

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

First Pacific Nation Opens Office in Pyongyang



Fiji's ambassador (official title High Commissioner) Commodore Esala Teleni, presents his credentials in Pyongyang to Chairman of the DPRK National People's Assembly Kim Yong-nam. [Photo: KCNA]

Fiji last month became the first Pacific nation to set up full diplomatic relations with North Korea.

There is no indication yet of whether the DPRK will open an embassy in Suva, the capital of Fiji.

In a joint statement, North Korea said it was promoting relations of economic, social and political co-operation with different countries under the ideals of independence, peace and friendship.

Kim said he had closely followed developments in Fiji.

"Mr Kim stressed that joint co-operation through increased high-level visits, dialogue and exchanges was inevitable for generating opportunities and strengthening bilateral relations between Fiji and (North Korea)," the statement said.

Teleni extended his gratitude to North Korea "for accepting Fiji as a sovereign state."

The statement said Teleni also briefed Kim on "Fiji's commitment to its Look North Policy, Fiji's desired membership in the Non-Aligned Movement, and the (Fiji) Government's Roadmap to Democracy and to the upcoming general election in 2014."

ROK Firms Get Foothold on NK's Doorstep

[The following is an edited version of a report which appeared in the *Hankyoreh*.]



The ground-breaking ceremony of the International Distribution Complex in Hunchun [Photo: *Hankyoreh*]

South Korea's POSCO and Hyundai Group began construction September 10 on an international distribution complex in Hunchun, a Chinese city bordering the Rason Special Economic Zone in North Korea.

The two companies held a ground-breaking ceremony at the site with around 200 South Korean and Chinese officials in attendance, including POSCO Chairman Chung Joon-yang and Hyundai Chairwoman Hyun Jung-eun. Also present were Jilin Province Party Secretary Sun Zhengcai, Yanbian Prefecture Party Secretary Zhang Anshun, South Korean Ambassador to China Lee Kyu-hyung, and Yanbian University of Science & Technology president Kim Jin-kyung.

Hunchun is located in the Yanbian Korean Autonomous Prefecture, Jilin Province.

Chung Joon-yang said the complex would “contribute greatly to promoting economy and trade as a distribution hub for China’s three Northeast Provinces.” The provinces in question are Jilin, Heilongjiang, and Liaoning.

Occupying an area of 1.5 sq km in the heart of a pilot zone for international collaboration in Hunchun, the complex will include warehouses, container storage yards, and collection and delivery facilities. It will cost around 1.1 billion RMB (around US\$173.5 million), with POSCO putting up 80% of the investment to the Hyundai Group’s 20%. The land rental period is 50 years.

The first stage of construction is set to finish in late 2013, with the resulting facilities going into operation from January 2014. The second and third stages are to be finished by 2019.

The aim of the project is distribution within Northeast China. One key factor will be access to the harbor at Rason on North Korea’s east coast, which will allow goods to be transported by sea. Hunchun is located at the border of China, Russia, and North Korea, 51 km from Rason.

POSCO and Hyundai plan to profit from the complex by storing and reprocessing items from Jilin and Heilongjiang, including timber, grain, marine products, feed and car parts, before shipping them to southeastern China. By using Rason Harbor and the access it provides to the East Sea, they can cut costs that run in the hundreds of dollars per container under the current distribution system, which relies on Dandong and Dalian Harbor.

The Beijing government is actively working to develop Rason with North Korea, which it is linking to its own so-called “Chang-Ji-Tu Development Program,” named after the city of Changchun, Jilin Province and the Tumen River. It has also designated a 90-sq-km area around the complex as a pilot zone for international collaboration, where it is working on infrastructure development, with a number of tax breaks offered. It has already secured use of the first of Rason’s three wharfs, where it has begun transporting coal from the three northeastern provinces and the Inner Mongolia Autonomous Region to China’s south.

A POSCO official said the company plans to start by transporting general items and grains from China’s northeast to its south via the Russian far east port of Zarubino.

“But if inter-Korean relations improve in the long term and we are able to use the port at Rason, we’ll be able to transport resources like iron ore and coal to South Korea and other regions,” the official cautiously ventured.

Pyongyang’s active steps to develop the Rason zone since Kim Jong Un succeeded his late father Kim Jong Il are offering something of a green light. For one thing, it has been working overtime to attract investment. On September 7 North Korea held a brainstorming session with China in Changchun, looking at possibilities for a trade investment project.

Major Chinese corporations are also investing actively in the region. The Yatai Group is planning to build a cement factory, and the Transportation Group and Merchants' Group are working on infrastructure development in Rason, China's *Oriental Daily* reported September 9.

China Gets Access to NK East Sea Port

China's state-owned Yanbian Haihua Group has bought the rights to use two wharves at Chongjin port, on North Korea's east coast, for 30 years after setting up a joint venture company worth \$7.83 million, the *Global Times* reported.

