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Li Fuchun's Report on Sino-Korean Trade Negotiations

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Summary:

Li Fuchun reports on negotiations over Sino-North Korean trade and North Korea's First-Five Year Plan.

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Chinese

Contents:

- English Translation

To Premier [Zhou Enlai] and the Central Committee:

The twelve members of the [North] Korean Government Economic Delegation, led by Cabinet Vice Premier Kim Il, reached Beijing on 12 September [1957]. The primary mission of the delegation in coming to China is to exchange views with us on [North] Korea's First Five-Year Plan (1957-1961) and long-term trade issues. From 13 September through 21 September, we conducted several large group and small group discussions with them (mainly listening to their views). From 24 September through 28 September, [they] went to Shanghai and Hangzhou to visit twenty-two factories which produce light industrial products and light industrial machinery. On 29 September, [they] returned to Beijing to continue visits and meetings. They mainly discussed trade and did not raise issues of aid or loans (in fact, the Korean side will wait to see the outcome of trade negotiations. If trade won't satisfy their requests, then they will raise aid).

We believe that [North] Korea's First Five-Year Construction Plan should be on the basis of developing industry and agriculture and that self-reliance should be given priority in order to ensure the progressive development of [North] Korea's economy and improvement of the people's lives. In terms of Sino-[North] Korean trade, based on what China can do, trade can actively support [North Korea's] economic development. As much as possible, [China] will strive to achieve balanced trade and will not use assistance and loans to advance [North Korea's] self-reliance. Through [North] Korea's negotiations with the Soviet Union, [they] have learned from experience about this type of policy, but their understanding is still not deep enough. According to this policy, the talks and our views are reported as follows:

1. Planning:

[North] Korea's post-war three year recovery plan has already been completed and has exceeded its goals. According to population averages, their primary heavy industrial production has far surpassed China's. Their light industrial production and food [production] are equivalent to China's. However, their cotton [production] is far less than China's (last year they only produced 2,000 tons. This year they plan to produce 4,000 tons). Investment in capital construction during the Five-Year Plan is still concentrated in heavy industries, while agricultural investments account for only 5.7 percent. The growth rates for industrial and agricultural production are both set very high. Within five years, industrial production will have grown 142.7 percent (average annual growth rates of 19.3 percent) while agricultural output will grow by 70.5 percent. People's consumption level will be raised by 21 percent.

Very little is known about the situation in [North] Korea (before they came to China, the Koreans had detailed discussions with the Soviet State Planning Commission in Moscow). For [North] Korea's First Five-Year Plan, [we] used the style of introducing China's experience and raising several questions for the reference of the Korean side.

- a. The relationship between industry and agriculture. Agriculture has a great influence upon the national economy. China's Second Five-Year Plan is on the basis of developing heavy industry, [but] agriculture will be developed simultaneously. The proportion of agricultural investments to total investments will be significantly increased from the 8 percent of First Five-Year Plan (the plan stipulated 5.7 percent). Certain heavy industrial products are already in excess in [North] Korea while the supply of consumer goods is still problematic. During the First Five-Year Plan, is it possible to consider paying more attention to the development of agriculture and raising the proportion of investments in irrigation works and agriculture [?] [They] should consider building fewer factories, postponing development, or reducing the scale of heavy industries which are short of resources or produce surpluses that exceed domestic demand and are difficult to export.
- b. Reliable planning. According to China's experience, industrial and agricultural production plans, especially long-term plans, must be sufficiently reliable [so that one can] strive to exceed the planned goals. Otherwise, difficulties will arise during the implementation of the plan. The growth rate stipulated by [North] Korea's First Five-Year Plan is quite vigorous,

[but we] recommend further study on industrial production based on the possible supply of raw materials and product sales. Efforts for agricultural production are completely necessary, but [the North Koreans] must consider the impact of natural disasters and the level of national support upon agriculture. The plan should be a little more reliable.

- c. Improving people's lives. Improving people's lives is necessary, but [the following] require consideration: first, growth rates for improving livelihoods must be very reliable, and it is even preferred that they be set low so they can be surpassed. Second, demand and the possible supply of materials must be balanced. This is more active. It is estimated that the supply of consumer goods will still be problematic over the next five years in [North] Korea and that the growth in production of some of the main consumer goods is not guaranteed. Therefore further study of the growth rates for consumer products is required for the improvement of the people's lives.

2. Sino-[North] Korean Trade:

The Korean side requested that we come to an agreement on a summary manifest of imports and exports and mutual pricing principles.

The Korean side proposed that China supply materials worth 513 million Renminbi over the next four years. Compared to the 922 million yuan in aid and trade exports from 1954 through 1957, this is a reduction of about 400 million yuan.

