

DPRK Business Monthly

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As a rich man is likely to be a better customer to the industrious people in his neighbourhood than a poor, so is likewise a rich nation. [Trade embargoes] by aiming at the impoverishment of our neighbours, tend to render that very commerce insignificant and contemptible.

Adam Smith, Wealth Of Nations

International

Trade with China Growing

[The following is an edited version of the latest North Korea Report from the Institute for Far Eastern Studies.]

As inter-Korean commerce has all but dried up in the wake of the Cheonan incident, trade between North Korea and China appears to have continued to grow. According to Chinese customs statistics released on July 6, trade with North Korea from January to May amounted to US\$983.63 million-worth; 18.1 percent more than the US\$833.07 million reported for the same period last year.

North Korea imported US\$727.192 million-worth of Chinese goods (a 29 percent increase over the same period last year), but exports dropped by 4.9 percent, amounting to only US\$256.438 million-worth. This indicates a 60 percent increase in North Korea's trade deficit with China, which was US\$470.757 million in the first part of 2009. With South Korean sanctions against the North halting all inter-Korean trade outside of the Kaesong Industrial Complex following the sinking of the Cheonan, it is expected that Pyongyang will become even more economically dependent on Beijing.

Meanwhile, during this period crude oil accounted for most of North Korea's imports from China, as Pyongyang bought 254,000 tons (slightly more than the 247,000 tons bought in early 2009). However, due to rising international fuel prices, this oil cost the North US\$157.097 million, a 76 percent increase over what Pyongyang spent during this period last year.

In addition, rice (24,400 tons), corn (31,400 tons), beans (20,500 tons), flour (34,000 tons) and other necessary food imports totaling 11,300 tons reflected a 41 percent increase over the same period of 2009. The cost of fertilizer imports also jumped sharply, amounting to 81,943 tons, or 115.6 percent more than the 38,004 tons imported from January to May 2009. Increasing imports

of food and fertilizer are a result of the growing agricultural difficulties being faced in the North. Based on current prices, aviation fuel imports also grew by 46.8 percent, freight trucks by 98.7 percent, automobile fuel by 47.4 percent, and bituminous coal by 137 percent.

The top ten official imports of Chinese goods by North Korea were as follows: crude oil (21.6 percent); aviation fuel (3.1 percent); freight trucks (2.9 percent); automobile fuel (2 percent); bituminous coal (1.9 percent); fertilizer (1.8 percent); beans (1.6 percent); flour (1.6 percent); rice (1.5 percent); and corn (1.1 percent).

North Korea's exports to China were mainly underground natural resources. The top ten exported goods were: iron ore (17.1 percent); anthracite (16 percent); pig iron (9.6 percent); zinc (5 percent); Magnesite (3.6 percent); lead (2.4 percent); silicon (2.3 percent); men's clothing (2.2 percent); frozen squid (2.1 percent); and aluminum (1.9 percent).

“DPRK Leasing Squid Fishing Rights to PRC”

North Korea is allowing Chinese fishermen into its territorial waters on the East Sea in exchange for cash, according to Seoul government officials.

About 250 Chinese boats are operating near Najin and Chongjin, two port cities in North Hamgyong Province, a northeast coastal area. It is the first time such a large number of Chinese craft have been allowed to operate in North Korea's seas.

North Korea is collecting about 250,000 RMB (about US\$36,913) for each boat for 2010, meaning it is expected to earn about 62.5 million yuan from the deal.

“Many of the North's fishing boats are extremely outdated and are experiencing intense fuel oil shortages, while squid prices in China have gone up due to supply shortages,” a ROK official said. “So each side's interests have been satisfied.”

North Korea needs more cash to finance state projects, including the Pyongyang modernization project that involves paving major roads, upgrading railway networks and refurbishing urban streets.

“They are trying to secure more foreign currency through a commercial deal that is not subject to UN Security Council Resolution 1874,” said the official, referring to the UN economic sanctions adopted in June 2009 that involve trade restrictions, cargo inspections and other limits on financial transactions.

