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**An Assessment by the GDR Foreign Ministry of the
Report from the GDR Embassy in Pyongyang
regarding the Economic Situation of the DPRK for
the 1st Semester of 1960**

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Summary:

The GDR Foreign Ministry assess the economic failures of the DPRK, attributing the work of the (Korean Worker's) Party, including the partition of the 7-year plan and other problems in agriculture and industries, as the major cause.

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GDR Foreign Ministry
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A s s e s s m e n t

of [GDR Embassy] Report [on Economic Situation of DPRK] for 1st half [of 1960]

In its assessment of economic developments, this report includes for the first time problems arising the political work, in particular those of the Party. It demonstrates very clearly the political components of certain decisions on the DPRK economy, and the conclusions drawn by the Party for its political and economic work. Yet it looks to us like a deficit that the report presents the implementation of commitments in the transition year, and the overcoming of disproportions and weaknesses of certain economic branches, mostly as problems of working style, and as questions of how to fight formalism and bureaucracy in the work of local institutions.

The [1959] December plenary session [of the KWP] has outlined a new basic concept for the Party's economic policy. This concept was based on the real situation in late 1959:

- Over-fulfillment of the Five-Year-Plan in gross production. Yet this creates severe tensions (disproportions) in relations between industrial branches, in particular concerning heavy industry.

- . Falling behind of consumer goods industry, especially local industry.

- . Falling behind of agriculture.

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All these phenomena were caused by violations of the economic law of planned and proportional development.

Furthermore, there were the following notable factors:

- Direct economic aid by the socialist states, which previously represented a major part of investments, essentially phased out.

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- Through falling behind of branches commissioned with the supply of the population, and in combination with wage increases, disproportions were created between purchasing power and the deficient supply of goods.

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Elimination of these tensions ultimately signifies the restoration of appropriate proportions in developing a national economy. Given the conditions of the actual economic course as it was in effect in 1959, this meant to change the basic economic concept. Namely: Utilization of all domestic reserves, in particular increasing work productivity and the utilization coefficients of institutions, and the lowering of primary costs.

By simultaneously tackling a major number of industrial objects, starting credit repayments, and undertaking large projects in the area of housing construction, options for new investments were severely limited. Therefore they basically follow this line: Completion of industrial projects already initiated, and focus on essential branches of industry. This situation premeditated the decisions made at the 1959

December plenum. Comrade Pak Seong-cheol [Pak Song Chol] referred to the new situation in the Party's economic policy ("Rodong Sinmun" of 19 March 1960).

It is now imperative for the Party's work to enable its members to explain the new complicated tasks to the masses and assume leadership in the movement for socialist brigades and innovators, i.e. to orient the great enthusiasm of Korean workers towards the correct assignments.

Yet such cannot be achieved with the current working habits of many party and state organs, in particular on local levels, as the work to be done requires creative leadership. This seems to be the reason why [the KWP] is currently paying major attention to improvements in the party's working habits and style.

The tasks ahead must be explained in such a way to make all workers understand that the new economic policy does not apply for this year of transition only. It looks like it became evident during the course of 1960, that the main targets of the transition year are not within realistic reach during this very year. Such can be inferred from partitioning the Seven-Year-Plan into two stages, as we have learned from Kim Il Sung's speech on 15 August 1960. The report of our embassy should not have failed to reference these important facts.

The report hints at, but does not explain, how most of the tense problems have not been fully solved yet; due to the various production branches' plan compliances respectively non-compliances. In this vein, some of the report's conclusions appear to optimistic to us here [at the Foreign Ministry]. Not that we have doubts about the possibility to solve problems as such. Yet it constitutes such a problem when all tasks are still valid for an extended period (at least the first two to three years of the Seven-Year-Plan). In our opinion, this again raises the question of how to assess the basic concept of the transition year. The embassy report refers to this fact, but it seems to us as not having been sufficiently, and appropriately, highlighted.

We have drawn some conclusions from this report.

Agriculture

Obviously it is difficult to assess the field-intensive DPRK agriculture without knowledge of harvests' results.