The port is close to the Rason economic zone, near North Korea's borders with Russia and China. Access to Rason and Chongjin dovetail into Beijing's efforts to revitalize its northeast region comprised of Liaoning, Jilin Provinces and Heilongjiang Provinces, together known as Manchuria.

"Those provinces need access to the East Sea, which will open the way to access South Korea, Japan, the United States and even southern China," analyst Kim Han-kwon, a China expert at South Korea's Asan Institute for Policy Studies, said.

"It is a key part of the plan." China is busy connecting the region with the North, having built a road into Rason, which includes the region's northernmost ice-free port. It also reportedly struck a deal with the North to bring in thousands of North Korean guest workers to Dandong in Liaoning.

The Chinese firm invested some US\$12 million in the deal, representing over 60 percent of the total capital, the Chinese report said. It is planning to make its first shipment through the port within the year.



Chongjin Port [Photo: KCNA]

“DPRK Military Trade Unit In Joint Ventures with China”

Yonhap reported that a North Korean trading company affiliated with the country's military is pursuing business deals with China in a bid to earn much-needed foreign currency.

Paekho Trading Corporation is heading many kinds of foreign currency-income businesses after setting up joint ventures with Chinese companies in the Rason Economic and Trade Zone as well as the Hwanggumphyong-Wihwado economic zone and the special administrative region in Sinuiju, Yonhap said.



According to PRNewswire-USNewswire, AmeriCares airlifted an emergency shipment of medicines to North Korea last month to aid survivors of recent flooding. The delivery included enough antibiotics, hospital supplies and wound care products to treat up to 15,000 survivors. Flooding and landslides from typhoons in June and July damaged 69 health facilities, leaving 700,000 North Koreans without access to health care. The AmeriCares aid will help fill an urgent need for medicines and supplies to treat the wounded and combat increased infection and disease in temporary shelters and crowded dwellings. The shipment may also be used in response to typhoons Bolaven and Tembim, which brought more catastrophic flooding and landslides, exacerbating an already desperate situation.

AmeriCares aid to North Korea is coordinated through the Permanent Mission of North Korea to the United Nations, to our humanitarian partner, the Korea-America Private Exchange Society (KAPES). KAPES staff on the ground will distribute disaster relief items to an estimated 50,000 people across four provinces. The two organizations work together to support six hospitals and clinics in the Pyongyang, North Hwanghae and South Pyongyang regions with medicines and supplies. AmeriCares also recently delivered a shipment of

nutritional supplements for children in North Korea. AmeriCares relief workers visited the country in September to assess the situation, and the organization is prepared to send additional aid as needed.

"The devastating floods compound an already dire situation in North Korea, where two out of every three people suffer from hunger," said Garrett Ingoglia, AmeriCares director of emergency response. "The North Korean people critically need assistance to recover from this disaster."

AmeriCares has been providing humanitarian support to North Korean hospitals and patients since 1997, when it delivered \$20 million in aid – marking the first civilian airlift from the United States since before the Korean War. The organization also responded to severe flooding in North Korea in 2007 and 2011 with critical medicines and relief supplies. Last year, AmeriCares provided more than \$7 million in aid to North Korea, including medicines and nutritional supplements.

About AmeriCares

AmeriCares is a nonprofit global health and disaster relief organization that delivers medicines, medical supplies and aid to people in need around the world and across the United States. Since it was established in 1982, AmeriCares has distributed more than US\$10 billion in humanitarian aid to 164 countries. For more information, visit americares.org.

Inter-Korean



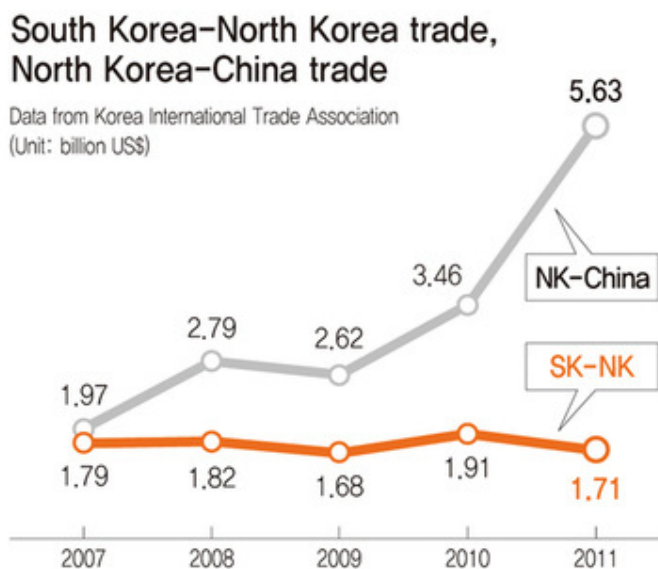
Trucks waiting to transport machinery into North Korea from China [Photo: *Hankyoreh*]

ROK Bars Firms in China Hiring N. Koreans

[Following is an edited report by the ROK newspaper *Hankyoreh*.]

