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Li Fuchun's Report on Sino-Korean Trade Negotiations

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Summary:

Li Fuchun reports on negotiations between China and North Korea over trade and North Korea's First-Five Year Plan occurring from 13 September through 23 September 1957.

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Chinese

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Translation - English

To Premier [Zhou Enlai] and the Central Committee:

From 13 September through 23 September [1957], we had general conversations and group discussions about [North] Korea's First Five-Year Plan and Chinese-[North] Korean trade. During this visit, they mostly discussed trade without mentioning aid or loans. Our opinions are reported as follows:

□□ Basic Situation

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The three-year recovery and development (1954-1956) following the Korean War has already exceeded [its goals] and is complete. The average yield per person for heavy industrial products in 1956 surpassed China's. For example, [North] Korea's average yield per person for copper was 21.1 kg in 1956, whereas China's was only 7.9 kg in 1957. The average yield per person for light industrial products and agricultural products are also generally higher than China's. Cotton [production], however, is much lower than China's. For example, [North] Korea's average yield per person for cotton (seed cotton) was only .67 kg in 1956, whereas China's was 13.2 kg in 1957. In terms of the peoples' lives, [they] are barely self-sufficient in grain and are quite short on cotton ([they] mainly rely on imports). Housing problems have not been resolved.

To help [North] Korea restore its economy, the Chinese government has given [North] Korea 800 million Renminbi in gratis assistance, including 50 million in 1957. This aid will be completed by this year. China's total exports to [North] Korea from 1954 through 1957 totaled 922.2 million yuan, including 127 million yuan in 1957. Imports [from North Korea to China] totaled 137.12 million yuan, including 70 million in 1957. The difference between imports and exports has largely been balanced through foreign aid. The main exports from China to [North] Korea from 1954 through 1957 were: 449,000 tons of grain (mainly millet), 178,000 tons of soybeans, 3,950 tons of cotton, 88,476,000 meters of cotton cloth, 3.456 million tons of coal, 260,000 tons of coke, 11,200 tons of rubber. The main imports from [North] Korea to China were: seafood, iron ore, chemical raw materials, and apples. (Annual figures are included in the attached chart).

□□□ Planning

□□

□□□ The Rate of Developing Industrial and Agricultural Production

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The First Five-Year Plan stipulates that industrial output will grow 142.7 percent from 1956 through 1961 with an average annual growth rate of 19.3 percent, of which heavy industry will grow by 19.9 percent and light industry by 18.7 percent on average each year. Agricultural output will rise by 70.5 percent, including 33.1 percent growth in grain. Cotton [production] will grow 13.7 times and national income will grow by 89.3 percent. Industrial development during [North] Korea's First Five-Year Plan still has certain recovery qualities to it. From the perspective of production capacity, it is possible that [they] will pursue high-speed development of industrial production, but from the perspective of raw material supplies and product sales, there are still many difficulties.

According to the situation in [North] Korea, the rapid development of agricultural production is particularly necessary. In terms of grain production, as long as the economic and technical measures can keep up, it is possible that the plan can be completed. In terms of cotton production, every jeongbo of land (equal to one hectare) will grow from producing 402 kg [of cotton] in 1956 to 1099 kg in 1961 (China yields 49 jin of cotton lint per mu of land). [This] is not a certainty, as [North] Korea has a lot of fertilizer but has less irrigated land and water supplies are not guaranteed. The use of fertilizers will continue to be limited. Particularly from the

perspective of planned investments, the Five-Year Plan will directly invest an annual average of 1.73 billion yuan into agriculture, a difference of 2.481 billion yuan when compared the annual average during the three-year recovery period. [This is] not an increase, however, but a reduction.

