



Buying into the Hermit Kingdom: FDI in the DPRK

by Kevin Shepard

With North Korea becoming increasingly politically isolated, there are few channels through which the international community can remain engaged. Despite the distaste most have for Pyongyang politics, more than 24 million people living under Kim Jong-il¹ need assistance from the outside world. While providing this assistance, we have long hoped to find a mechanism to encourage opening up and engagement with the international community.

In the 15 years since North Korea suffered massive famine in the mid-1990s, the United States and the international community have supplied assistance to the DPRK without significantly advancing denuclearization, nonproliferation, or human rights goals with sanctions; the North has continued to threaten security and stability on the peninsula and in the region. For 10 years, under the leadership of Kim Dae-jung and Roh Moo-hyun, South Korea spearheaded engagement efforts with the hope that Aesop's proverbial sunshine would lead the North to open up its borders and engage. ROK assistance became more conditional under President Lee Myung-bak, and now, in the aftermath of the sinking of the ROKS *Cheonan*, even Seoul has cut off most links with Pyongyang.

There is little evidence, despite the North's occasional and partial economic reform efforts, that Pyongyang sees value in fully engaging the international community. Diplomatic historian James Person sees little hope that engagement can convince the regime to open; he points to "the largest bailout in world history"—the communist aid to North Korea after its liberation from Japan and destruction during the Korean War—as the first example of failure to engage North Korea.² Despite the massive reconstruction assistance spearheaded by Moscow, North Korea not only rebuked invitations to join the Council for Mutual Economic Assistance (COM-ECOM); it also became a founding leader of the nonaligned movement.

If not through official channels, then how can we reach North Koreans? We hoped that aid workers in North Korea would broaden our understanding of the people, society, and politics while helping shape North Koreans' perceptions of the outside world and providing information to North Korean authorities and citizens that they would otherwise not be privy to. Unfortunately, DPRK authorities have been very effective at limiting the contact—and therefore impact—that nongovernmental organizations (NGOs) have had in-country, and the authorities have gone so far as to shut down aid operations and ask foreign workers to leave the country when Pyongyang felt that their presence might be a threat to regime stability.³ Despite tensions on the peninsula, it is beneficial to all parties for the international community to maintain contact with Pyongyang; development in North Korea will not only ease humanitarian concerns but will also allow Pyongyang to be more politically flexible, making it more likely that we can reengage in talks on peninsular and regional issues.

The Case for Investment

If not through government assistance or NGOs, then how do we maintain a window into—and out of—North Korea? Investment provides a window that assistance programs were unable to open. Despite recent failures at reforming the North Korean economy, Pyongyang has set its sights on becoming a strong and prosperous nation (*Kangseongdaeguk*) by 2012, which will mark the 100th anniversary of the birth of Kim Il-sung, the North's "Great Leader" and founder of the country. With its *juche* philosophy and nuclear capabilities, Pyongyang claims in its propaganda to have already succeeded in building an ideologically and militarily strong nation. It is now focusing its efforts on economic growth. North Korea is using international aid as a crutch to allow it to make only partial economic reform efforts. But there is evidence that a desire for foreign capital has prompted positive change.

Dr. Kevin Shepard is a Kelly Fellow at the Pacific Forum CSIS and a research fellow with the Institute for Far Eastern Studies, Kyungnam University. Dr. Shepard's paper is the thirty-eighth in KEI's Academic Paper Series. As part of this program, KEI commissions and distributes 10 papers per year on original subjects of current interest to over 3,000 Korea watchers, government officials, think tank experts, and scholars around the United States and the world. A public discussion at KEI with the author generally follows in conjunction with distribution. At the end of the year these papers are compiled and published in *On Korea*. Volume 3 of *On Korea* was published in April 2010. For more information, please visit www.keia.org/paper_series.php.

In 1999, investors traveled to Pyongyang, “and [took] one look at the way North Korea operates, and they will never come back,” predicted Anthony Michell, then the president of Euro-Asian Business Consultancy Ltd. He also predicted that foreign businesses would avoid investing in North Korea “unless the reclusive regime of Kim Jong-il simplifies the investment process and makes its dealings more open and businesslike.”⁴ Apparently, someone in Pyongyang reads the *New York Times*. North Korea has passed numerous laws and significantly improved the investment atmosphere. It has a long way to go before it brings the entire economy (and country) up to international standards, but the lack of interest Michell saw at the end of the 1990s is not what is seen today.

Although currency reform efforts failed badly at the beginning of the year, campaigns to attract foreign capital have continued. Power politics now loom large as O Kuk-ryol and Jang Song-thaek vie for foreign investment as Kim Jong-il reorganizes the government.⁵ This has led to financial opportunities for those willing to take the political risks involved in investing in a questionable market. Prior to 1991, the only foreign direct investment (FDI) in North Korea was that by the members of the pro-North Korean General Association of Korean Residents in Japan (Chongryun). Now Chinese investment continues to grow, and Beijing recently approved the construction of a 73,000-square-kilometer joint development zone at the Tumen River Delta.⁶ In addition, privately owned Chinese companies are upgrading infrastructure and facilities in the \$6 trillion North Korean mining sector;⁷ Swiss company Quintermina AG has invested in the mining of magnesia,⁸ a resource in which North Korea is plentiful; and companies from the United States and Australia have filed papers seeking permission to invest in DPRK mines.

Economic reform has been the theme seen in reports out of Beijing following both of Kim Jong-il’s 2010 summits with President Hu Jintao of China. Cross-border trade with Russia also continues, and Moscow has shown an interest in increased investment in North Korea’s port facilities as well as running natural gas pipelines through the North and on into South Korea.