A South Korean company that was preparing to open a factory near the border between North Korea and China this year is facing problems with securing manpower. As wages have risen in China, it is getting harder to recruit workers in the provinces, as many have moved to big cities where they can earn more.

At the beginning of the project, the company had planned to hire North Korean workers but now is apparently unable to do that due to the May 24 (2010) Measures put in place by the South Korean government to stop commercial exchanges with North Korea after the sinking of the Cheonan warship.



Since the enactment of the measures, the Ministry of Unification has forbidden South Korean firms from using North Korean labor. According to the law on South-North Korea cooperation, a South Korean must obtain prior approval from the Unification Ministry to contact a North Korean. But when this is requested, one must declare the reason for the contact and when the objective is for labor hire, the request is rejected.

A Unification Ministry official said, “Before the May 24 Measures there was no particular restriction about hiring North Koreans. But we feel that it is not appropriate to hire North Koreans at this time because we want to cut off cash going into the regime.” There are many South Korean businesses operating in China calling for changes. Many of those businesses are shutting down and returning home as the costs of working in China have become too high. They are therefore asking to use North Korean labor, which is much cheaper. A South Korean businessman said, “While the South Korean government is turning economic issues into political problems, the Chinese are taking full advantage of the labor resources and also mineral resources that are abundant in North Korea. We hope that that we will also be able to use these resources in a rational manner so that it will be beneficial to South Korean businesses also.”

An official of the Korea Investment and Trade Promotion Agency said that since the May 24 Measures, there has been a withering to death of South Korean businesses in China that are doing work with North Korea. "Considering the changes that are taking place in North Korea, including the labor that is being dispatched to China, there are many South Korean businesses who are expressing frustration that economic activities with North Korea have come to a stop," the official said

Meanwhile, according to *Asia Sentinel*, The handful of South Korean businesses that are seeking to operate in North Korea have always had a tough time. Now, as relations have further deteriorated between Seoul and Pyongyang, they have had their ability to operate severely cut back. Some 800 of the 1106 companies registered to do business in the North are on the verge of bankruptcy and will soon go under if the government doesn't do something, according to a coalition of businesses and civic groups that work in North Korea. The group says it is launching a campaign to get Seoul to allow them to get back to business.

Before the May 24, 2010 sanctions imposed by the ROK's President Lee Myung-bak, inter-Korean trade amounted to nearly US\$1.8 billion. But it has seen a gradual decline since the sanctions. The bilateral trade volume last year was US\$1.7 billion, down 10.4 percent from 2010. When excluding the trade via the Kaesong Industrial Complex, the trade volume remains almost zero, reflecting the fact that inter-Korean trade was severely hit by the sanctions," Cho Bong-hyun, a researcher at the Industrial Bank of Korea Economic Research Institute, told KBS Radio on the second anniversary of the measures earlier this year. A May 23 report by the Hyundai Research Institute showed approximate losses of US\$8.3 billion between 2008 and 2011.

The impetus for most of the investment came during the so-called Sunshine Policy put in place by the late South Korean President Kim Dae Jung, who won the Nobel Peace Prize for his initiatives. The Kaesong Industrial Complex, which employs more than 50,000 North Koreans, was built starting in 2003 during Kim's presidency.

However, the hard-line Lee Myung-bak administration has had terrible relations with Pyongyang pretty much since its inauguration. Commercial, diplomatic and strategic cooperation with the North has all been cut back steadily throughout Lee's time in office.

According to South Korea's Ministry of Unification, 319 of the South Korean companies registered as operating in the North have gone out of business since Lee came to power. The remaining 800 or so may not be far behind.

South Korea will elect a new president in December. The new leader will almost certainly be more open to cooperating with the North than the outgoing Lee regime. There is talk now about Kim Jong-un making efforts to develop the North's economy, and their estranged brethren in the South are natural partners.

Domestic

For Outsourcing IT, Have You Considered North Korea?

[Following is an edited version of an interview with Paul Tjia of GPI Consultancy by Steven Cherry of *IEEE Spectrum's* "Techwise Conversations."]

You know the board game Go? Did you know that one of the top computer Go programs comes from North Korea? Did you know there are a number of major IT firms in North Korea? Did you know that there are IT firms in North Korea that accept foreign outsourcing contracts, just like IT companies in India and China do? One of them, the Korea Computer Center, has more than 1,000 employees.

The man who knows all these facts and more is Paul Tjia. He's a senior consultant and founder of GPI Consultancy, based in Rotterdam, the Netherlands. He joins us by phone.

Steven Cherry: Paul, let's say I'm a company in Scandinavia that wants to offshore some work. Probably one of the last places in the world I would think of is North Korea. Tell me why it should be one of the first.

