

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

Mongolian Firm Buys Stake in NK Refinery

A Mongolian oil trading and processing company, HBOil, has said that it will supply crude oil to North Korea's Sungri refinery and has also bought a 20 percent stake in the company for US\$10 million.

Mongolia is seen to be seeking to reduce its dependence on Russia and China as both its population and its economy have been growing in recent years.

The refinery will start operation in about a year, according to *Bloomberg News*, and Mongolia will re-import the refined products to meet market demand.

"Mongolia has had diplomatic relations with North Korea for many years," Ulziisaikhan Khudree, HBOil's chief executive officer, said in an interview with *Bloomberg* in Ulaanbaatar on June 12. "There are certain risks, but other countries do business with North Korea, so I am optimistic that the project will be successful."

Pyongyang is encouraging North Korean entities, including state-run operations like Sungri, to increase international deals as much as possible in order to attract foreign trade.

Mongolia, located between Russia and China, has good relations with its diplomatically and economically isolated partner, North Korea, as evidenced by Mongolia's offer to help DPRK leader Kim Jong Un implement economic change when he rose to power, and an offer to help broker a peaceful solution between North and South Korea after Pyongyang declared in March that it was in a state of war with Seoul.

Mongolia, with a population of 2.9 million, appears more focused on improving its economy these days. Not only is Mongolian oil production low, but the country lacks processing capacity, and has to rely on Russia for more than 98 percent of its oil and gets the rest from China. Last December Mongolia reduced its petroleum imports from Russian oil giant Rosneft by 25 percent. Then in May this year the first "Mongol 93" fuel was produced from oil extracted from deposits in Mongolia and exported to China.

The Mongolian economy grew 12.3 percent in 2012, compared with 17.5 percent in 2011, according to the latest statistics from Mongolia's central bank.

HBOil, which recycles fuel used by mining companies in Mongolia, also said that it is "studying the potential for expanding its oil product processing and manufacturing business into North Korea." Landlocked Mongolia has long looked to North Korea's Rason City port as the nearest outlet for its exports to the outside world. It is also a member of the UN Tuman River Project [Part of the Tuman River marks the border between North Korea, China and Russia, and is close to NK's Rason port.]

Under the transaction, the Mongolian Stock Exchange-listed HBOil will swap shares for full ownership of Ninox Hydrocarbons (L) Berhad, a private Malaysian company that owns 20 percent of KOEC International, and issue convertible notes to fund investment at Sungri. The rest of KOEC International is held by North Korea's national oil company, Korea Oil Exploration Corporation, which also has production and exploration rights for oil in the whole territory of the DPRK.

The Sungri refinery, in the Special Economic Zone of Rason City in North Korea's northeast, has a potential refining capacity of two million tons per year and is connected to the national railway network of the Russian Federation.

The company will offer to sell the North Korean refined oil to the far east of Russia, where there are no local refineries, the company said. In exchange, Russian oil companies, most of which own refineries, could send their refined products to Mongolia, a shorter route than delivering cargo to the country's far east.



A Mongolian oilfield [Photo: Invest-Mongolia.com]

“NK to Import Chinese Smartphones”

Yonhap reported that North Korea plans to import about 100,000 smartphones from China this year, quoting the Chinese microblogging website *Weibo*.

The website said that China is planning to export a total of 500,000 mobile phones to the DPRK, and 100,000 of them will be smartphones.

Chinese smartphones sell for about 1,000 yuan RMB (US\$163.27) per unit in China.

Owners of smartphones in North Korea are partly allowed to use video calls and wireless subscription to media outlets, according to the report.

It is estimated that some two million North Koreans own mobile phones.

NGO Initiatives in DPRK: PYONGYANG PROJECT 평양 프로젝트

Pyongyang Project, founded in 2009, is a Canadian social venture committed to responsible engagement with the DPRK through education, tourism, social entrepreneurship and knowledge exchange.

We are managed by a Korean- and Chinese-speaking team with years of experience working with NGOs in the DPRK. Our programs are arranged in partnership with eight domestic DPRK organizations, including travel operators, universities, research centers, economic bureaus and cultural exchange groups. This diversity allows us to undertake and accomplish a variety of social initiatives inside the DPRK, and at the same time affords our participants greater access to the North Korean people and a more-nuanced travel experience to the DPRK.

