

# *The History of Foreign Capital Introduction in the DPRK*

## *(Summary)*

Chan-Woo LEE

Visiting Researcher, Research Division, ERINA

If we look back at the history of economic construction in the DPRK, we can see that the country has adopted a cautious posture with regard to foreign capital. In the 1950s, the assistance of socialist bloc countries, such as the Soviet Union, supported the DPRK's economic restoration. However, the DPRK began to follow the path of an independent national economy in the late 1950s due to having socialist ideas, contrary to those of the Soviet Union of the post-Stalin era. The 1960s ideology of self-reliance (**Juche-ism**) established its rolling status in the DPRK, but reached its limits, as can be seen in the decline of industrial production and the slow progress of technological development in the late 1960s. In the 1970s, the DPRK began to promote the active introduction of loans and technology from capitalist countries. However, The lack of foreign currency preparation became serious as a result of the oil crises of the 1970s and the country ended up in a default situation, where repayments were impossible.

The DPRK began to introduce foreign direct investment with the establishment of the Rajin-Sonbong special economic zone in 1991, but it resulted in no basic advances. This was because of diplomatic conflict with the US till 1994, arising from suspicions relating to nuclear weapons development, and also because of the poor state of domestic infrastructure such as roads, railroads, and regulatory policies till now. Moreover, the 1997 Asian currency crisis heightened the DPRK's fears relating to foreign capital, and also discouraged foreign potential investors from investing in the Rajin-Sonbong zone. Investment in the Hong Kong-based Emperor Group's casino hotel (US\$ 180 million), which started its formal business in October 2000, is the largest of the foreign investments in the zone.

The DPRK has twice come into contact with foreign capital from capitalist countries, with the loans of the 1970s and foreign direct investment in the 1990s, but these experiences have not borne fruit in terms of economic growth. The DPRK has a cautious attitude towards foreign capital because of its experiences of past failures with such capital and also because of its intention to build an independent national economy based on the concept of **Juche** (self-reliance). However, on the other hand, it is a fact that the country is seriously considering the introduction of foreign capital from international financial systems such as the ADB or IBRD.

We can gain the following lessons from the DPRK's

past experiences of economic development:

Firstly there is the matter of the limits of the mobilization of domestic resources. Economic construction in the 1960s was achieved very much through the maximum application of domestic resources and manpower; however construction that was not accompanied by the modernization of technology was ultimately doomed to become obsolete.

Secondly, the strengthening of material incentives to improve productivity is not inconsistent with the basic path of economic construction in the DPRK. The Chullima Movement of the late 1950s and the production competition movement of the early 1970s also included the material incentives of wage raises and an expansion in the production of consumer goods.

Thirdly, because the DPRK's economy has a supply structure that prioritizes domestic demand, there is not a strong relation between the international economy and the domestic economy. Consequently, an increase in exports that makes up for an increase in imports becomes a problem and the country gets into a situation where it lacks foreign currency preparedness.

Finally, there is the problem of the fragility of the DPRK's export industry. Basic metal products were dominant exports in the 1970s. The cost of materials in this industrial sector was relatively high, and when heavy industry demand throughout the global economy decreased as a result of the oil crises, the price of such exports products fell and their profitability disappeared. Consequently, the nurturing of the high value-added industrial sector, in which the share of materials costs is low, and the complementary development of labor-intensive industry is important for the acquisition of foreign currency.

Looking at the above lessons, the DPRK should skillfully use foreign capital, that is, development funds, technology and direct investment introduced from overseas for the purpose of sustainable economic growth. It would be desirable if efforts were made to link this to increasing the DPRK's economic growth and independence.

Furthermore, looking at the country's experiences since the 1990s, one can say that the cooperation of the international community in the process of the DPRK overcoming economic crisis has played a major role in stabilizing the country's economy. It is to be hoped that the DPRK's economic policy will request international cooperation and contribute not only to its own security, but also to the peace and security of the international community.