Paul Tjia: North Korea is probably indeed one of the last countries they would think about. As a matter of fact, there are a lot of other countries better known in the field of outsourcing. When I started this work in the 1990s it was India which became rather well known, and over the years dozens of other countries appeared. And I think a company in Europe, be it in Scandinavia or in Holland or the UK, they can choose now, I think, from about 30 or 40 different destinations. I think North Korea is probably indeed the least well-known country, but it has one major advantage: It can offer a very experienced skilled workforce. And the tariffs are the lowest in the world.

Steven Cherry: In the US, I believe, it's illegal to offshore work to North Korea.

Paul Tjia: I think so. Officially, American companies are not allowed to trade with North Korea, so for them...so, although I know quite a few American companies that would love to explore North Korea, it is not allowed. So most of the North Korean customers you will find—and by the way, not in Europe but in China there is a lot of cooperation going on between Chinese and North Korean companies, so I think that's now the major export market. But surprisingly, I also find North Korean companies also working in, for example, the Middle East, so they are quite going international over the years.

Steven Cherry: Okay. So let's say I'm an IT manager in Denmark or Saudi Arabia or someplace. These North Korean firms are owned by the government there, so whom do I call? Do I have to start with a government office?

Paul Tjia: Well, that's probably the main challenge. Normal IT companies have their websites, and you can contact them easily wherever you are. And the large Indian companies or the large Chinese companies, they really have their own offices all around the world nowadays. So contacting a potential outsourcing partner normally is very easy. This is the main challenge in North Korea: It is very difficult to contact them. They have their websites on a local "internet," but it's really an intranet, so the outside world cannot even see most of their websites. They are not located in many countries around the world, so sending an e-mail or making a phone call is quite difficult to North Korea. So in reality, middlemen or consultants are being used in establishing those contacts, and of course personal contacts are very important in this field. So sometimes the North Koreans meet foreign companies personally, for

example by attending trade fairs or conferences or having business visits, and then of course communication is certainly much easier. But otherwise, establishing business links is always a challenge with North Korea, not only in the field of IT but also in other business sectors.

Steven Cherry: IT workers have to have access to the Internet. How does that work in North Korea?

Paul Tjia: The IT industry is one of the most advanced sectors in North Korea, I would say. Having connections to the outside world and access to the Internet I would say is for IT people less difficult than it is for the other North Koreans. And obviously, they have to use these means of communication in order to work with foreign clients, but nevertheless it is still a rather isolated country, and even making a short visit to discuss a business project is quite difficult and time-consuming. For example, it takes one month to get a visa for North Korea, so even doing a short visit to North Korea takes a lot of time. What I see is that a lot of foreign clients avoid working with North Korea, especially in the beginning phase, and they set up their own office just outside North Korea. For example, in China where the North Koreans are working on behalf of foreign clients, together with the foreign client they set up a joint office, and then suddenly communication, be it electronic communication or personal visits, is of course extremely easy because going to China, for example, is very easy nowadays. Getting a visa for China is extremely easy. So in order to avoid the traditional problems in communicating with North Koreans, I would also say setting up a joint office in China is the best way to start exploring a North Korean company.

Steven Cherry: In 1978, before the Westernization of China and in part as the beginning of it, China set up two special economic zones, one in Guangdong Province and the other in Shenzhen. I'm wondering if this IT outsourcing could be the start of North Korea doing something like that, and generally, does this kind of work presage a capitalist opening of the North Korean economy?

Paul Tjia: Actually, North Korea is already quite open to do business with the capitalist world, I would say. They have already set up a few economic zones. There's one near the South Korean border, the Kaesong Industrial Zone, and there are around 50,000 North Korean workers now working in factories owned by South Koreans, set up by South Koreans. So the Kaesong example is quite a successful one, I would say, given the difficult political relations with South Korea. It's mainly used by light industry, by the way, clothing production, for example, and not so much for the IT industry.

View of the Kaesong
Industrial Zone [Photo:
Asia Sentinel]



Steven Cherry: So paradoxically, there are no labor laws or labor unions in North Korea because it's by definition a workers' paradise. Do we know how the workers are being treated and what salaries are like?

Paul Tjia: In general, but I think that is related to all developing countries. If you are able to work in an IT company and especially if you are able to work in an IT company working for foreign clients, that offers suddenly a lot of advantages. Salaries are higher in those export-related sectors, and of course not only are the working conditions better, but it also gives you, for example, the opportunity to travel abroad or do additional training in a foreign country or to meet foreigners. It gives you the opportunity to work with the latest technology, so I think for the average North Korean, if they can work in a modern IT company it will offer advantages to them. Also, the tariffs they charge the foreign clients are also lower than, for example, the Indian tariffs or the Chinese tariffs, so they are also trying to compete with those countries on the tariff level.

Steven Cherry: So, bottom line: Am I saving a lot of money if I outsource to North Korea compared to, say, India or China?