“The fishing rights the Chinese boats have secured cover most of the North's territorial waters in the East Sea,” said another Seoul official. “Once the squid start moving to the south, the Chinese fishing boats will travel farther south, possibly all the way down to Heungnam, Sinpo and Wonsan,” said another South Korean government official, referring to the North's port cities in South Hamgyong Province.

PRC Steel Firms Eye More NK Ore

China's Shougang Group has hit an impasse on its plan to take over Tonghua Iron & Steel in Jilin Province, according to the 21st Century Business Herald, published in the PRC.

Tonghua's main attraction as a takeover target could be its proximity to North Korea, where Chinese firms are already mining iron ore to bring back to China.

Beijing is promoting revitalization in rustbelt Northeast China, which planners believe could get a boost if the North Korean economy ever opened.

The deal, which may allow Shougang to take a majority stake in the debt-ridden northeastern mill, is at a deadlock due to divergent views over restructuring, the paper quoted unnamed sources as saying.

The paper also said Shougang met resistance from the local provincial government, which did not want to give up control of Tonghua, the only sizable mill in the region.

Shougang is China's seventh-largest iron and steel mill, producing 17.3 million tonnes of crude steel last year.

Russian Diplomats Tour NK Cooperatives

Voice of Russia radio reported that "in a traditional show of warmer ties," DPRK-based Russian diplomats have paid a visit to several agricultural cooperatives on the outskirts of Pyongyang, where locals are now bracing for the 2010 harvest campaign. The Russian diplomats contributed a number of tanks of diesel fuel to the DPRK farmers.

NK to Boost Cooperation with UNPF

The DPRK will strengthen its cooperation with the United Nations Population Fund (UNPF), Yang Song Il, a section chief of the country's Population Center, said on the occasion of World Population Day, July 11, KCNA reported.

The 2007-2010 fourth cooperation program between the UNPF and the DPRK would be finished and the 2011-2013 fifth cooperation plan would be worked out this year, Yang said.

"We will continue surveys in different fields to make contributions to the development of the national economy and public health, and further strengthen cooperation with international organizations, including the UNPF," he said.

The DPRK signed an agreement with the UNPF in 1985. Since 1986, the UN body has cooperated with the DPRK in population work, including the training of experts and the improvement of women's health, KCNA said.

The DPRK government conducted its first nationwide census in 1993 and the second in 2008 in cooperation with the UNPF. The results of the survey served as basic data for working out the national economic growth plan and the public health plan in a scientific way, the news agency said.

US Neurosurgeon Devotes Skills to North Korea

[From the Del Mar Times]

San Diego neurosurgeon Dr. Kevin Yoo recently spent the first half-day of his medical mission to North Korea assembling a \$20,000 surgical operative microscope that his travel partner donated to the Pyongyang University Hospital.



Dr Kevin Yoo

And both he and his fellow neurosurgeon Dr. Kee Park, who retired from private practice in Missouri several years ago to devote himself to humanitarian medical projects, demonstrated the effectiveness of the new scope in a series of operations they performed or assisted in during their three-day teaching visit to the North Korean capital in early June.

Yoo, 45, a Carmel Valley resident and father of three children, who was born in Seoul, South Korea, took time off from his busy practices in La Jolla, Poway and Temecula to join Park in a "special access" mission to the DPRK arranged with the help of the United Nations.

Park previously made similar trips to Ethiopia, Nepal and, on four occasions, to North Korea.

Yoo learned of Park's humanitarian efforts at a meeting of Korean-American Spine Surgeons, and volunteered to join Park, who lives in Indiana, on his fifth visit to North Korea last month.

Yoo is a staff physician at Scripps Memorial Hospital in La Jolla specializing in head, neck and spine surgery.

Commenting on his visit to North Korea, Yoo said he was impressed with the knowledge,

intelligence and skill of the North Korean surgeons. "But," he said, "they just didn't have the tools" that American surgeons often take for granted.

"The microscope was a tremendous addition to what they had," Yoo said. "Dr. Park told me they had an old microscope that was broken down and he had a terrible headache using it because only one of the eyepieces worked and the visualization was pretty poor."