Less likely partners are now also investing. The Egyptian company, Orascom, has been pouring hundreds of millions of dollars into everything from concrete to 3G cellular service to hotel renovation; foreign managers are overseeing animation projects; an American evangelist is opening the first-ever private university in North Korea (Pyongyang University of Science and Technology) with plans to surround the school with a large-scale international industrial complex;⁹ a Briton is running the most successful non-Chinese DPRK tourism office in the world;¹⁰ Norwegians are breeding pigs in the North Korean countryside;¹¹ and other Europeans are pouring efforts—and cash—into myriad projects ranging from prescription pharmaceuticals to stonewashed jeans.

The jobs created and technology being introduced through such investment could have a profound impact on North Korean society. What could have a more profound impact on the North is the direct exposure to foreign workers, methods, and ideas. These projects need to remain nonpolitical in order to ensure their longevity, yet if we take lessons from NGO experiences and keep in mind these opportunities when encouraging foreign investment, private-sector businesses could help to keep North Korean society engaged with the rest of the world.

This paper looks at tangible, palpable improvements that can be attributed to foreign investment and explores investment opportunities and their impact on North Korea. On the basis of such an analysis, concrete, realistic steps can be developed to ensure that opportunities to engage the North are not squandered and that financial ventures contribute effectively to political engagement.

The Multiple Faces of Foreign Investment

Foreign investment into North Korea can largely be divided into three categories: investment from South Korea, which is largely government subsidized, based on less than purely capitalistic intentions, and being held hostage by inter-Korean politics. In addition, a large percentage of these investments is tied up segregated zones, such as the Kaesong industrial complex and the Mt. Kumgang tourist resort, isolated from society.

The second and arguably most important category of foreign investment is that from China. Chinese investment is coming in the form of large-scale industrial (primarily mining and shipping) development and will play a vital role in infrastructure revival, but it is also somewhat tied to government development strategy and so has some strings attached. Russian investment falls into the same group.

The third category of investment is of relatively small scale when compared with inflowing ROK or PRC capital, but it is far more interesting: this is private-sector investment from abroad. These investments bring a diverse range of foreign investors into more direct contact with mainstream North Korean authorities, business persons, and laborers.

The South Korean Case

The first inter-Korean joint venture was born in October 1992. Since then, more than 300 joint projects have been launched, and the amount of ROK investment has grown considerably,¹² but South Korea still remains the primary market for goods produced with ROK investment.¹³ South Korean investment into the North, as well as inter-Korean cooperative projects, will and should continue to fulfill a unique and leading role in engaging Pyongyang (and, more important, the rest of North Korea); however, the unification and nationalistic issues that make this so also drive nonfinancial motives and South Korean government involvement—neither factor replicable or desirable for the majority of non-Korean investors.

That said, there are lessons to be learned from the trials—and errors—of South Korean ventures, and the influence of South Korean engagement on improving the investment environment for the rest of the field should not be ignored. Since the launch of the Lee Myung-bak government, many small investors have complained of worsening conditions caused by chilled inter-Korean relations. Even under the previous administration, however, at best 39 percent of investors reported a profit—and a “slight profit,” at that.¹⁴ Pyongyang has focused its efforts on enticing South Korean investment in resource exploitation,¹⁵ agriculture and fisheries, and light industrial development,¹⁶ although it has not been limited to this as can be seen by the success of everything from ventures such as Choi Won-ho’s chain of fried chicken restaurants—the first restaurant in Pyongyang was said to pull in as much as \$1,000 per day as North Koreans lined up around the block for a taste from the South¹⁷—to Samsung’s investment in North Korean information technology (IT), which has led to embedded Korea Computer Center software in cellular phones around the world.

These initial forays into joint ventures motivated the North Korean regime to make both its labor force and the investment environment more attractive to non-Korean foreign investors. The modern North Korean labor market can be traced back to the 1 July 2002 Economic Management Reform Measure,¹⁸ and now the government boasts online of the quality of labor and the stability of investment. South Korean managers concur, reporting over the years that North Korean laborers are more receptive to foreign management, more eager to take advantage of training opportunities, and more willing to work overtime for additional pay.¹⁹

Legal protections for investors—ranging from the right to arbitration, protection of investments, enforcement of the rule of law, labor standards, and other protections designed to ease concerns of foreign investors—can be attributed to inter-Korean negotiations over investments in, access to, and use of the Mount Kumgang tourist resort facilities and the Kaesong industrial complex. Much of the legal framework allowing the Kaesong complex to operate was drafted in conjunction with South Korean legal experts and presented to the North Korean government for approval.

Comrades’ Investment

China and the Soviet Union were the major supporters of North Korea throughout the Cold War. After the Cold War, much of this investment dried up as Moscow sharply cut back its aid and Beijing normalized pricing for many goods. The last decade, however, has seen no shortage of attempts by Pyongyang to entice investment from its allies. The largest attempt to earn foreign currency off of Beijing and Moscow was the Rajin-Sonbong venture—an attempt to set up a special economic zone that failed largely owing to the overbearing presence of North Korean bureaucracy. Despite the failure, later ventures reflect recognition by the North Korean government of the need to back off and create a more capitalist, investor-friendly atmosphere.²⁰

Pyongyang still struggles to balance its need for investment with its need to prevent the spread of outside ideas and information and to maintain control over the people and support for the regime, but the various experiments indicate that it has recognized the requirements to entice foreign investment. Such recognition is the first step toward rectifying the failures of its centrally planned economy.

The failure of the Rajin-Sonbong complex marked the end of much Russian investment. Moscow has, however, invested in North Korean infrastructure—building roads and railways to Rajin and Sonbong²¹—and has secured rights to pier use at the port of Rajin.²² As Russia continues to develop its eastern oil and gas reserves, its interest in North Korean ports will continue to grow as it seeks to secure access to a warm-water port. Also, with the revived Rajin and Sonbong investment zones, more Russian businesses are likely to reevaluate the North. The Russian auto plant KamAz recently started production in North Korea, albeit on a very limited scale.