Material and Culture in People's Lives

□□

The First Five-Year Plan stipulates that the average per capita wage for workers and peasants will grow by 21 percent. The growth of the main consumer products per capita is as follows:

□□□

□□□□

Unit

1956

1961

1956: 1961 Percentage growth

□□□

□□□□

Grain

Kilograms

275

275

□□□

□□□□

Meat

Kilograms

3.2

16.5

416

□□□

□□□□

Vegetable oil

Kilograms

0.1

2.22

100

□□□

□□□□

Cotton cloth

Kilograms

7.1

10.6

According to the situation in [North] Korea, it is necessary to quickly improve the peoples' living standards. It is also appropriate to raise the income of workers and peasants by 21 percent. There is not much difference between the living standards of workers and peasants. The [Five-Year] Plan stipulates that the average level of consumer consumption in 1961 will be slightly higher than China's in 1962. [Average] meat [consumption] will be much greater than China's (10.9 kg); cotton cloth will be equivalent to the level of consumption in Northeast China and much more than the 1962 national average for China (about 7.8 meters). This type of consumption level is not high, but can it be achieved? It is still worth studying. Since their cotton production plan is on the high side, [they] will also need to rely on imports for a portion of the cotton and cotton cloth. Therefore the supply of cotton cloth, as stipulated by the plan, is very difficult to guarantee. For the rapid growth of meat [consumption], [we] need to also consider the possibilities for the supply of feed and how this will increase the pressure on grain. The main source for consumer goods is reliant upon agriculture, but [what if] agricultural production is affected by natural conditions and is not stable [?] It is best to talk less and do more to raise the peoples' living standards. Set the plan at a lower level and in the future strive to exceed [this]. [It] is estimated that over the next five or ten years, the supply of consumer goods will definitely have problems and that the needs of the people will never be fully met. This point must be made clear to the masses so that they are ideologically prepared. But if the development of secondary education is too fast, it will not only [require] an increase in spending, but it will also increase the number of difficulties for labor.

□□ Sale of Construction

□□

The [North] Korean Five-Year Plan stipulates that by 1961 savings will account for 22.6 percent of national income. Using a caliber that allows for comparison with our country, [their] fiscal revenue is estimated at 36 percent of gross national income and capital construction investment is estimated at 32 percent. The yearly growth for capital construction investment during the First Five-Year Plan is as follows (the value of the previous year is set at 100): 1 percent growth for 1957, 6.9 percent growth for 1958, 9.4 percent growth for 1959, 2.8 percent growth for 1960, and a 1.2 percent decrease during 1961. The investment ratios for sub-sectors are as follows: 54.6 percent for industry, 5.7 percent for agriculture, 10.9 percent for transportation and telecommunications, 1.2 percent commerce, and 27.6 percent for non-productive construction.

Looking at the proportions of savings and investment in [North] Korea's First Five-Year Plan, although they are about equal to China's, the price of [North] Korea's heavy industrial products is quite low while the price of consumer goods is high. If [you] switch the prices to China's, then [North] Korea's rate of savings for 1961 is much higher than 22.6 percent. Capital construction investment as a proportion of fiscal revenue would also be much higher than 32 percent.

[North] Korea's fiscal and foreign exchange balances during the First Five-Year Plan are relatively precarious. Looking at [their] foreign exchange balance sheet, from 1959 through 1961 [they] will still have 497 million rubles (USD 124.25 million) in foreign aid and 141 million rubles (USD 35.25 million) in loans (as far as we know, these are mainly the balances from past aid and loans from the Soviet Union and the fraternal countries in Eastern Europe). But there will still be deficits in foreign exchanges for 1959 and 1960; 69 million rubles (USD 17.25 million) in 1960 [for example]. This balance does not take into account changes in prices in foreign trade. If you take this into account, the deficit for foreign exchanges expands. The Korean side said that it intends to increase exports to compensate for the deficits in foreign

exchanges and did not make specific assistance requests.