Education lies at the centre of our approach, and our business model allows for tourist dollars to directly support North Korean students' education abroad. A global education promotes greater understanding and hones critical thinking skills, as human networks expand and individuals are exposed to new ideas and information. Like their counterparts around the world, North Korean university students also relish the opportunity for such an education, and we work with institutions both in Pyongyang and abroad to make this dream possible.

Inter-Korean

“Stunned Disbelief” at Cancellation of Talks



View of the now nearly deserted Kaesong Industrial Complex [Photo: *Arirang News*]

South Korean business owners who jointly worked with North Korea were plunged into disappointment as inter-Korean talks scheduled to take place in mid-June were suddenly cancelled, according to *Arirang News*.

Those involved in the Kaesong Industrial Complex were looking forward to the talks, to be held more than two months after the complex was shut down. And business owners who used to benefit from the jointly-run Mount Kumgang tours sat in stunned disbelief.

"When I heard the news I was so shocked," said one. "In my opinion, I don't think the inter-Korean talks will ever happen -- I like to believe they were just put on hold"

South Korea put a halt to tours to Mount Kumgang in 2008, after a South Korean tourist was shot and killed by a North Korean soldier. Since then, many towns on the border have been suffering financially. Kosong County -- known as the "gateway" to Mount Kumgang -- is one of them.

"This is the town that tourists from South Korea have to pass through to get to Mount Kumgang," a resident said. "But five years after the South Korean government halted the tours, the town now looks almost like a ghost town, with many empty shops and businesses closed down and abandoned."

Kosong County officials estimate a loss of about US\$154 million since tourism to Mount Kumgang stopped. More than 400 local businesses have since shut down. Park Wan-joon has barely kept his business alive selling sea urchins and the like, but he says he needs the tours to resume soon: "I've gotten into debt over the past couple of years. If the tours don't resume soon, my business will go bankrupt."

Kosong County officials say a resumption of the tours would liven up the area once

again: "If it seems likely that tours will begin again, we will start remodeling some areas and replace old signs with new ones to bring this town back to life."

“N-S Trade Virtually Zero in May”

Yonhap reported that trade between South and North Korea was virtually zero in May, quoting the ROK government.

The value of inter-Korean trade reached only US\$320,000 in that month, accounting for just over one percent of the US\$23.4 million-worth recorded in April, according to the Unification Ministry, which handles inter-Korean affairs.

The majority of the May trade represented electricity costs shouldered by the South to maintain the plant facilities in the factory park in the North Korean border city of Kaesong, according to the ministry. The South exported about US\$260,000-worth of electricity while importing US\$60,000-worth of periodicals from the North in May, the ministry said.

The joint factory park made up almost all of the inter-Korean trade, as chilly relations cut off other exchanges.

The number of cross-border trips permitted during May came to only seven, the ministry said, adding that they were the last batch of the seven South Korean workers who returned to the South after the closing of the Kaesong complex.

Domestic



Happy with the results of sustainable farming [Photo: The Mennonite]

P'yang Hosts International Organic Agriculture Workshop

KCNA reported that an international workshop on organic agriculture took place at the Pyongyang Center for Cultural Exchanges with Foreign Countries in mid-May.

Present were Kim Jin Bom, vice-chairman of the Korean Committee for Cultural Relations with Foreign Countries and director of the Pyongyang International New Technological and Economic Information Exchange Agency, officials of ministries and national institutions, officials and researchers in the field of scientific research, and agriculture experts.

Members of the delegation of the International Federation of Organic Agriculture Movements headed by President Andre Frederick Leu also attended.

There were lectures under several titles including "Fertility of the soil in organic agriculture," "Green manure," "Multi-functional benefits of organic agriculture, soil health and nutrition" and "Humus soil and its making."

A practical workshop took place at the Ssangun Organic Experimental Agriculture Station in South Phyongan Province. The participants shared their experiences in disseminating information about organic agriculture.

NK Plans New US\$200m International Airport

[The following is an edited version of a report by Curtis Melvin for *NK News Pro*.]