Chinese investment in North Korea is more diverse. Although they are significant for North Korea, most Chinese investment projects, like those from elsewhere, remain relatively small, and they are private-sector, profit-seeking endeavors. Investment from China differs from that of other non-Korean investment, however, because (1) Chinese government investment on the PRC side of the border supports and encourages private-sector investment; (2) individual projects, especially in resource exploitation and infrastructure, play a supporting role in overall Chinese expansion policies; and (3) these factors and others make North Korea more wary of Chinese investment than that from other private-sector sources. For example, the one-off Swedish jeans factory and the French animation office do not raise concerns of political influence over Pyongyang.

Chinese plans to industrialize the country’s northeastern provinces rely increasingly on trade and cooperation with North Korea, so that while the majority of Chinese investment in the North is from the private sector, Beijing politics weigh heavily on profitability. Drew Thompson, director of China Studies at the Nixon Center, notes that “of the approximately 150 Chinese companies known to have investments in North Korea, about two-thirds are based in Jilin and Liaoning.”²³ These areas will profit considerably from access to North Korean markets and the port in Rajin, leading the Chinese government to invest in refurbishing port facilities, access roads, and border-spanning bridges, as well as committing to long-term leases from the North Korean government, much as the Russians have. This government investment, then, increases opportunities for Chinese businesses to profit from investments that can more easily earn profits by exporting to overseas markets. In addition, the Chinese and North Korean governments are cooperating on a range of joint projects that will allow for increased cross-border trade, including increased access, more efficient customs facilities, joint industrial and power facilities, and other large-scale projects that will be economically mutually beneficial but will also facilitate the flow of information to North Koreans who will be able to increasingly see the relative prosperity of those outside North Korea.

Tying private-sector investment to Chinese development strategy causes the North to limit access, encourages Beijing to oversee investments, and distorts the market functions that drive investment decisions made by others in countries not politically motivated to support North Korean development. Although Chinese investment benefits North Korean development by providing infrastructure, technology, and capital as well as helping to infuse market sensibilities and capitalist ideas through both trade and investment, the Chinese model is not applicable to individual investment from abroad.

Overseas Investment

While Chinese and South Korean government involvement in private-sector investment schemes has created unique environments not replicable—or necessarily desirable—by other investors, they have positively impacted the investment environment. Many of these improvements in the investment atmosphere do not represent shifts in the aims of the regime, but they encourage investment in North Korean opportunities. Many of the investments are high risk, but most of the non-Korean investors are forward looking. CNN wonders whether investing in the North is “equivalent to opening a shop in Beijing before economic reforms took root or starting an enterprise in East Germany before the Berlin Wall fell.”²⁴

Volker Eloesser, who heads the technology firm Nosotek in Pyongyang, goes as far as to say that among those companies that set up production facilities by and large the goal is “real estate speculation, even if the permits for foreigners are only granted in a joint venture status.” He explains that some investors simply turn out products “as a matter of form” rather than for immediate profits and that there is an expectation that the opening of the North Korean economy is inevitable; when it comes, property prices will shoot up.²⁵ Eloesser notes a growth in the number of imported vehicles, goods, and people and says that while “authorities are particularly suspicious of journalists and tourists . . . we are entrepreneurs and largely left alone.” He dines with employees, chats with local children, and shops in local markets and stores.²⁶

Felix Abt, who has lived in North Korea since 2002, is another investor with significant experience in the country. His experiences reflect both the difficulties of investing in the North and the opportunities a flexible entrepreneur can find. He served as director for the ABB Group when its operations in Pyongyang were shut down because of difficulties finding banks willing to risk involvement; the North’s exclusion from international financial institutions meant support from the Asian Development Bank or World Bank would remain out of reach. Abt diversified his portfolio rather than pull out of Pyongyang, and he ended up launching the first pharmaceutical joint venture between Pyongyang and a foreign group, the PyongySu Pharma J.V. Co. Ltd., and eventually founding and heading the European Business Association (EBA) in Pyongyang. The EBA faced “an avalanche of arbitrary economic and financial ‘sanctions,’” but Abt states that North Korean authorities are competent and that, with time,

investors were able to work with North Korean counterparts to stabilize the investment environment.²⁷ Abt also organized MBA-level business training for North Korean senior officials and executives, bringing in lecturers from numerous countries and shaping instruction to specifically address the concerns of and issues in dealing with North Korean authorities.

A number of other European investors have found niches in North Korea. Although South Korea used to be the world’s largest supplier of animation, Italian, French, and other animators have now found North Korea to be more economical. Lee Kyo-jung, from the Korea Animation Producers’ Association (KAPA), reveals that North American companies have also invested in North Korean animation, and North Korean-born producer Nelson Shin says the animation firm Scientific and Educational Film Studio of Korea (SEK), which employs thousands of North Koreans to turn out cartoons for the West,²⁸ is actually one of the North’s largest hard-currency earners. He deems the North Korean animators to be “highly talented.”²⁹ North Korean animators have even worked on U.S. hits such as Disney’s *The Lion King* and Fox’s *The Simpsons*. TinMing Alen CG Studio, another North Korean animation firm, creates advanced two- and three-dimensional animation for a mostly Chinese market and even has overseas offices to promote co-operative projects. KwangMyong IT partners with Japanese banks, providing back-office support such as encryption, voice and fingerprint identification, and virus protection.³⁰

