters they themselves are also, as we shall see, inordinately modest and self-effacing.

Like all good bureaucrats, those in Seoul have a strict division of labor. For the North Korean economy this is threefold. The ROK (Republic of Korea) central bank, the Bank of Korea (BOK), estimates national income, growth and output by sector using intelligence data and arcane formulae of its own. Meanwhile KOTRA (Korea Trade-Investment Promotion Agency) - a division of the Ministry of Commerce, Industry and Energy (MOCIE) - tracks foreign trade and economic trends generally. Separately again, the Ministry of Unification (MOU), as its name suggests, monitors all matters inter-Korean, including trade and aid. With me so far?

Like the proverbial blind men and the elephant groping in the dark, the BOK does its best to weigh and reconcile a whole raft of unknowns. Its methodology has been attacked, especially when it pronounced that the North Korean economy grew by 6.2 percent in 1999 suggesting a dynamism not visible on the spot.

But with trade, we should be on firmer ground. It takes two to trade - so even if Kim Jong-il ain't telling, his partners would. This entails much toil, and involves ferreting through the rest of the world's customs records and trade figures to dig out their (usually microscopic) intercourse with North Korea.

Beside hard graft, there are pitfalls for the unwary. JETRO (Japan External Trade Organization), Japan's equivalent of (and model for) KOTRA, which used to be one of the main sources for North Korean economic data before Seoul got interested, once discovered a new and unexpected Pyongyang partner when Mexico suddenly emerged from nowhere as a major exporter to North Korea - only to pop up a year later as a leading importer. That was obviously suspicious. Trade patterns tend to be fairly stable over time; although in fact North Korea's are less so than most suggesting a pattern of one-off deals (unpaid for, perhaps?). Mexico, it turned out, was quite imaginary - some Mexican customs officials simply got their Koreas muddled up and ticked the wrong box, so a certain amount of the much larger trade with South Korea got classed as Northern by mistake.

Human error is one thing, deliberate obfuscation another. I've a bone to pick with Seoul's statisticians, and pick it I shall. But back to our initial question, simple and straightforward: What country last year was the main market for North Korean exports? And which other country did it dislodge from the top slot?

Well, the KOTRA website offers a seemingly full account of Pyongyang's trade in 2002, complete with lots of tables. I salute their hard work, which produces some fascinating nuggets. One is that, reversing the normal sequence, primary goods have become the main export item while manufactures are in decline. Thus, last year animal products, mainly seafood, displaced textiles as North Korea's top earner.

Overall, KOTRA tallies North Korea's trade totals in 2002 as almost identical to the 2001 figure of US$2.26 billion - pretty puny by today's Asian or global standards. Imports of $1.52 billion against exports of just $735 million left, as usual, a hefty trade deficit. As for its partners, China and Japan - again, as usual - ranked first and second with $738 million and $370 million respectively, accounting for nearly half of total trade.

With Beijing, Pyongyang's exports of $271 million nowhere near covered its imports of $467 million, though at $196 million the shortfall was less than half of 2001's gaping $404 million. South Korea has tallied the cumulative China-DPRK trade deficit since 1990 - when Moscow finally pulled the plug on its maverick protege, and Kim Il-sung simply took his overdraft elsewhere - at a cool $4.4 billion.

Beijing is pretty fed up with this, and occasionally tries to get Kim Jong-il to pay up. But like his father before him with the then Soviet Union, he defaults and gets away with it because he can. Russia is still owed some $3.6 billion in Soviet-era debts, some now belatedly being repaid by sending contract labor - or latter-day serfs, according to human-rights critics - to forestry and other projects in eastern Siberia.

While comrades are for milking, with Japan, North Korea is careful to stay in the black and earn some yen. Last year exports of $234 million tidily exceeded imports of $135 million. The country's

next-largest trade partners, according to KOTRA, were Thailand, India, Germany, Singapore and Russia, with all of whom North Korea once again ran sizable deficits. (Do they ever pay anyone, you wonder?)