Paul Tjia: When we talk about doing software development there can be advantages when you do it offshore, but it is not guaranteed because doing offshore work—be it in North Korea, in China, in India—is related to a lot of difficulties. Suddenly we have to deal with a difference in time, a difference in language, a difference in culture, a difference in distance, and, in connection with North Korea, a difference in political system. So of course, doing software development in your own country is much easier than doing it abroad. So if you want to get the same quality -- and to be honest, quality is the most important issue, I would say, when you develop software or do IT work. Quality has to be guaranteed. And when you do it offshore, you get a lot of difficulties, so to manage those difficulties it takes more management effort than if you do it in your home country. So there must be a huge cost difference, I would say, if you want to get a cost advantage. If the cost difference is not that high, then it makes no sense to do the work abroad. But since North Korea offers very low tariffs and the skills of the staff can be quite high, then it makes sense even for smaller projects. Normally, for example, you might not want to do smaller projects in India because it is not worthwhile. But a small project can be done quite cost-effectively in North Korea. So it makes sense to investigate the option of North Korea, and it is easy to compare the tariffs for a total project in India, China, Vietnam or in North Korea—that can be done.

Steven Cherry: But what about all these negative reports we've been hearing about human rights conditions in North Korea?

Paul Tjia: When we look at, for example, another country, China, China in the 1970s when it started to work for foreign companies—you mentioned the economic zones they set up at that time—I think the China of today for the population is a much better country to live in than the China of the 1970s. So economic development can also eventually result in more political improvements, economical improvements, and the way people can live. So I think for any country, if they are able to expand more, to do more business, and to create a middle class eventually, that can have a very positive impact on any country, including North Korea. So in my view, I think doing business with North Korea eventually can result in many improvements—much more than just the business activities we have been talking about.

Economic Zones



Hwanggumphyong Management Building Initiated

KCNA reported that a ground-breaking ceremony for a building of the management board for the Hwanggumphyong Economic Zone to be jointly developed and run by the Democratic People's Republic of Korea and China, took place on Hwanggumphyong Islet in the Apnok (Yalu) River September 15.

Present were Hong Kil Nam, vice-chairman of the North Phyongan Provincial People's Committee, and officials concerned in the province and Sinuiju City from the DPRK side, and Bing Zhigang, vice-governor of the Liaoning Provincial People's Government of China and officials concerned in the province and Dandong City from the Chinese side.

The speakers at the ceremony noted that since the late DPRK leader Kim Jong Il and President Hu Jintao reached an agreement last year on jointly developing and managing the two economic zones of Hwanggumphyong and Wihwa Island, a series of issues have been settled for their development.

They stressed that the joint development and operation of the zones would be conducive to furthering the DPRK-China friendly relations sealed in blood, and attaining co-prosperity.

The deputy mayor of Dandong, which borders Shinuiju on the Chinese side of the river, told a press conference: "Now that the Hwanggumpyong Management Committee has been established, construction has begun on basic infrastructure, including roads. From the 15th, the business of developing Hwanggumpyong will formally begin.

"Both governments have decided to develop Hwanggumpyong first, and then go on to discuss the development of Wihwa Island," he added. "When the construction of the New Yalu River Bridge and bridges to Hwanggumpyong and Wihwa Island are completed, China-North Korea trade, culture, travel and other exchanges will become more active, and the two countries will grow closer."

Comment

Apparently for the first time, last month North Korea issued an official rebuttal of claims by a Chinese company that it had been cheated over a mining venture in the North. Responding to lurid claims on the Internet by the Xiyang Group, the DPRK's official news agency KCNA carried a statement by the Commission for Joint Ventures and Investment, a North Korean committee in charge of attracting foreign investment: "In the light of the process of implementing the obligations under the contract, the group is chiefly to blame from the legal point of view."

It is, of course, impossible for outsiders to place the blame on one side or the other. However, the indignant statement by the North Korean side at a time when the latter is particularly anxious for foreign investment enables one to read between the lines. North Korea is saddled with a problem: monopsony -- only one buyer, thanks to foreign embargoes on trade with North Korea and the Seoul government's antipathy to inter-Korean business. And that buyer is China. It doesn't take much imagination to grasp the hard bargain a private Chinese company will try to drive when it's a matter of "You'll take the price we offer or your kids will continue to starve, because you've got no other buyers!" Unfortunately for the Xiyang Group, it didn't know it was dealing with a proud people.

Also in September, there was good news from Russia. Deputy Finance Minister Sergei Storchak announced that the DPRK's debt to Russia, outstanding for decades, had been officially settled, with 90 per cent of it cancelled, and the other ten per cent to be used for "debt-for-aid" projects in North Korea.

"The decision on the settlement is a significant step as it removes the obstacles to cooperation. Now credits can be granted," said Alexander Vorontsov, an expert on North Korea at the Russian Academy of Sciences.