Architectural plans for a US\$200m airport on North Korea's east coast have been made available to *NK News* by PLT, a Hong Kong-based architectural firm bidding to design what North Korea hopes will serve as a major transportation hub for the Mount Kumgang Tourism Zone (KTZ).

NK News contacted the firm for comment and, although initially happy to go on the record, correspondence has since gone unanswered. It is not therefore clear if the plans—which *NK News* has published with the permission of PLT—have been confirmed.

North Korea recently announced laws to govern the management of newly created "economic development zones" — zones that are legally distinct from the Kaesong Industrial Complex, Mount Kumgang Resort, Rason and Hwanggumphyong economic zones in that they do not appear to be referring to or defined by a distinct geographical designation. They can, theoretically, be located anywhere in the country.

Recent visits by DPRK leader Kim Jong Un and other top economic officials to the construction site of the Masik Pass Ski Resort, a push to reopen the Mount Kumgang Tourism Zone to South Koreans and designs for a new international airport indicate that Kangwon Province could be the location of the first of these new economic development zones.

According to the plans, conceived by architects Otto Cheng and Karolis Kazlauskas, the proposed runway is approximately 3,500m long -- longer than any of the runways at Washington Dulles International Airport.

The new airport designs show two terminal hubs—possibly one for domestic flights and another for international flights—that are designed to resemble traditional Korean drums, according to a PLT press release.

Each terminal will be two stories high with a total floor space of 12,000 sq m. According to the blueprints, each building will be able to accommodate six planes at once. Arrivals will take place on the ground floor, departures on the elevated floor.

NK's Android-based Achim Tablet on Video

Martyn Williams reports on his blog *NK Techwatch* that North Korea's Achim (Morning) tablet PC will soon become a year old. The tablet, which runs the Android operating system, was first unveiled in July 2012 as a computer to help education.

It was the second tablet PC unveiled by the country. The first came from the Korea Computer Center and a third, called Samjiyon, was unveiled later in the year.

Since it appeared, the DPRK's state media has carried several stories about the success of the Achim tablet PC in the teaching and learning markets. It is said to contain reference books, foreign-language dictionaries and scientific data. KCNA reported it weighs about 300 grams and has a battery life of about five hours.

The computer is made by Achim Panda, a joint venture between China's Panda Electronics Group and the DPRK's Ministry of Electronics Industry.

A Japan-based site with close ties to North Korea has published a video extolling the virtues of the computer for students. It can be viewed on *NK Techwatch*.

North Korea Building "World-class" Ski Resort



View of the construction site of the Masik Pass ski resort [Photo: KCNA]

North Korea is speeding up work on a "world class" ski resort, according to KCNA.

Describing the Masik Pass resort in the northeast of the country as a "gigantic patriotic work," KCNA said the skiing ground is located in an ideal place as it ensures a long period of skiing and the Pyongyang-Wonsan tourist motorway runs nearby.

The resort will have 110 km (70 miles) of multi-level ski runs, a hotel, heliport and cable cars.

The resort, which is being built by the military, will "provide the people and school youth and children with highly civilized and happy living conditions," KCNA commented.

The construction of the ski resort may mean that the DPRK might consider making a late bid to co-host some events of the 2018 Winter Olympics, which will take place in the South Korean resort of Pyongchang in 2018.

At the same time, it might be a genuine bid to boost tourism, which Pyongyang increasingly sees as a relatively risk-free way of earning much-needed foreign currency.

``Visible Progress Toward Economic Reform''

[The following is an edited version of a report by the Institute for Far Eastern Studies.]

Under the new leadership of Kim Jong Un, North Korea has been making gradual changes with new economic measures. Last year a task force was installed at the state level to configure new economic measures, and details are being released one by one.

Details confirmed thus far include the authority of the administrators of cooperative farms and enterprises being expanded, which means that surpluses can be disposed of at the discretion of the administrators of individual organizations. This means voluntary incentives can be now paid to workers to increase production.

The North's key agricultural and industrial sectors were the first to implement such change. *AP* reported in April that the administrators of cooperative farms and factories had been granted the discretionary rights for the promotion of production.

