

# The History of Economic Relation between Japan and the DPRK

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From the mid-1950s Japanese companies actively undertook trade with the DPRK. This began with indirect trade via China from September 1956, which developed into direct Japan-DPRK trade in 1961. Although one of the reasons why those involved in Japan-DPRK trading circles in Japan were so positive was that they had a belief in trade with the socialist DPRK, a more practical reason was economic demand for imports of primary commodities, such as minerals, metals and marine products. Demand for Japanese mechanical appliances was high in the DPRK as well, so despite political and diplomatic conflicts between the two countries, Japan-DPRK trade was brisk, taking place on the principle of the separation of politics and economics.

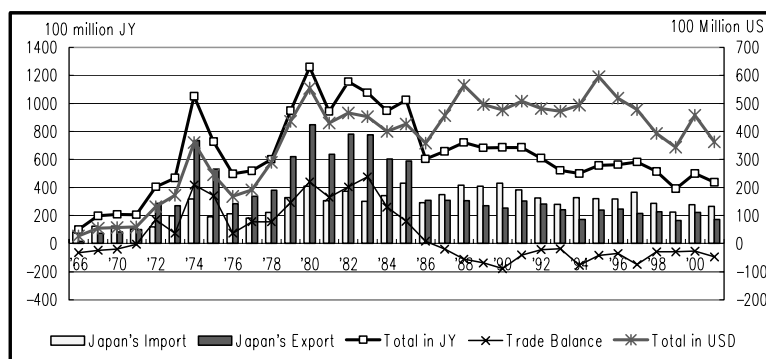
However, in the mid-1970s, the DPRK began to default on its payments for deferred exports from Japan, and exports by Japanese companies to the DPRK were excluded from export finance and export insurance. Despite its severe lack of foreign currency, there was demand in the DPRK for Japanese-made mechanical appliances, and Japan-DPRK trade was steady as a result of an increase in exports of agricultural and marine products to Japan and the emergence of commission processing trade until the mid-1980s. From 1985, the value of trade in Japanese yen showed a downward tendency as a result of the strong yen, but in terms of U.S. dollar values, trade was still strong. From the late 1980s, Korean residents in Japan (Chongryun) increasingly dominated Japan-DPRK trade. In the 1990s, Japan-DPRK trade declined sharply as a result of the DPRK economic crisis. As a result of the DPRK's economic recovery since 1999, Japan-DPRK trade is increasing once again. Outstanding issues in Japan-DPRK trade include the resumption of export finance and export insurance, the abolition of export restrictions (the

Wassenaar Arrangement), and the dissolution of discriminatory import tariffs. As of the end of 2000, Japanese businesses were owed approximately 90 billion Yen with the DPRK.

Meanwhile, trade with and investment in the DPRK undertaken by Korean residents in Japan is playing a part in giving the DPRK a taste of the international market economy, acting as a substitute for Japanese businesses. Almost all of the foreign direct investment attracted since the enactment of the Joint Venture Law in 1984 has been investment by Korean residents in Japan. Japanese businesses have avoided investment in the DPRK, even after the 1991 establishment of the Rajin-Sonbong Economic and Trade Zone.

Japanese businesses feel the DPRK to be a high risk in terms of investment and are consequently wary about investing in the country. The DPRK is proposing that Japanese businesses invest in the DPRK, make their projects a success and use the profits to recover debts, but Japanese companies take the stance that additional investment is impossible as long as the repayment of loans is not settled in advance. Japanese firms that do not have a problem with outstanding loans are also similarly cautious. In the future, investment in the DPRK by Japanese businesses may become possible when diplomatic relations between the two countries are normalized and inter-governmental economic cooperation is implemented. An infusion of what the DPRK side would describe as reparations (economic cooperation funding) from Japan will take place following the normalization of diplomatic relations between Japan and the DPRK, and Japanese businesses will be able to participate in infrastructure development and the development of the industrial and service sectors in the DPRK.

Trade between Japan and the DPRK(1966 ~ 2001)



Note: Data for Japan's exports to the DPRK in 2001 do not include humanitarian aid of 500 thousand tons of Japanese rice.

Source: Ministry of Finance Trade Statistics ( Japan )