Initially, Yoo was scheduled to assist in the operations, but, as it turned out, he did most of the work on two lumbar disc operations that the North Koreans were not used to performing "the way I did it."

Given the tense political climate between Pyongyang and Washington these days, especially after the alleged North Korean torpedo attack and sinking of a South Korean warship in March, we asked if he and Park, as Americans, had experienced any animosity toward them.

"No," Yoo said, "we were very well received. The gratitude they showed was always present, and I was told many times to come back.

"They were very grateful, and, obviously, very much in need of our help, very much in need of tools. It can be as simple as sterile gloves. They have them, but they have to recycle them. These guys would take the gloves, wash them, re-powder them, and use them again. And, for us, everything is disposable.

"I would just like to be able to share with them what we have," he said.

He is hoping he may be able to convince Scripps to allow him to collect unused items from the operating room to donate to the hospital in Pyongyang on a return visit to North Korea being planned for next October.

Correction

In last month's Domestic section, the picture of the CNC machine was wrongly captioned. It should have been credited to Curtis Melvin of North Korea Economy Watch.

Inter-Korean

ROK Strengthens Port Barriers Against NK Goods

South Korea is inspecting its major ports to keep North Korean products from entering its territory after Seoul banned trade with the DPRK, Yonhap news agency reported.

The ban took effect in late May, following the March 26 sinking of the 1,200 Cheonan corvette. North Korea denies any role in the incident.

A Unification Ministry official in Seoul said the government had begun to work with port officials to ensure that no North Korean products arrive in South Korea via third countries.

The official said no South Korean companies have been found to be trading with North Korea since the ban went into effect, but the inspection is to enforce the ban more thoroughly.

Inchon, Pusan, Pyongyang and Kunsan are the main ports affected.

Hundreds of companies in South Korea had sent raw materials to North Korea to be assembled into final products before the ban went into force. They are seeking rescue funds from the ROK government to stay afloat amid deteriorating inter-Korean relations.

Credit Dries Up for Hyundai

Creditors stopped providing new loans July 8 to South Korea's Hyundai Group, which runs a shipping line to North Korea and major business projects there.

Nine of the group's 12 units will receive no fresh loans "until the group accepts our demands," said a spokesman for Korea Exchange Bank, the largest of 13 creditors.

The decision does not affect Hyundai's automaking and shipbuilding operations, which were hived off from the original group into financially separate businesses after the 1997-98 Asian financial crisis.

The Hyundai Group includes Hyundai Asan, which operates the projects in the DPRK, stalled by inter-Korean tensions. Hyundai Asan's projects in North Korea, including the Mount Kumgang tourist resort, have been in trouble since President Lee Myung-bak took office in Seoul in early 2008.

The Kumgang tours were suspended by the ROK in July 2008 after a female North Korean soldier shot dead a South Korean woman tourist who had strayed into a military zone, causing losses to the South Korean company of tens of millions of dollars.

Regular day trips from the South to the North's historic city of Kaesong were later also suspended.

Hyundai Asan also operates the Kaesong Industrial Estate in the North, where operations have slowed in the same period.

Domestic

DPRK Completes Biggest Tideland Reclamation

KCNA reported June 30 that the Taegyedo Tideland Reclamation Project has been completed on the west coast of the DPRK.



View of Breakwater No.3 [Photo:KCNA]

According to KCNA, the project for reclaiming 8,800 ha of tideland was the largest ever in the history of Korea. The project connects Taedasa Islet, Kacha Islet, Soyondong Islet and Taegye Islet in the West Sea with dykes extending several km. This has sharply reduced the indentation of the shoreline of Yomju and Cholsan counties in North Pyongan Province.

The reclaimed land is now home to salterns and fish-breeding farms along with a big socialist farm. In addition, embankments now protect seashore farms and villages from damage by tidal waves and salty seawater. A road linking Tasa Workers' District, Yomju County, to Jangsong Workers' District, Cholsan County, runs along the dykes.