As with most North Korean investment schemes, however, there are unique drawbacks. Shin finds it “inconvenient” to talk about North Korean involvement in U.S. animation projects³¹—political and social issues make finding an end market as difficult as setting up a production venture. Life as an animator in the North has some of the same drawbacks as any IT job in an office with limited Internet access: Guy Delisle’s memoir of working as an animator in Pyongyang comically reflects the difficulties of serving as liaison between Protecra and SEK. Delisle writes of quality animators suddenly disappearing and of working in isolation, but he also discusses regular contact with other Westerners and with North Koreans, access to local establishments, and a contemptuous attitude toward North Korean political oversight that surely impacted some within his reach.³² His frustration with the difference in mind-sets between him and his colleagues is evident in his book; he writes, “To what extent can a mind be manipulated? We’ll probably get some idea when the country eventually opens up or collapses.”³³

Companies investing in the North can operate with the help of DHL operations that ensure shipments to and from the “hermit kingdom.” For leisure, a Japanese joint venture opened a golf driving range in Pyongyang. Want European threads? German and other European textile companies can be found. Saga, New Future Ltd. Companies, JIAGE Ltd., and many other small companies are among those that have attempted joint ventures in the North.³⁴

In a sense, “McDonaldization” has also hit Pyongyang.³⁵ Not only have South Korean fried chicken joints popped up in North Korea, a Singaporean burger joint³⁶ and a variety of state-au-

thorized and sometimes foreign-staffed Western restaurants are accessible in several North Korean cities. A Singaporean fast-food outlet named Three-Star advertises prices in euros and accepts U.S. dollars; the most popular menu item with the North Koreans is the hamburger.³⁷ Although these businesses might not introduce the best attributes of foreign cultures, by raising interest in outside ideas, even food can promote alternative thoughts.

The investment by Egyptian conglomerate Orascom is uniquely interesting. Now best known for its 3G network configuration and the blossoming mobile phone sales it is reintroducing throughout the country,³⁸ Orascom has invested heavily in a number of realms, buying and then reselling interest in North Korea's largest cement manufacturer,³⁹ finishing construction on the tallest (formerly abandoned) hotel in Pyongyang,⁴⁰ and opening a bank that economist Marcus Noland calls "perhaps an endorsement for North Korea that says 'we're open for business.'"⁴¹ Although Leonid Petrov believes that "unless Kim Jong Il or his successors feel suicidal, the Internet . . . will never be allowed,"⁴² Orascom is installing a fiber-optic network throughout the country that will allow some to even access the Internet from their cell phones.

Western banks have largely avoided the North. ING Barings NV, a Dutch investment bank, shut down its North Korea office in 1999 because of a lack of infrastructure and concerns that the Pyongyang bank was assisting in money laundering for the regime.⁴³ Although the bank, which serviced most of the NGOs, diplomatic, and other expatriate communities, was very profitable in its four-year venture, foreign officials raised concerns over the possibility that drug money and counterfeit cash were being handled by the bank, whose employees regularly had to carry millions of dollars in cash into the country because of the lack of deposits. Peregrine Investments also attempted to enter the DPRK banking industry, opening the Peregrine-Daesong Bank in the 1990s but closing shop as the financial crisis in the late 1990s squeezed businesses throughout the region.

Investment in a number of other realms also continues to grow. The spread of mobile phones has been so successful that it recently brought Orascom a quarterly gross profit of \$5.8 million⁴⁴ and encouraged competitors to enter the fray.⁴⁵ The Vietnamese company Viettel announced last year that it intends to expand wireless network operations into North Korea.⁴⁶

At the time of this writing, GPI Consultancy, a Dutch firm promoting investment in the DPRK, is escorting a trade and investment mission to the North. GPI advertises that "North Korea is an interesting option" for European companies facing challenges in today's economy, calling on potential investors to consider industries including "renewable energy, textile, shipbuilding, agro business, fishing, horticulture, logistics, mining, stone processing, restaurants, and information technology."⁴⁷ Even U.S. firms are looking toward North

Korea. Four U.S. companies currently have applications lodged with the U.S. Department of the Treasury's Office of Foreign Assets Control, seeking to invest in North Korea.⁴⁸

Phoenix Commercial Ventures, Ltd., is another organization that offers prospective investors insight into North Korean opportunities, helping them "take advantage of the economic reforms that are taking place there."⁴⁹ Phoenix seeks to "identify commercially viable investment projects, . . . identify reliable local partners, and minimize the risk."⁵⁰ That Nigel Cowie, director of Phoenix Commercial Ventures, is also the general manager and CEO of Daedong Credit Bank, one of the few foreign-majority-held banks in Pyongyang, is certainly no disadvantage. L&J Development and Consultancy is but another of the many ventures emerging to facilitate investment in North Korea. Operating since 2000 and consulting on investments throughout Asia, Leonid Petrov, with experience in and connections with North Korea, gives L&J a unique insight into the investment atmosphere in the DPRK.

While most investment in the North is small scale, Aminex is another large company investing in heavy industry in North Korea. Aminex and (Singapore-registered) Chosun Energy, through a deal made with the DPRK government agency, Korean Oil Exploration Company, plan to look for oil in approximately 20,272 square miles of ocean off the eastern coast of North Korea. Aminex PLC executive chairman Brian Hall is optimistic about the partnership because, in his words, North Korea's oil industry is run by "highly organized technocrats who supply seismic data quickly."⁵¹ Skilled and organized is a set of assets sought by many companies when they look toward Asia.

The Impact of FDI

Despite the past two decades of post-Cold War investments in North Korea, Pyongyang still manages to come in dead last in the *2010 Index of Economic Freedom*, scoring goose eggs in the categories of business freedom, trade freedom, fiscal freedom, monetary freedom, financial freedom, and labor freedom. In addition, the report states that property rights are not protected and "there are many indicators of corruption in the government and security forces." Not very promising. Also not entirely accurate.

