

North Korea – doing business in a demanding environment

Despite political obstacles within the system and internationally, it is possible to set up successful business in North Korea, says Felix Abt. Identifying partners and exploring market potentials are difficult tasks. Having completed them, one can count on a dedicated workforce.

The Right Local Partner: The Most Important Requirement to Succeed
First, you need a Korean partner for your business as you cannot do any business without one and, second, you do have to find the right one if you want to succeed. When you start with your fact finding mission you come across people who want to introduce you to a specific business partner or they want you to do business with themselves. Of course, they have a vested interest and, most likely, they will not introduce you to alternative and potentially more suitable business partners. But you need to know that in every industry there are companies of different sizes, competence, ranges of products, competitiveness etc.

My German and French co-founding partners of Nosotek, the first foreign and North Korean invested software joint venture in North Korea, were strongly urged by the Korean managers and the resident foreign representatives of a very large software company (the representatives depending on this firm for their visa and residence permit...) to set up their business with this enterprise only and they claimed it was by far the best one in the country. I advised my business associates, however, to make a selection from half a dozen potentially suitable joint venture partners and work with half of them during a trial period. They placed orders with three companies, including the large company so hotly recommended by their expatriate representatives, for more than a year before deciding with whom to set up the joint venture. Two of the three enterprises did very well. Surprisingly it was the largest one that failed to communicate properly and to deliver the working results flawlessly and on time. My partners got desperate,

as they were about to lose customers in Europe and stopped working with this company. This example shows that without (better) alternatives to the suggested large software company the JV would never have been founded or it may have been doomed to failure and would not exist today. With the present JV partner, however, Nosotek JV has evolved into a prime address for outsourcing among a steadily rising number of European software companies.

Korean partners may have vested interests

In the case of the PyongSu Pharma JV the foreign investors were just lucky. They were introduced to the largest pharmaceutical company under the Ministry of Public Health by a British economics professor teaching at a university in Seoul who acted as a consultant and a so-called North Korea expert. Although he had not the slightest clue of the pharmaceutical market and its players the JV partner happened to be competent enough and willing to support the JV as much as he could. But had the consultant known about other pharmaceutical companies in North Korea he might have recommended the most resourceful one that operates an impressive pharmacy chain across the country. As managing director of PyongSu I had to start building up a pharmacy chain (which our JV partner did not have), driven by the necessity to avoid serious payment losses when selling to pharmacies beyond our control. In other words, the PyongSu JV could undoubtedly have reached profitability

much earlier had the foreign investors partnered with this more resourceful pharmaceutical company. This is no longer an issue as PyongSu has been doing relatively well with its less resourceful JV partner until now, who has been very supportive in other ways within the given limitations and possibilities.

Limited Markets: A Selective and Carefully Targeted Approach Required

North Korea has a socialist public health system where healthcare is free for patients. Pharmaceuticals available at hospital pharmacies are free of charge. Drugs that are not available there can be bought in pharmacies. As long as a pharmaceutical is available in a hospital the patient will go there to get it without paying for it. If it is not there he will go to a pharmacy to buy it. Pharmacies are complementary to the public health system and fill gaps. It is difficult to say how big the “market” is since a large amount of pharmaceuticals in hospitals is donated by humanitarian organizations and the “pharmacy market” follows the availability respectively non-availability of drugs in the hospitals. Branded and, consequently, more expensive import pharmaceuticals are rather costly to introduce since, unlike in other countries, neither multinational companies nor their famous brands are known to prescribers and patients and need to be made known with a very costly effort. Pharmacies mostly sell low-priced generics made in North Korea, Russia, India and China.

Other, less limited, consumer goods markets have been dominated to a large extent by Chinese products. The Koreans would like to substitute them by products made in North Korea and would also like to see more European

products instead of Chinese products. German products are popular and could find customers in North Korea, provided the prices are not significantly higher than Chinese.

More expensive investment goods such as machines for manufacturers are not easy to sell since there is no export cover such as Hermes and consequently no export financing and customers lack the necessary cash. The only way of selling machines is to arrange for a countertrade deal such as being paid by finished goods made on the machine. I came across Chinese machines’ sellers who do that. German machinery manufacturers may sell second-hand machines and agree on an innovative payment deal with their North Korean buyer.

There should be no illusion that North Korea is less interested in buying finished products but in producing them domestically and your partners will ask you rather earlier than later to enter into a manufacturing joint venture (a 100% foreign-owned subsidiary being excluded). A JV could be structured in such a way as to develop it in various stages to better control the risk (e.g. final assembly of a machine first for domestic and export markets such as China, thereafter more value to be added locally).

Human Resources: Most Decisive for the Development of Any Business

I lived and worked for seven years in North Korea, first as the country director for a European multinational, then as an agent for several multinationals in selected strategic business fields such as infrastructure, mining, textiles, consumer goods and IT and also as managing director of the pharmaceutical JV PyongSu. I was also the founding presi-

dent of the European Business Association, a de facto European Chamber of Commerce in Pyongyang and a co-founder and school director of the Pyongyang Business School where senior executives of North Korean companies and ministries are participating in regular seminars. I don’t know if there is any other foreign businessperson who came in touch with so many North Koreans from so many different enterprises and government agencies like me.

In retrospect I can say, and it amazes myself, that all North Koreans, stemming from many different organizations that worked with me were all hard working and eager to learn. Overtime was never an issue, people worked very long hours including weekends and during the night if a job needed to be done within tight deadlines and we mostly set demanding targets jointly. I tried to instill an “obsession for quality” in my staff when it came to manufacturing, products, services and delivery times in order to beat foreign and domestic competitors and all employees wholeheartedly shared the philosophy rather quickly.

North Korean staff can easily be trained and reach international standard faster than staff in other countries. Their low cost is highly competitive although other input cost (telecom, transportation, electricity, land etc.) may be less competitive than elsewhere. The main reason why Chinese are more successful than Europeans and other Westerners is that they use Chinese of Korean origin from provinces bordering North Korea who understand the culture, are pragmatic and work with and within the existing system without trying to challenge or to change it as Westerners often—consciously or subconsciously—tend to do.

Praxis



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The author's profile can be found under www.linkedin.com/pub/felix-abt/12/42b/352

Videos on foreign business activities in North Korea can be found on www.youtube.com under “businessNK”