The project is comparable to the West Sea Barrage at Nampo in terms of size and the volume of work required. It was a great feat to complete the task at a time when everything was in short supply, according to KCNA

The project was launched after the strongest tidal waves in hundreds of years hit the whole area along the west coast of Korea on August 21, 1997. Three major breakwaters were built, and large areas drained to produce thousands of ha of fertile land.

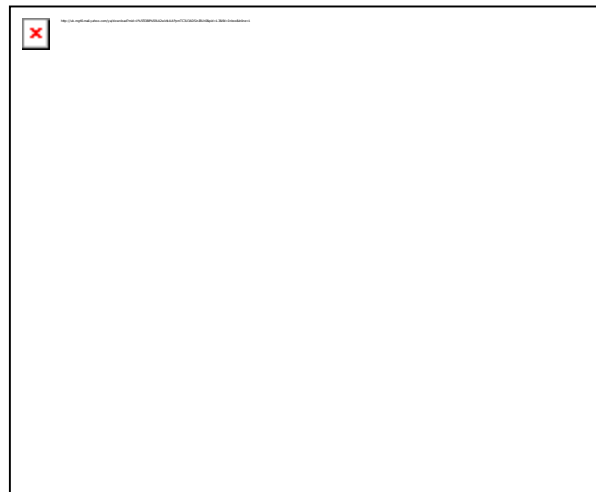
Details of GPI Consultancy Trade Mission to DPRK



**The EBA booth at last year's International Autumn Trade Fair, Pyongyang
[Photo: Paul Tjia]**

Paul Tjia, director of GPI, writes: In the current financial and economic situation, companies face many challenges. They must cut costs, develop new products and find new markets. In these fields, North-Korea might be an interesting option. For several years now it has been opening its doors to foreign enterprises. The labor costs are the lowest in Asia, and its skilled labor is of high quality. It has established free trade

zones to attract foreign investors, and there are several sectors -- including textile industry, agribusiness, fishing, shipbuilding, logistics, mining and Information Technology that can be considered for trade and investment. Although the Cold War is not ended, a growing number of European firms are exploring the country; for example companies currently producing in China, where wages are rising fast. And despite the deteriorating relations with South Korea, the number of North Korean workers in South Korean factories in the Kaesong Joint Industrial Zone has risen to 44,000.



Do you want to explore new business opportunities for your company? Then join us September 11-18 on our trade and investment mission to North Korea. The program includes individual matchmaking, company visits, network receptions and dinners. Furthermore, we will visit the annual Autumn International Trade Fair in Pyongyang, and we will meet European business people who are working and living in North Korea. At the beginning of the tour, in Beijing, we will take part in the seminar: "Doing business with the DPRK." We will return to Beijing, where you can extend your stay in China. A short report of a previous tour can be found at: www.gpic.nl/NK-report2009.pdf. If you want to participate please register as soon as possible, so we can start the visa-application procedure.

We have been informed that the Arirang Mass Games will take place again in September: the largest choreographed gymnastics display in the world, involving literally tens of thousands of

participants. The delegates of our mission will have a unique opportunity to visit this show. A once-in-a-lifetime experience!

Paul Tjia (director)

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N.B. Information on outsourcing IT work to North-Korea can be found at:

www.gpic.nl/IT_in_NKorea.pdf. See also my handbook: "Offshoring Information Technology - Sourcing and Outsourcing to a Global Workforce" (Cambridge University Press):

www.gpic.nl/bookTOC.pdf

Comment

GPI Consultancy's business mission in September is a fine opportunity especially for business people stationed in Beijing. Pyongyang is only 1.5 hours' flying time from the Chinese capital. The DPRK's embassy in Beijing is very experienced at speeding up the formalities for those interested in investment and trade, and putting you in touch with the right contacts.

On another note, a book about the DPRK very much in the news at the moment is one you shouldn't waste your money on, unless you enjoy fantasy. Barbara Demmick's *Nothing to Envy. Real Lives in North Korea*. For one thing it's based entirely on defectors' stories, and for another it's larded with old maids' fantasies. A couple of examples: "The young couple wasn't interested in the scenery. Their excitement at being together made them forget even their aching feet." And, "Three years to hold hands, six years to kiss. Not even a kiss, really, just a peck on the cheek." And this piffle won a prize for NON-fiction?