Yet the non-compliance with tasks of supply for agriculture and for the peasants (mechanization, goods from local industries for mass consumption), the further falling behind in animal breeding, and the now evident problems to supply the people with basic and special goods, seem to be a result of lacking incentives for the peasants to sell more of their products to the state. We think this is not only a problem of pricing, but in particular the question of what agricultural cooperatives can actually buy for themselves from their money. If you infer from the fact that the agricultural cooperative "Korean-German Friendship" has 220,000 Won in their account, it serves as evidence how certain necessary equipment is unavailable due to deficits pertaining to the supply of goods. Problems of local industries, which are largely responsible to provide the supply of mass consumer goods, thus have a major impact on the agricultural situation.

We do not know exactly the details of the causes of obvious problems. You can only make general assumptions based on reports and statistical data. The problems of economic relations between cities and the countryside, between industry and agriculture warrant special consideration in a separate analysis. Just to list some of the problems here:

Function and actual functioning of the stores to buy up products.

New rules for price ranges for agricultural products. There are government subsidies for the price of rice. We do not know whether this pattern also applies to other products. With market prices constant, an increase in producer rates ought to result in an increase in subsidies. This will lead to further strain on the government budget and would in turn consequently lead to a further contracting of options to make investments.

For some time already, the falling behind of animal breeding is noteworthy. In November 1958 already, the extended session of the KWP Central Committee's Standing Committee passed a resolution about the need for rapid development of stock farming. The Party plenary in June 1959 underlined the importance of this task, and during the December plenary session there were again clear-cut instructions. Yet it seems like they even failed to convince the peasants of the basic necessity of stock farming. Material incentives do not seem to exist and, especially, mandatory requirements like the existence of young stock and winter fodder are not met everywhere.

This situation creates problems in terms of providing food for the population. In our analysis, we assessed the turnover of goods with a ratio of 50:50 between industrial products and foodstuff. Yet the "Minju Joseon" newspaper stated on 13 September 1959 that 75 percent of people's income must be spent for the purchase of food. If we assume, that the remaining 25 percent, rents and other expenditures notwithstanding, are spent to buy industrial products, the share of industrial products in the overall sales volume of goods has decreased even more than we expected in our analysis (overall turnover growth of one percent with an increase of foodstuff turnover of 25 percent). Thus the already rather unfavorable ratio between foodstuff and industrial products did not improve during the first half of 1960.

This situation helps to understand the major efforts undertaken in local industries. It also underlines the importance assigned to the [upcoming] opening of the vinylon factory.

These examples are supposed to serve as evidence, here leaving aside farm machines and fertilizer industries, for certain deficits in proportion between agriculture and local industries which are right now obviously quite problematic. The fertilizer industry has not yet reached the production results of the year 1958. This situation further aggravates the one mentioned above and leads us to another major problem: energy supply.

The [cited GDR embassy] report does only report a part of the story, namely the non-compliance with plan targets by 7 percent. The reason for this non-compliance is noted correctly by pointing to water shortages in hydroelectric power plants. Yet the second fact to be considered here seems to us even more important, namely that electrical energy is absolutely insufficient, even if the plan would have been fulfilled.

In 1957 about one half of DPRK energy use was consumed by the chemical industry (3.4 billion Kilowatt per hour). In 1959 energy production increased to 7.8 billion Kilowatt per hour. However, energy demand grew even more through the opening of new plants ([Bongun], Huicheon, Electrolyte Zinc plant in Nampo). Next year the vinylon plant [in Hamheung] will be added as another major user of energy. In order

to improve the energy situation decisively, only the launch of new capacities will suffice. Until 1961 about 500 Megawatt of electricity will be added. Et even this growth does not seem to keep up with the growth of energy users. In our mind, major reserves to save energy are with industrial plants, not with the people. There also seem to be reserves within electrical energy. In 1958 production was 7.6 billion Kilowatt per hours. Installed power in 1958 was 1360 Megawatt (according to "Novosti Korei", No. 20, 1960). Respective calculations point to an average utilization of Korean power plants of 64 percent. At this point, the water shortage problems seem to set in.

All these were the problems we analyzed when working through the report by our Pyongyang Embassy for the first semester of 1960. Our remarks do obviously change nothing of the overall positive assessment of this report. Many of our conclusions and opinions we could only reach on the basis of this report. We discussed it jointly with the comrades of the Government Planning Commission and the Ministry of Foreign Trade.

For our future work we have drawn the conclusion to emphasize even more the correlations between political and economic tasks in our own assessments.

Gräbner

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