Because the Chinese Second Five-Year Plan has not been finalized yet, it is difficult to predict the supply of export resources and the required quantities of imported materials. Additionally, the [North] Korean First Five-Year Plan has not yet been finalized. We have already told the Korean side that we can only exchange views on the main materials and quantities of imports and exports in 1958 during these talks. Concerning trade for 1959 through 1961, [we] cannot discuss this. The Korean side expressed agreement, but hoped China could explain the likely four main materials to be exported to [North] Korea from 1959 through 1961. The two sides have already talked about pricing principles in bilateral trade, and from 1958 onward, they will be based on international market prices and calculated in rubles.

The material requested by the [North] Korean side for 1958 is valued at 142 million yuan. The [North Korean request] is much higher than the Ministry of Foreign Trade's plan for 5.1 billion yuan in total exports in 1958, of which there was to be 88 million in exports to [North] Korea. The key issue is the quantity of cotton, cotton yarn, and cotton cloth which the Korean side requested that we supply. These are much higher than the quantities which the Ministry of Foreign Trade had decided to export to [North] Korea. The [North] Korean side also hoped that we can provide [sufficient] quantity of other resources.

[We] estimate that if we completely balance the mutually needed import and export goods of the Ministry of Foreign Trade, in the four years from 1958 through 1961, the trade balance (surplus) will be about 80 million to one billion Renminbi (an annual average of 20 to 50 million yuan). We believe it would be best not to use grain aid or loans, but rather for Korean side to take up debt in trade or [for us] to, as much as possible, absorb materials which we do not urgently need from the Korean side in order to balance trade. These suggestions would be of interest to [North] Korea's self-reliance. [We] ask that the Central Committee decide [on this matter].

The main resources to be supplied to [North] Korea in 1958 (the materials the Korean side are most concerned about) are listed below:

	[North] Korean Demand	Our Supply
Product		
Coal (tons)	870,000 (700,000 tons of coke)	870,000
Sulfur (tons)	5,500	5,500

Sulfur (tons)	3,500	3,500
Rubber (tons)	3,300	3,100
Cotton, cotton yarn, cotton cloth (tons)	15,000	9,000

The coal and sulfur are based on the quantities listed in the Korean side's manifest. The [amount] of rubber being supplied is basically the quantity requested. Both are slight increases over 1957. Cotton, cotton yarn, and cotton cloth will not be the same as the quantity [requested]; the amount of cotton calculated will be less than in 1957 by 3,000 tons. This is problematic for the Korean side. However, we also do not have enough cotton for ourselves (not to mention if we provide an excessive amount [of cotton] to [North] Korea, then this would also create more problems in borrowing cotton from the Soviet Union. It would not be good to speak to the Soviets about this).

When discussing cotton, cotton yarn, and cotton cloth, the [Chinese] trade organization originally promised 6,000 tons of cotton. The Korean side was very nervous when they heard this and even asked whether they could meet higher-ranking officials. This morning, the Korean side met Comrade Jiang Ming and asked that we provide the requested amount of cotton, cotton yarn, and cotton cloth. They also mentioned that they are willing to provide us with 30,000 tons of nitrogenous fertilizer, 200 tons of copper, and 20,000 tons of corn in exchange for our cotton. Comrade Jiang Ming said that [while] [North] Korea's grain [situation] is also very difficult, the problem is that China does not have cotton, not whether [North Korea] can give grain to China. Based on the situation, it is estimated that the promised 9,000 tons [of cotton] will still not be able to meet [North] Korea's request. As a last resort, we can increase the offer to 10,000 tons (including cotton, cotton yarn, and cotton cloth). [We] request that the Central Committee consider and decide on whether this is possible.

In accordance with the above arrangements, the value of exports to [North] Korea in 1958 will exceed 88 million yuan, the figure originally made by the Ministry of Foreign Trade, by about 10 million yuan. If [we] cannot increase export materials to the 51 billion yuan in total exports, then there needs to be a corresponding reduction in exports to other countries and use of foreign exchanges.

The Korean side wanted us to explain the main materials which will be likely be supplied from 1959 through 1961. They are as follows:

1. Coking coal: We can continue to provide quantities at the 1958 level.
2. Rubber: Maintaining the 1958 level will depend on foreign exchange and [China's] ability to purchase during those years.
3. Sulfur: Ask that the Korean side resolve their domestic production. If necessary, we can strive to maintain the 1958 levels.
4. Cotton, cotton yarn, cotton cloth: The quantities provided for 1959 will definitely be less than in 1958. We are afraid that it will be difficult to provide cotton in the future. We can still provide some cotton yarn and cotton cloth, however the amount will also be less than in 1958.

[North] Korea's request [for cotton] is 10,000 tons in 1959, 6,000 tons in 1960, and 3,000 tons in 1961, as they are preparing to grow more of their own cotton.

Please review whether the above mentioned policies and content of [North] Korea's First Five-Year Plan and [Sino-North Korean] trade are appropriate. Because the Korean delegation is prepared to return to [North] Korea on 7 [October], respond to the Korean side by 6 [October].

Regards

[Li] Fuchun

4 October [1957], 10:00 p.m.