The settlement clears the way for a pipeline deal which will send Russian natural gas to South Korea via the North, and railway and electricity development in the DPRK.

At the same time, it further undermines the US and ROK embargoes on the DPRK's international trade.

Touring North Korea



| Koryo Tours Special Report – We've been up the Ryugyong! |

Koryo Tours Special Report – We've been up the Ryugyong!

On Sept 23rd Koryo Tours' staff were taken to the top of the enigmatic and oddly iconic 105 storey Ryu Hotel in Pyongyang – we were the first foreigners allowed to take pictures there and are able to print a handful of shots of the ground floor and the open air viewing platform more than 300 metres up.

The view was incredible and breathtaking indeed! The inside of the building still has substantial work to be done but the structure of the lobby and dining area and conference room (all on the ground floor) were visible. Sources at the site suggest 2 or 3 more years until projected completion at which time hotel rooms, office space, and long term rentals will be available.

Until then the memories of a view over Pyongyang that many have imagined but few have experienced remain us. As soon as the building can be occupied we will of course offer tours staying there – stay tuned for fu info that we'll beam from the top of the tower!

Please see below a few magnificent photos from our visit:



Hotel view from a distance



Picture from outside the hotel



Inside the hotel



* A trip from the East Coast to the scenic *Kuwol Mountains*.

Spectacular internal charter flight to *Mount Paekdu* - the highest mountain in Korea topped by the highest crater lake in the world. (cycle from the regional airport to the mountainside through forests and along roads and pathways few foreigners have ever seen from a vehicle, let alone on a bike! Ascending to the peak for a picnic lunch, and the rest of the afternoon tour the area by bike, passing waterfalls, the official birthplace of Kim Jong Il and the Chinese border area. This is the most special part of a very special trip.

The itinerary for this tour: http://www.koryogroup.com/travel_Itinerary_2012_cycling1.php
please do have a look and if you are interested in joining this trip please drop us a line at
info@koryogroup.com

If you like cycling and you're interested in seeing North Korea then this could be the one for you. There are no better bragging rights after a trip like this!

Get on your bike and join us, see you in Pyongyang!

You can see some photos of the first-ever trip down the northeastern coastal road from Rason to Chongjin on our FLICKR Photostream at:
http://www.flickr.com/photos/koryo_tours/sets/72157629338457331/

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.]

Yakov Novichenko

Kim Il Sung, the founder of North Korea, narrowly escaped death on March 1, 1946, when a member of a right-wing terrorist group (*Paekuisa*, the White-Clad Society) threw a grenade at the platform in front of Pyongyang railway station on which Kim was standing at a ceremony marking the anniversary of the March 1 Movement of 1919 (when mass demonstrations protested Japanese rule). Koreans have been traditionally described as the "people clothed in white." Kim's life was saved by a Russian military officer named Yakov Novichenko, who grabbed the grenade, losing his arm when it exploded. Members of the same group who were able to escape capture then attacked the houses of Choe Yong Gon and Kim Chaek, both later senior members of the North Korean hierarchy. These two assassination attempts failed because the intended victims had already vacated their houses. On March 13, the terrorists attacked the house of Kang Ryang Uk, maternal uncle of Kim Il Sung, ordained Presbyterian minister and later foreign minister of the DPRK, massacring his family but once again failing to kill their intended target.

In 1985 Chosun Art Film Studio of North Korea and Mosfilm Studios of the USSR co-produced a movie, "*Eternal Comrade*," about First Lieutenant Novichenko.

Kim's son and successor Kim Jong Il, during a trip to Russia, visited Novichenko's widow, and expressed his and his people's heartfelt thanks for the soldier's heroism.



Statue of Kim Il Sung, founder of the Democratic People's Republic of Korea. [Photo: KCNA]

Korean Proverb

Tolgangbiane naenoado salgetta

(Even though we are placed on a barren rock, we will live.)

The will to live conquers all hardships.

Special Supplement

By Paul Tjia

[In early October, a seminar on doing business with North Korea will take place in The Netherlands. GPI, of which Paul Tjia is the CEO, also plans to organize another business mission to Pyongyang in November. Contact: GPI Consultancy, P.O. Box 26151, 3002 ED Rotterdam, The Netherlands el: +31-10-4254172 E-mail: paul@gpic.nl Web: www.gpic.nl Twitter: twitter.com/PaulTjia LinkedIn: nl.linkedin.com/pub/paul-tjia/1/445/958

In North Korea, there are several sectors that can be considered for trade and investment. They include agribusiness, fishing, shipbuilding, logistics, minerals, information technology, and garments. Garment processing has been one of the most successful export-related activities. Companies in the Netherlands, Germany, France, China, and South Korea are producing various kinds of clothing in North Korea, and some of the local factories have become very large and experienced exporters. With a highly skilled labor force and with the lowest wages in Asia, the DPRK is attracting a growing number of foreign garment firms.