But hold on. Something is missing here. While the article occasionally mentions South Korea - noting for instance that inter-Korean textile processing on commission (POC), which means getting garments made in Pyongyang to order, with materials and sometimes machinery supplied, is rising while POC with Japan has fallen - it suddenly dawns on you that the other Korea is completely absent from all of these tables and from most of the analysis and conclusions. Very odd. Don't the two Koreas trade?

Of course they do. But Seoul, in its wisdom, classifies this as internal - thus avoiding World Trade Organization (WTO) rules and duties. Hence a different sidebar takes you to what they pointedly call "intra" (not inter)-Korean trade - and a whole new set of substantial and important figures, which completely change the above picture.

Here, and in more detail on the MOU website, we learn that not only do the two Koreas trade, but that their intercourse is positively leaping ahead. Last year inter-Korean trade - as I shall continue to call it: this is foreign trade between two separate states, so can we please stop being silly? - shot up by 59 percent, from $403 million to $642 million. In fact, Seoul's $370 million of Northward exports were mainly aid goods. By contrast, North Korea's Southward exports of $272 million were nearly all real commercial deals.

Obviously, to get a true picture of North Korean trade we must smash KOTRA's statistical apartheid and integrate all these figures. Doing that quite transforms the situation. China is still Pyongyang's No 1 partner - but South Korea is not far behind at No 2, pushing Japan into a distant third place.

Also, this bumps up North Korea's total trade to $2.9 billion, and exports to just over $1 billion - credit where it's due, I say. So it's false for KOTRA to say that Japan and China make up 49 percent of North Korean trade. It's really 38 percent. More to the point, China, South Korea and Japan account for 60 percent of the total.

And whom did Pyongyang sell to most in 2002? What Seoul's statisticians seemingly don't want you to know is - you've guessed - it was them. A total of $272 million in Northern exports to South Korea just pipped the $271 million worth sent to China. You'd think all good Korean nationalists would rejoice at this doing business together, and shout it from the rooftops. Instead they hide it under a bushel. Most odd.

And since we're tracking trends, with another year almost over, how about 2003? KOTRA, helpfully, has collated the numbers for the first half of this year. North Korea's trade with Japan is way down at $134 million, its lowest for a decade, due to worsening political relations: nukes and kidnaps in a nutshell. China is holding steady: $378 million in total, with $108 million in exports and $270 million imports.

And South Korea? A total of $269 million in the first half of 2003, comprising $112 million in Northern exports and $157 million in imports. Seoul is well on track to retain pole position as Pyongyang's top market, and second place in trade overall. But in fact since July the trend has accelerated, to reach $587 million in the first 10 months. That means South Korea is snapping at China's heels, and poised to overtake it next year as North Korea's main trade partner.

Which of course is as it should be: a good thing, a step toward reunification. So why try to hide it? To purport to analyze North Korean foreign trade minus South Korea is like Hamlet without the prince.

I bet Koreans would be annoyed if foreigners were to do it. Well, this foreigner takes a dim view of so-called Korean nationalism, when it fiddles the numbers to make a petty and irrelevant political point.

Why don't Seoul's statisticians do what Koreans traditionally were happy to do, and practice sadae (look up to China)? Whatever criticisms may be made of Chinese statistics for exaggerating growth, at least they don't let politics mess up the units of analysis. For foreign-trade purposes, Beijing lists Hong Kong, Macau and even Taiwan as separate entities: even though the first two are legally part of China now, while the People's Republic notoriously rejects Taiwan's claims to political independence.

Politics is politics, but numbers are numbers - and we need the right stuff. So, dear KOTRA: next time you analyze North Korean trade, please be less self-effacing. The fact is, Seoul is now a central player in Pyongyang's foreign trade. To exclude this is frankly mendacious. So please, count yourselves in.

III. Nautilus Invites Your Responses

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: napsnet-reply@nautilus.org . Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

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