The very same survey states that North Korean "factory managers have had limited autonomy to set wages and offer incentives" and that since outside investment began the North has seen the development of "an immense informal market . . . [and] informal trading with China in currency and goods is active." Although most foreign banks avoid the North "because of debts dating back to the 1970s, . . . aid agencies have set up microcredit schemes to lend to farmers and small businesses."⁵² Constitutional changes have been made to recognize market economic concepts; the regime has not only legitimized commercial activity and markets but actively taxes them; and the right to ownership of means of production has been expanded as has the right to engage directly in foreign trade.⁵³ The criminal code has been expanded on a number of occasions, broadening

and strengthening laws punishing corruption, tax evasion, mismanagement, and other offenses against the government while also protecting private property rights and giving indications that the authorities are noting a growing range of anti-socialist behavior.⁵⁴

Long Road Ahead

So why the discrepancy? Having new laws on the books is encouraging; enforcing these new laws is another matter entirely. Rule of law in North Korea is weak on its best day. There is little hope within rational circles that the North Korean regime sees value in opening up and engaging. The regime, in fact, resorts time and time again to oppressive and overbearing methods of authority when it feels the pace of change is leading to a loss of control. What has been seen, however, is an inevitable opening to FDI, a decentralization of some decision making, and a growing understanding—and adoption—of market principles. Labor, goods, and currency markets exist. The value of scarcity impacts pricing. Individualism, competition, and other economic functions have grown out of a symbiotic relationship between North Korean manufacturers and laborers and the ideas and business plans introduced by foreign investors. As a direct way to import foreign ideas and plans, North Korea is now seeking foreign capital to develop port facilities not only in Rajin but also in Nampo, Chongjin, Wonsan, and other areas.⁵⁵

South Korean investment is overwhelmingly tied to political relations and unification goals, allowing the North Korean regime to manipulate investments and dull the incentive for North Korea to reform and open. Chinese investment has made inroads in areas where South Korean investment has not, but many of these investments are linked to a larger strategy of the Chinese government and therefore are also less likely to entice North Korea.

Although North Korea during the past decade has made significant reforms and additions to its legal code and has improved the environment for FDI by guaranteeing investment, creating a system for dispute resolution, decentralizing some decision making, and allowing for a system of incentives to encourage efficiency and quality, one obstacle that still has not been overcome is that law in North Korea remains a tool of politics. Kim Il-sung made this clear at the outset of his *juche*-based governing, stating in 1958 in a speech to the National Conference of Judicial Workers, “Laws are the expressions of politics, hence subservient to politics, from which they can never be separated.”⁵⁶ There has been no paradigm shift under Kim Jong-il, and there is no evidence that it will change under the next leader. Although “North Korea is attempting to water down political overtones,” and “measures are being taken to narrow the room for subjective interpretations of law,” according to Korea Institute for National Unification researcher Kim Soo-am,⁵⁷ rule of law has yet to take hold,⁵⁸ and access to markets and investments is subject to the whims of the Kim family.

It is this predominance of politics that also limits investment because of a combination of the North’s distaste for free-flowing information and myriad sanctions by the United States, the ROK, Japan, and the UN as well as other unilateral sanctions and international agreements that restrict access to technology, export markets, and financial assistance. Foreign IT investors still have limited access to the Internet, and gaining the access necessary for competitive development can be extremely costly—more than \$14,000 in acquisition costs, including satellite technology, and then as much as \$900 per month.⁵⁹ Manufacturers are limited to only the most basic technology and manufacturing equipment, as can be seen in the Kaesong industrial complex,⁶⁰ although Pyongyang’s IT and animation labs boast U.S.-made Dell technology among other software and hardware available through China and other sympathetic countries.⁶¹

Distaste for DPRK Goods

Noko Jeans faced a different sort of problem after investing in North Korea: after turning out jeans in Pyongyang, Noko Jeans had difficulty finding a sales outlet willing to deal in North Korean goods. Just before first going public, the jeans were pulled off the shelf of the Swedish department store PUB because of “a political issue that PUB doesn’t want to be associated with.”⁶² British American Tobacco sold its shares of Taesong BAT in 2007 after international exposure brought criticism to the company for investing in a country so widely criticized for human rights abuses. A lack of transparency led Western media to question whether BAT’s partners were tied to missile and nuclear proliferation as well.⁶³

A Norwegian company’s efforts to enter into a joint venture with a North Korean partner were thwarted after the North Korean diplomat in the DPRK embassy’s trade department, who had been acting as the point of contact for the project, decided to defect. This was followed by the North Korean government trying to renegotiate terms and eventually undertaking a hostile takeover, abandoning the Norwegian partners to look for new investors.⁶⁴ North Korea’s poor relations with the rest of the world cause these problems and others for investors considering sending funds to Pyongyang.

So Why Advocate Investment?

International investment lawyer David Day believes that neither political engagement nor military deterrence will be sufficient to ease the threat Pyongyang poses to regional stability. In his words, “the solution is to build the business infrastructure.”⁶⁵ Individual businesses contribute to a stronger infrastructure simply by holding their business investments to a global standard and thus improving the knowledge bank and standard of living, at least for those North Koreans immediately involved.