A North Korean garment factory [Photo: Paul Tjia]

The North Korean Garments Sector

For some European companies, purchasing clothing from North Korea is nothing new. Already in the 1970s, resulting from its trade with Romania, a Dutch firm came into contact with a factory in North Korea, and started importing clothing, such as T-shirts. In this period, the Soviet Bloc was the major trade partner for North Korea. Korean factories imported various textile materials, including cotton, from Eastern European countries. Most of the woven cloth and garments were then exported back to these markets.

Since the 1980s, technological advancements in North Korea's garment-processing industry and the country's accumulation of export experience have spurred growth in trade with Europe, including clients from Germany, the Netherlands and France, as well as with Canada, Japan and Hong Kong. From the early 1990s, however, North Korea's garment-processing exports saw a reduction in volume due to several factors, including international political changes, economic sanctions and an international quota system (which resulted in a tariff disadvantage for products made in North Korea).

This downward trend has changed during the last ten years, through increased cooperation and exchanges with different countries, resulting in export growth. Clothing now accounts for a large portion of North Korea's light industry sector and is a major export sector. It is also a successful foreign investment activity, with Chinese companies taking the lead in using North Korea as a production base. Also, several large, well-known European textile clients, such as C&A from the Netherlands and Gerry Weber from Germany, have experience with manufacturing in the North.

There are about 15 large garment-exporting enterprises in North Korea, each operating several factories spread around the country (see table 1), and dozens of medium-sized companies. In addition, there are some 30 crochet and embroidery exporters. These exporters have a wide range of machinery available (e.g. for cutting, sewing, sealing, ironing, pressing and embroidering) and use Computer Aided Design (CAD) and Computer Aided Manufacturing (CAM) equipment. They also have facilities for washing, packaging and transport, while some operate scientific research and technical service institutions.

The North Korean labor force in garment processing is highly skilled and flexible. Workers are available in large numbers. They produce a large variety of clothing, such as T-shirts, underwear, bras, leisure wear, trousers, sportswear, winter clothes, children's clothes, knitwear, suits, overcoats, padded clothes, sportswear, work clothes, and uniforms. The specific quality of the products is made according to the client's specifications. Quality control is always done by the factory, but additional checks can be done by the client's staff if desired. It is also possible to outsource these controls to specialized local agencies.



A quality check at a North Korean garment factory [Photo: Paul Tjia]

Apart from the existing infrastructure and skilled work force, an important advantage of North Korea is the low production costs. The labor costs are significantly lower than in other Asian countries. Since production costs in China are rising, a growing number of manufacturing companies are adopting the “China plus one” strategy, where, apart from China, another cheaper production country is selected. Moreover, in certain parts of China the supply of skilled labor is becoming scarce. North Korea is an attractive alternative location, especially appealing for the most labor-intensive products. Sometimes, even single items are now being produced in two countries, for example hand-knitted pullovers. The front side, which is the most complicated and labor-intensive part, is knit in North Korea. The back side, which is the easiest part, is still knit in China, where the two parts are also assembled.

Prices of garments are based on “Cut and Make” (CM) terms: the cost of producing the item is based on the time needed for cutting the fabrics and making the garments. These CM costs in North Korea are substantially lower than in China and other competing countries in Asia.

Table 1: Examples of Large Exporting Garment Companies

Korea Unha Trading Corporation	<p>Founded in 1976</p> <p>70 specialized clothing factories and workshops</p> <p>Full time workers: 25.000</p> <p>Main products: suits, jackets, pants, sportswear, shirts, hand knitting, and embroideries</p> <p>Quantities: suits 450.000 sets/year; jackets 3.000.000 pcs/year; winter clothes 5.000.000 pcs/year; sportswear 4.500.000 pcs/year; down wear 1.500.000 pcs/year, etc.</p> <p>Export markets: China, Russia, Japan, South Korea,</p>
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	<p>Germany, Sweden, France, Canada, Brazil</p> <p>Foreign agencies and offices: China, Russia, Germany, Malaysia</p>
Korea Ponghwa Trading Corporation	<p>Founded in 1974</p> <p>30 specialized clothing factories; 1 specialized knitting factory; 1 hand knitting workshop; technical preparation center</p> <p>Full time workers: 10.000</p> <p>Main products: suits, jackets, pants, sportswear, shirts, knitting, and embroideries</p> <p>Quantities: suits 10.000 sets/month; coats 10.000 pcs/month; jackets 20.000 pcs/month; pants 20.000 pcs/month; winter clothes; jumpers; sportswear; working clothes; uniforms; shirts</p> <p>Export markets: China, Russia, Japan, South Korea, East Asia</p> <p>Foreign agencies and offices: China, Russia, Malaysia</p>
Korea Daesong Trading Corporation	<p>Founded in 1974</p> <p>7 specialized clothing factories; 5 specialized knitting factories; hand knitting workshop; expert-training center</p> <p>Full time workers: 8.000</p> <p>Main products: clothes, knitting, towels, and embroideries</p> <p>Export markets: China, Russia, Japan, South Korea, Europe, Americas</p> <p>Foreign agencies and offices: China, Russia, Italy, Thailand, Indonesia, Malaysia, Singapore</p>