Economic Zones

"Kaesong Production Dropping"

Yonhap reported that production at the South Korea-financed Kaesong factory park in North Korea fell for a second straight month in May, as manufacturers complained of a decrease in orders amid tension on the divided peninsula.

Production at the joint complex in the North Korean border city of Kaesong stood at US\$27.79 million in May, a 1.2 percent decrease from a month earlier, according to the Unification Ministry in Seoul.

The figure, however, marked a 56 percent increase from a year earlier, the ministry said, a sign that the complex is expanding on a yearly basis.

Despite the tension following the March sinking of a South Korean warship, the number of North Korean workers in the complex has risen to 44,000. More than 120 South Korean companies employ the workers to produce labor-intensive goods such as utensils and garments.

The companies have recently called on the Seoul government to ease its restrictions on their operations, including a cap on the number of South Korean workers allowed to travel to Kaesong daily.

South Korea has also banned the companies from new investments in their businesses within the complex, which opened in 2004 and represents the last remaining major symbol of reconciliation between the Koreans.

Touring North Korea



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NK-Russia-China Tourism Route Planned

A cross-border tourism route between China, Russia and North Korea will be put into operation before China's National Day, October 1, according to the Hunchun Municipal Tourism Bureau.

The route will start from Hunchun, in China's Jilin Province, and include Vladivostok and Khasansky in Russia and Tumangang and Rason in North Korea.

According to officials from the Hunchun Municipal Tourism Bureau, the proposed transnational tourism route attracted wide attention from domestic and foreign travel agencies from 50-odd countries and regions at the 14th Far East International Travel and Tourism Fair held in Vladivostok.

It is said that the route will be jointly operated by Hunchun Sanjiang International Travel Agency, a travel service from Russia's Primorskiy Krai, and a travel service from North Korea's Rason City. Three trial operations of the route have been conducted since March this year.

Korea Compass

[The purpose of this section is to provide some background knowledge, especially for people making their first trip to the DPRK. If you know something about what you are going to see beforehand you will greatly impress your hosts, not to mention other foreign visitors, and save yourself having to listen to long-winded explanations when you really want to get down to business. Proverbs have the handy function of offering a quick insight into the thinking and attitudes inherent in a different culture.]

North Hamgyong Province

North Hamgyong Province is located in the far northeast of the Korean Peninsula, bordering China and Russia's Maritime Territory. The Hamgyong Mountain Range, the highest and steepest in Korea, forms the backbone of the province. The loftiest point is Kwando Peak (2,540 m). The northwest part of the range forms a plateau, while the eastern part descends in terraces to the East Sea.

The administrative center of the province is Chongjin City, a port and the DPRK's main iron-and-steel base. Here are located the Kim Cheek Iron and Steel Complex, the Chongjin Steel Plant, the Puryong Alloy Steel Complex and other ferrous metallurgical works. Iron ore is fed to these plants by a 98-km pipeline from the Masan Mining Complex, with deposits of several billion tons.

North Hamgyong is also the location of 90 percent of the DPRK's lignite deposits. Kimchaek City is another steel producer; its Chongjin Steel Complex turns out everything from steel plates to piano wire. Machinery and shipbuilding are important heavy industries in this area, as is deep-sea fishing. Hoeryong is famous for its cold-resistant apricots, tobacco, wicker baskets and ceramics. The Mount Chilbo region, with hot springs and miles of safe beaches, has been developed into a tourism resort.

Kim Chaek, incidentally, was a guerrilla comrade of Kim Il Sung. There is an institute of technology named after him.



A corner of Chongjin, capital of North Hamgyong Province [Photo: Eric Lafforgue]

Korean Proverb

Ttaerinnomun taril mot phyogo chado,
majunnomun taril ppotgo chanda.

("The striker can't sleep with his legs stretched out,
while the struck one can.")

A clear conscience is a good pillow.