One of the founders of Noko Jeans, Tor Rauden Källstigen, explains, “The challenge wasn’t to convince them to do business with us. With the U.S. trade embargo, they’re happy for any business they can get. The challenge was to constantly explain that we were not interested in buying a zinc factory the size of

a football field.” After approaching the DPRK embassy in Stockholm, the Noko founders were introduced to contacts in Pyongyang and eventually set up shop in the capital. They have been able to improve conditions for a small group of North Koreans assigned to work for them:

We believe we're making some kind of small difference by going there and talking to them. For example, we told them all European companies require CSR, Corporate Social Responsibility, and that if they want to start trading with Europe they have to adjust. Which isn't entirely true, but it feels good to have spread the notion of ethical conditions, like decent work hours and no child labour. . . . We've seen the factory and it's a holiday camp compared to the factories we saw in China. It's brand new with some hundred workers, all in colourful uniforms, and the ambience is calm and quiet. They even had karaoke machines on all floors, the vintage kind with laser discs. And there's a badminton court on the top floor, so we'll bring rackets next time.⁶⁶

Similar improvements have occurred in the Kaesong industrial complex. On 25 September 2009 one factory in the complex earned the [South] Korea Chamber of Commerce and Industry's Single PPM Quality Certification only 14 months after opening. When the factory first opened, it was turning out 650 defective goods per month, but through training and incentives for the North Korean workers, it brought that number down to an average of only 1.8 defective goods each month.⁶⁷

These businesses not only help through education and training, they can also offer opportunities for those in the North already possessing skills. Delisle calls this “probably the only upside to the whole Asian subcontracting system” when he notes that a new North Korean supervisor “obviously made it to Pyongyang on the merits of his talent,” and French animation joint ventures with SEK made it possible for “his drawing skills [to] let him leave his remote village to make a better life for himself and his family.”⁶⁸

Desire to Open

The DPRK government has also come to an understanding of the importance of advertising. The Korean Friendship Association and International Korean Business Centre, both with official government ties and access to government Web sites, advertise for travel to North Korea, claiming on one Web page, “For businessmen, it is the only gate for successful and effective commerce with government guarantee.”⁶⁹ The site offers the opportunity to be “not treated as a tourist but as a friend of the DPRK” as well as access not available to others. Pyongyang holds an annual international trade fair, and Kimchaek Municipal People's Committee head Yi Bok-il recently said that Kimchaek City is contemplating also hosting an international trade fair beginning in 2011.⁷⁰ North Korean technocrats have succeeded in convincing

the regime of the benefits of engagement. “Now scientists, technicians and other working people across the country have access to lectures . . . through computer networks,” according to the KCNA.⁷¹

North Korea reaches out to learn more about how to operate in the international realm. In-country programs such as the Pyongyang Business School; the Pyongyang University of Science and Technology; the programs being prepared by the Choson Exchange;⁷² textbooks provided by the Asia Foundation and other programs; courses offered by the United Nations Development Program, the Friedrich Naumann Foundation, the European Business Association, and the Asian Development Bank; and numerous opportunities for North Koreans to study abroad in China, the EU, and even North America mean more North Koreans are becoming aware of the faults within their system.

The party and military are balancing benefits with what they see as the threats of opening up: primarily, the influx of information that would undermine regime propaganda, alternative political and economic theories that would encourage opposition, and overwhelming influence of powerful foreign governments against which Pyongyang could be made helpless. Marcus Noland describes Pyongyang's situation as being “a small economy in a good neighborhood,” in which engagement would be beneficial,⁷³ but the suspicious nature of the North Korean government is real. Han S. Park points out that even in the post-Cold War era, “Pyongyang sees itself surrounded by hostile and evil forces that are undermining its legitimacy. It sees, further, that these forces are constantly preparing to overthrow the system.”⁷⁴ In other words, we should not be surprised to see “two steps forward, one step back” in North Korea's reform attempts.

These efforts at righting the economy are also inevitably tied to Pyongyang politics, frustrating some otherwise potentially valuable ventures. As the leadership has put an emphasis on economic reform, the ability to entice foreign investment is seen as a way to endear oneself with the inner circle. North Korea also pursues a number of IT development schemes. Not only does Pyongyang now boast several Web sites hosted in Spain, North Korea, Japan, and elsewhere, the regime has also opened accounts on Facebook, Twitter, and YouTube, among other trendy social media Web sites. North Korea's Internet domains are held by yet another joint venture, this one with the Thai company Loxley Pacific.⁷⁵ Volker Eloesser reports that even iPad has been introduced in North Korea.⁷⁶

In August, it was reported that the former prime minister and technocrat, Pak Pong-ju, was reinstated as first deputy director of the Central Committee of the Korean Workers' Party (KWP). For many years, Pak pushed for economic reform in the North and was behind the 1 July 2002 economic management reform measure, but he was purged in 2007,⁷⁷ the same year Kim Jong-il declared that “markets have become anti-socialist, Western-style markets,” and reversed many of the reforms. Pak, now an alternate member of the party Central Committee,⁷⁸ works directly under Kim Kyong-hee, who was recently promoted

to be a four-star general and high-ranking KWP member. Pak's reemergence is indicative of not only the emphasis being placed on economics but also the recognition that the country can benefit from a more open economy.

If inter-Korean relations improve, negotiations on a North-South joint technology institute could regain footing. The South Korean Science and Technology Policy Institute (STePI) has held talks with its North Korean counterpart, the National Science Technology Association, which is affiliated with the National Academy of Science, on establishing an Inter-Korean Science Technology Cooperation Center in Pyongyang modeled after joint research centers built in Moscow and in Ukraine. If the center is realized, it would not only engage in inter-Korean research, through which South Korean technology would be introduced, but also would be slated to provide "an education and training center, which will help nurture science experts, [and] educate people on science, IT, market economics and science and technology management."⁷⁹

Where Does This Lead Us?