Using Special Economic Zones (SEZs)

Apart from using North Korean companies directly, there are also other options available. In order to attract foreign investment, Special Economic Zones have been set up. One is located in the far north at the China-Russia border, near the cities of Rajin and Sonbong: the Rason Special Economic Zone. With minimum wages of US\$80 per month, the costs of garment production are around 30 percent lower than in Northeast China. However, the number of textile-producing companies in this zone is still limited.

Just across the demilitarized zone from South Korea, the Special Economic Zone near Kaesong is much more popular. The Kaesong Industrial Complex (KIC), developed in an agreement between North and South Korea, was established in 2004. Currently, more than 102 South Korean companies employ over 50,000 North Korean workers in various sectors. Their productivity levels are close to those in South Korean factories, with low labor costs (around US\$110 per month) and favorable corporate tax rates.

Around 70 South Korean companies are active in the field of clothing and textiles. One of those, Shin Won, employs 1,250 North Korean workers. The company considers its Kaesong factory to be optimal when compared to its other facilities in China, Indonesia, Vietnam and Guatemala. The total annual value of the garment production in Kaesong is estimated at around US\$200 million.

Another Option: Using North Korean Labor Abroad

Clothing factories in several countries are employing North Koreans directly, especially in Chinese cities near the border. For example, hundreds of North Korean workers are employed in an underwear factory in Tumen City. Much larger numbers can be found in Dandong, a border city on the Yalu River, where companies from other countries are also using these migrant workers. One example is the Ari Sports factory, a South Korean venture that produces football boots and sports clothing. It is expected that the number of North Korean workers in China will grow fast. Since early 2012 the Chinese government has issued work visas for 40,000 North Koreans to work in the three Northeast China provinces: Jilin, Liaoning and Heilongjiang.

Also, Mongolia allows North Korean workers to take jobs at local garment factories. The popular British clothing brand Edinburgh Woollen Mill, for example, is using a Mongolian firm employing 80 North Korean women to produce its cashmere jumpers. Korean textile workers can also be found in a number of other countries, such as the Czech Republic and countries in the Middle East.

Challenges

For companies interested in working with North Korea, one of the most important challenges is finding a suitable business partner. Collecting sufficient information about available factories is not easy. Local garment companies might have a presence on “Kwangmyong,” the local Intranet, but this information is not visible outside the country. Case studies or references from other foreign users are also scarce.

Establishing contacts inside North Korea through middlemen or agents is possible, but companies have found that a more effective alternative is to send representatives to Pyongyang. Taking part in a business mission has proven to be the most informative way to tour factories, visit clothing showrooms, select potential partners, negotiate prices and delivery terms, and explore business opportunities. One approach that has worked well is, based on the specific demands of the customer, to pre-select companies before the actual visit takes place. For example, it makes no sense to select a huge enterprise when the client is only interested in producing small quantities. Pre-selection can make the duration of the visit relatively short (see table 2). Often during a first trip, the Korean companies will be able to produce samples based on

requirements of the foreign client for inspection. After the initial selection of the factory (or factories), a second visit often takes place to arrange the preparations of the trial production in detail.



A North Korean factory showroom [Photo: Paul Tjia]

One important challenge facing foreign companies is that specific fabrics and trimmings (accessories such as buttons, zippers, etc.) might not be available in North Korea, and need to be imported. China is the main source for these materials, and is also used to transport the finished goods to the final destination. Often an agent is hired for the required logistical issues and also for additional quality control (the large Korean companies usually have their own agents in China).

Table 2: Typical Program of a Garments Business Mission

Day 1. Monday	In Beijing: visa collection at Embassy of North Korea; afternoon flight to Pyongyang
Day 2. Tuesday	Morning and afternoon: visit garment factories and showrooms
Day 3. Wednesday	Morning and afternoon: visit garment factories and showrooms
Day 4. Thursday	Final meetings with selected company
Day 5. Friday	Morning flight from Pyongyang to Beijing

Conclusion

The economic recession in Europe and overall rising production costs have caused garment producers to look again for new sources of supply. In the 1990s European companies started to move production to Portugal. Fifteen years ago, they moved to Eastern Europe and then to Asia. China became a favorite location. As part of the current “China plus one” strategy, producers are also searching for another cheap production destination. North Korea is an attractive option because of its existing infrastructure, skilled labor and very competitive rates. It might be less visible than competing nations such as Vietnam or Bangladesh, but a growing number of foreign companies are now exploring the country, with those from China taking the lead.