To save on investments, there are some construction projects which can be postponed or not built at all. For example, the sulfur dye factory could be postponed, as China has much remaining capacity. Because the [quality of] phosphate products in [North] Korea are low, the superphosphate plant should not be newly constructed. The cement plant exceeds what [North] Korea needs domestically and it is difficult for China to accept the excess [production], so the construction could be scaled down. [They] should also consider adjusting the parabola of capital construction investment, [as] the amount of investment for 1958 and 1959 is growing too fast, so [they] should consider slowing down or delaying some of the construction projects. For the investment allocation for sub-sectors, there should be appropriate increases in the proportion of agricultural investments; for heavy industry, it seems necessary to raise the proportion of investment for chemical fertilizers, synthetic fibers, and other chemical industries in order to ensure the rapid development of agriculture and light industrial production.

Trade

Comparing the invoices [North] Korea has put forward for imports and exports with China from 1958 through 1961 with those from 1954 through 1957, the main changes are as follows: grain imports will cease while imports of cotton, cotton yarn, coal, and rubber will increase. Imports of soybeans and cotton will be reduced, while exports of iron ore and cement will increase.

Taking into account that, economically, [North] Korea is still relatively problematic, our trade policy toward [North] Korea in the future should remain as follows: trade according to the principle of bilateral needs and possibilities, provide assistance on material provisions.

Since China's Second Five-Year Plan has not yet been finalized, the amount and supply of the main export materials and the required import materials are hard to calculate in advance, so it is difficult to propose the type and quantity of imports to and exports from [North] Korea for the next several years. As a result, this time [we] were only able to exchange views with the Korean side on the main types and quantities of imports and exports for 1958. For trade with [North] Korea from 1959 through 1961, we will not conduct detailed negotiations and will [only] provide some views on our principles for certain main resources. We will explain to the [North] Korean side [our inability to conduct specific negotiations at the moment] and obtain their understanding.

The plan for trade with [North] Korea during 1958 is as follows:

Total Imports and Exports:

In 1958, [our] planned exports to [North] Korea amount to 104.7 million rubles (equivalent to 88 million yuan, USD 26.175 million), an increase in 14.3 percent compared to 1957. If our aid to [North] Korea for 1957 is included in the total exports, then it is a decrease of 30.7 percent. Total imports will amount to 71.35 million rubles (equivalent to 58.57 million yuan, USD 17.8375 million), a decrease of 17.1 percent compared to 1957. Exports exceed imports by about 30 million yuan, mainly for the investments in the Supung Dam.

China's Exports for 1958:

□□□□

Product Name

Unit

[North] Korean Request

Amount We Can Provide

□□□

□□□□

Coal

Tons

87,000

800,000

□□□

□□□□

Cotton

Tons

12,000

5,000

□□□

□□□□

Cotton yarn

Tons

1,500

500

□□□

□□□□

Cotton cloth

Tens of thousands of meters

10,000

5,000

□□□

□□□□

Rubber

Tons

3,300

3,100

□□□

□□□□

Soybeans

Tons

30,000

30,000

□□□
□□□□
Sulfur
Tons
5,500
5,500

□□ □□
□□□ China's Imports for 1958:
□□

□□□
□□□□

Product Name
Unit
[North] Korean Request
Amount We Can Accept

□□□
□□□□
Iron ore
Tons
300,000
300,000

□□□
□□□□
Gold
Kilograms
1,300
1,300

□□□
□□□□
Electrolytic zinc
Tons
7,000
5,000

□□□
□□□□
Cast iron
Tons
30,000
20,000

□□□
□□□□

Carbide
Tons
30,000
8,000

□□
□□□□
Red ginseng
Kilograms
7,000
7,000
□□ □□

Of the resources that [North] Korea has asked us to accept, the larger items are cement, bleaching powder, and ammon dynamite. We really do not need, nor can we re-export, silicon iron or squamous graphite, so we cannot accept [these items]. If it is possible for the Korean side, [we] propose to increase the supply of chromium ore, copper, chemical fertilizers, and red and white ginseng.