The debate over whether to sanction the North is not relevant here—money is flowing in despite myriad sanctions. The North Korean regime deserves to be sanctioned, and sanctions that bring hardship to those threatening stability on the peninsula and in the region should not be lifted before significant changes are enacted. We would be remiss, however, to not take advantage of the opportunities provided through investment. Bradley Babson believes that attention to the North's economy and infrastructure is "integral" to shaping U.S. policy. Among his recommendations are "encouraging expansion of markets and decentralized decision-making," "supporting development of a rules-based financial system and credible legal enforcement system," "supporting expansion of opportunities for knowledge sharing for modernization," and ensuring that any aid "has a meaningful economic rationality . . . so that the aid will reinforce and not undermine the sustainability" of political achievements.⁸⁰ This can be most efficiently done by privatizing the efforts. That is, let market-driven, capitalistic, private-sector investment create an environment that encourages the North to establish rule of law and stable infrastructure in order to attract foreign investment while the individual projects add to the knowledge base, introduce technologies and global-standard operating procedures, and improve the standard of living one worker at a time by maintaining work environments that are acceptable by international society's standards. Through investment, we can improve the lives of average North Koreans while also learning more about what goes on in one of the most reclusive countries in the world.

Endnotes

1. According to the North Korean Central Bureau of Statistics, 24,052,231 people were living in the North in 2008. The census, released in 2009, provides the most recent statistics available.
2. James Person, "Knowing the North: Intelligence and Intentions of the DPRK" (presentation at Woodrow Wilson International Center for Scholars, 8 September 2010; video available at www.wilsoncenter.org/ondemand/index.cfm?fuseaction=home.play&mediaid=F6CE26F7-088A-99AC-25FDAA3612C393C7).
3. Dean Ouellette, "A Major Role for Minor Actors: NGOs and the Opening of North Korea" (M.A. dissertation, Kyungnam University, Seoul, 2004); L. Gordon Flake and Scott Snyder, eds., *Paved with Good Intentions: The NGO Experience in North Korea* (Westport, Conn.: Praeger, 2003).
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5. O Kuk-ryol heads the Korean International Trading Company, while Jang Song-thaek personally chose the head of the Taepung International Investment Group.
6. "China Approves Border Development Zone in NE," *Global Times*, 17 November 2009.
7. "China Eyes DPRK's Mineral Wealth," *Korea Business News*, October 2009.
8. "North Korean MgO from Quintermina," *Industrial Minerals*, January 23, 2009.
9. Korean-American academic and missionary Kim Chin-kyung has spearheaded the opening of an entirely foreign-operated Pyongyang University of Science and Technology. After classes begin, the school plans to help train DPRK specialists in engineering, information technology, and international business. More on the university can be found at <http://pust.kr>.
10. More information about Koryo Tours can be found at www.koryogroup.com.
11. Geir Helgesen and Nis Hoyrup Christensen, "North Korea 2007: Assisting Development and Change," *Nordic Institute of Asian Studies*, 2007.
12. Bae Jong-ryeol and Lee Sang-man, "Daebuk Tuja Bunseok-kwa Tuja Hwalseong-hwa Bangan [Analysis of investment to North Korea and the plan for activating investment]," *Northeast Asian Economic Research* 21, no. 1 (2009): 163–68.
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14. Lee Jong-keun, "Nam-buk Kyeonghyeob Seonggong Mit Silpae Sarye Bunseok [Analysis of South-North economic cooperation and cases of success and failure]" (lecture materials for the South-North Economic Cooperation Academy, 4 October 2007).
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16. Bae and Lee, ““Daebuk Tuja Bunseok-kwa Tuja Hwalseong-hwa Bangan,” 169.
17. John Sudworth, “South Korea Chicken Success in NK,” BBC News, 1 January 2009.
18. Park Young-ja, “‘Marginal Work’ and ‘Labor Market’ in North Korea after the 2003 General Market System,” Korea Focus, November 2009.
19. No South Korean company invested in the North reported any remitted profits until May 2009. The first to do so, Pyonghwa Motors, a joint venture between the Unification Church of South Korea and the North Korean government, broke ground in 1999 and manufactured its first car in 2003. Average annual sales are well under 1,000 units per year. Pyonghwa spokesman, Roh Byoung-chun, explained that North Korea “is not used to the capitalist idea of making investments and retrieving profits.”
20. Although Kim Jong-il in December 1991 declared the Rajin-Sonbong area to be a free economic zone, it was not until the latest attempt at revival that the North presented an environment attractive enough to garner significant investor interest. This attempt is also aimed at enticing Korean investment; on 22 January 2010 North Korea enacted a revision to the legal code administering the Rason project to allow “Korean compatriots living outside the People’s Republic of Korea”; see Jung Sung-ki, “N. Korea to Attract S. Korean Investment in Rason,” Korea Times, 14 March 2010. A South Korean food processor, Merry Company, has negotiated the first inter-Korean joint venture in Rason, with North Korean partner Korea Kaeson General Trading Corporation; see Kim Seong-jin, “Buk, Rason Teukbyeolsi-e Cheot Nam-Buk Habjak Kieob Seungin [North approves first North-South joint venture in Rason special city],” Yonhap, 19 January 2010.
21. Extending Russian rails to Rajin will create “Eurasia’s largest transcontinental railroad of over 10,000 km,” and could reduce shipping times between Asia and Europe from 45 days to 14, making it a lucrative Russian investment; see “Russia, North Korea Break Ground on Rail Link Project,” NSI News Source Info, 6 October 2008.