Based on the above plan, there is still quite a big gap with what the Korean side is requesting, particularly for cotton, cotton yarn, and cotton cloth. If our supply of cotton, cotton yarn, and cotton cloth to [North] Korea are folded into one calculation for cotton, then our supply to [North] Korea for 1958 will be a 6,000 ton decrease over the 1957 supply. If [North] Korea's cotton production in 1957 and 1958 can meet their plans, then [North] Korea's cotton cloth production will basically maintain the 1957 level. Although their per capita consumption [of cotton cloth] will be lower than in 1957, they can generally maintain the level for 1957 (7.1 meters). [We] estimate that it will be very difficult to satisfy the Korean side on this point. Therefore, apart from fully explaining our problems during the negotiations, we should also prepare to increase provisions for [North] Korea as early as possible. If it is necessary to increase the export of cotton, cotton yarn, and cotton cloth, then the export trade plans for 1958 should be reconsidered and adjusted within a certain range.

As for the import and export trade issues with [North] Korea for 1959 through 1961, we will not discuss specific products and amounts, but we will provide the following views on the resources that [North] Korea is concerned about:

□□□al: Due to China's domestic production needs, the volume of [Chinese] exports to [North] Korea for 1959 through 1961 may be slightly lower than the 1958 level. At the same time, [we] should propose that the Korean side consider the following: (1) appropriately reduce coal consumption in order to decrease the required amount of coal; (2) stop demanding the import of coal from Shuangyashan and Kailuan; (3) request less coking coal and accept more coke.

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□□□otton, cotton yarn, and cotton cloth: explain to the Korean side about the precarious situation for cotton and cotton cloth. The cotton supply in 1959 will definitely be lower than in 1958, and beginning in 1960 [we] cannot supply [them]. [We] can still supply a portion of cotton yarn and cotton cloth from 1959 through 1961, but the quantity will be lower than in 1958.

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□□□ubber: we have foreign exchange issues with capitalist countries. Whether or not we will be able to maintain 1958 levels for 1959 through 1961 will depend on the situation [then]. In the future, [we] generally cannot supply transit items. For the individual goods urgently needed by the Korean side which cannot be imported from capitalist countries, [we] can determine whether and how much we can supply depending on foreign exchanges and our ability to buy at that time.

□□

☐☐☐ Sulfur: we may be able to supply [sulfur] from 1959 through 1961, but we currently cannot confirm the quantity.

☐☐

☐☐☐ Apatite: Shipping [apatite] from the southwest is too expensive. It is best for the Korean side to accept China's phosphorus fertilizer.

☐☐

☐☐☐ Copper products: due to a copper shortage in China, we suggest that the Korean side supply us with copper and we will supply the [North] Korean side with copper products.

☐☐

☐☐☐ Linen cloth: the Korean side proposed that they provide us with linen fiber and that we provide linen cloth. We agree to this.

☐☐

As for Chinese imports from [North] Korea, [we] will inform the Korean side that the materials which the Korean side has requested we accept from 1959 through 1961 that we will continue to try to import the specific items and quantities as much as the situation allows. But for the products [we] could not accept for 1958, it is not that likely that [we] will be able to accept them from 1959 through 1961.

The [North] Korean Economic Delegation also asked to talk to me about bilateral trade pricing principles. The Ministry of Foreign Trade has already sent China's trade pricing principles for [North] Korea to the Premier [Zhou Enlai] for approval. From 1958 on, the principles will be based on international market prices in rubles. The Korean side was notified of this prior to the arrival of the [North] Korean Economic Delegation to China. The proposed talks with [North] Korea are based on this principle.

The above are our preliminary views based on of our study of [North] Korea's First Five-Year Plan and the product list for imports and exports from 1958 through 1961. Because we are not very familiar with the economic situation in [North] Korea, the expressed views are not very specific or necessarily correct. [We] are considering that [we] will not directly criticize [North] Korea's First Five-Year Plan, and instead will introduce China's experience to raise some questions for the Korean side to think about and encourage them to pay attention to. In addition to carrying out detailed negotiations on bilateral trade issues, [we] should also sincerely explain our difficulties and hope that the [North] Korean comrades can understand [them]. Please instruct on whether this is appropriate.

Li Fuchun

30 September [1957]