22. The state-owned OAO Russian Railways has invested hundreds of millions of dollars in North Korean railways and Rajin port development as CEO Vladimir Yakunin pursues the “Iron Silk Railroad”; see Lucian Kim, “Russian Railways Plans \$100 Million Terminal in North Korea,” Bloomberg, 18 December 2007.
23. Drew Thompson, “Chinese Investors and North Korea’s Future” (paper presented at 2010 Northeast Asia Future Forum, “Challenges and Opportunities for the Establishment of East Asian Community,” Peking University, 2 August 2010).
24. Pauline Chiou and Kevin Voigt, “North Korea—Outsourcing Hub?” CNN digitalbiz, 28 September 2010.
25. Anna Lu, “Unser Mann in Pjöngjang [Our man in Pyongyang],” Financial Times Deutschland, 12 September 2010.
26. Eloesser also states that he is aware of political restrictions and makes it a point to avoid behaviors that would raise concern with authorities. He also indicates that North Korean society is not completely open to him. However, he states, “Basically, I lead a fairly normal life.”
27. Klaus-Martin Meyer, “An Amazing Business Pioneer in North Korea Is Telling Us the Real Reasons behind the Sudden and Surprising Pull-Out of a Global Engineering Giant from This Country,” Interview blog, 10 September 2008.
28. David Day, “IT Development in the DPRK” (presentation at Shidler College of Business, University of Hawaii, Manoa, 10 August 2010).
29. Sunny Lee, “U.S. Cartoons ‘Made in North Korea,’” Asia Times Online, 14 March 2007.
30. Day, “IT Development.”
31. Lee, “U.S. Cartoons.”
32. Guy Delisle, *Pyongyang: A Journey in North Korea* (Montreal: Drawn & Quarterly, 2003).
33. Ibid.
34. “U.S.–Korea North: Political and Economic Cooperation Handbook,” International Business Publications USA, 2008.
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36. “Malcolm Moore, “North Korea Opens U.S.-Style Fast-Food Restaurant but Don’t Mention the Hamburger,” Telegraph, 26 July 2009.
37. Jamie Ee and Wen Wei, “Fast-Food Eatery Sizzles in N. Korea,” Straits Times, 11 November 2009.
38. This brings up another noteworthy foreign investment scheme: another mobile phone operator previously in North Korea. In November 2002, Thailand’s Loxley Pacific and North Korea’s Korea Post and Telecommunications created the joint venture Northeast Asia Telephone and Telecommunications and launched the North’s first wireless network in early 2003 under the SUN NET label. The phones were banned, however, in 2004, following an explosion in Ryanggang and amid rumors that the explosion was a remotely triggered assassination attempt aimed at Kim Jong-il as he returned from China.
39. Orascom Cement bought half of North Korean concrete maker Sangwon Cement for \$115 million; then the cement division of Orascom was sold to French giant Lafarge in early 2008 for \$12.8 billion.
40. Construction on the 105-story Ryugyong Hotel began in 1987 and was abandoned in 1992. The structure is not only the tallest hotel in Pyongyang but is the largest building in North Korea and would have been the tallest hotel in the world in 1989 had construction proceeded as originally planned. The building is now tied as the world’s 30th-tallest building.
41. Orascom Telecom opened Ora Bank in Pyongyang in December 2008, presumably to facilitate investments and remittances related to Orascom’s business ventures. Tarek Al-Issawi, “Orascom Telecom of Egypt Opens Bank in North Korea (Update2),” Bloomberg, 16 December 2008.
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43. Thomas Crampton, “Closure Will Complicate Pyongyang’s Receipt of International Aid: North Korea to Lose Main Foreign Bank,” New York Times, 17 April 1999.
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47. "Exploring New Business Opportunities: European Trade and Investment Mission to North-Korea (11–18 September 2010)," GPI Consultancy, Rotterdam, 29 June 2010, www.gpic.nl/NktourSep10.pdf.
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49. Phoenix Commercial Ventures, Ltd., www.pcvltd.com/.
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51. "Offshore NK Oil Probe On Track," *DPRK Business Monthly* 1, no. 5 (June 2010): 1.
52. 2010 Index of Economic Freedom (Washington, D.C.: Heritage Foundation; *Wall Street Journal*, 2010), 255–56.
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54. *Ibid.*; Kevin Shepard, "Trends in Transition 2: North Koreans' Market Mindset and Practical Socialism," *ICNK Forum*, 30 March 2005.
55. Kim Sin-an, "Bukhan Hanggu Daewei Kaebang Kyesok Ieojil deut [Foreign development of North Korean ports will continue]," *Dalian Korea Business Center*, 29 March 2010.
56. Kim Il-sung, "In Order to Carry Out Our Party's Judicial Policies," in *Complete Collection of Kim Il Sung's Works*, vol. 12 (Pyongyang: Korean Workers' Party Publishing House, 1981), 221.
57. Kim Soo-am, *The North Korean Penal Code, Criminal Procedures, and their Actual Applications* (Seoul: Korea Institute for National Unification, 2006), 63.
58. Yoon, "Economic Reform and Institutional Transformation."
59. Lu, "Unser Mann in Pjöngjang."
60. The United States, Japan, and South Korea have all adopted unilateral sanctions against the North. The UN has severely sanctioned North Korea since Pyongyang's two nuclear tests, and the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies is an agreement among 40 different countries restricting the sale of military-use technology to North Korea and other nonmember states.
61. China permits a porous DPRK-PRC border across which technology is transferred, and the Chinese government officially provides IT assistance, including computer hardware valued at \$72,000 in 2009 as a gift cementing a new agreement on DPRK-PRC scientific and technological collaboration. See "China, DPRK to Further Strengthen Scientific-Technological Ties," *Xinhua*, 7 May 2009.
62. "Stockholm Store Drops North Korean Jeans Line," *New York Times*, 6 December 2009.
63. Lora Saalman, "Smoke Signals from BAT's North Korea Venture," *Asia Times Online*, 8 February 2006.
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67. "Kaesong Factory Recognized for Quality," *NK Brief*, Institute for Far Eastern Studies, 30 September 2009.
68. Delisle, *Pyongyang*, 151.
69. "Travel to the DPR Korea," *Democratic People's Republic of Korea*, www.korea-dpr.com/travel.htm.
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