Specifically, the cooperative farms formed smaller work units, with each unit being directly responsible for all the harvest. Whereas all the harvest was required to be sent to the state in the past, surpluses can now be stored, sold or exchanged for other goods.

In the case of factories and enterprises, workers' wages used to be strictly controlled by the state, but since the change each factory and enterprise can now pay incentives to workers depending on the production results.

The increase in goods exchanged between people is changing the existing distribution structure. North Korea is making efforts to ease the planned economy structure in the commercial and distribution sectors. In other words, the number and variety of products distributed domestically is increasing and the state is intervening to amend the existing distribution system and strengthen the discretion rights of commercial and industrial institutions.

North Korea released this information regarding the new economic measures to AP and other foreign media after it gained the confidence to properly manage the new economic measure from the success of pilot projects. However, information released to the foreign media is still limited, and changes in other areas, including the banking and finance sectors, remain unknown.

Kaesong On UNESCO World Heritage List

AFP reported that the remains of a fortress that once surrounded Kaesong, the ancient capital of Korea's Koryo Dynasty (918-1392), are among sites in North Korea that made it onto UNESCO's World Heritage list on June 23.

North Korea's bid to have the sites added to the list was approved at a UNESCO meeting in Phnom Penh, Cambodia.

Kaesong, located just north of the Demilitarized Zone which separates the North from the South of Korea, was the capital of the Koryo kingdom. It is also where the two Koreas run a joint factory park. Being in UN hands for most of the Korean War (1950-1953), Kaesong was spared the blanket bombing which destroyed most of North Korea.

Twelve North Korean sites added to the list include the ruins of the Manwoldae palace, a 1,000-year-old academy that was the top school during that era, relics housed at a museum at the school and the mausoleum of King Kongmin.

“These valuable cultural relics are the pride of our nation. They show its long history,” said Kim Jin Sok, a researcher at the Kaesong City Management Office for Preserving the National Heritage.

A North Korean complex of ancient tombs from a previous kingdom won heritage status in 2004.



Ancient entrance to Kaesong

Invitation for International Public Tender

[The following appeared on the Naenara website.]

The Ministry of Land and Environment Protection of the Democratic People's Republic of Korea plans to build a new road between Pyongyang and Phyongsong in order to facilitate public transportation in the western region of the country, including Pyongyang.

To this end, the ministry is going to purchase equipment and materials necessary for the project through international public tender. It also intends to employ international consultation services for technical assistance.

The international consultancy services will include road design, building operations and technical supervision (land fill, sand and gravel bedding, cement stability, paving, bridge construction, construction of small structures and protective guard and installation of road signs) and use of equipment and machines for road construction.

The equipment and materials to be purchased are as follows:

Hydraulic excavator, cement truck, self-propelled road liner, measuring equipment, bus, bulldozer, fuel truck, concrete cutter, geological testing equipment, cement, grader, trailer, voltage regulator, examination equipment, round steel, loader, sprinkler, water pumping equipment, drilling equipment, angle iron, Macadam roller, crane truck, dredger, printer, steel pipe, Tandem roller, stone crushing plant, horizontal vehicle for bridge construction, plotter, iron sheet, composite roller, mobile compressor, guniting machine, laptops, timber, tired roller, hammer drill, welder, laser surveyor's rod (LEICA TCA 2003), asphalt, concrete paver (with the framed rails), rock-driller, electric generator, digital theodolite (SOKKIA DT 610S), fuel, concrete mixing station, asphaltic emulsion truck, pressure pump, automatic leveling instrument (SOKKIA C32II), aluminum sheet, asphalt mixing station, automatic truck, vibratory pile hammer, fork-lifter, luminous paper, mixture truck, asphalt paver, pressure pump, light reflection sign, and car.

Letters of tender invitation will be issued early in July 2013.

For more details, please contact:

International Implementing Office for Road Construction Project

Add: Pothonggang-dong No.1, Pothonggang District, Pyongyang, DPR Korea

Fax: 850-2-381-4416/4410

Economic Zones

“Work Going Ahead on NK-China Economic Zone”

The DPRK and China have accelerated the development of a joint special economic zone, located on Hwanggumpyong Island, near Dandong, China. This suggests that the two countries are moving forward with the so-called Two Islands Economic Zone (comprising Hwanggumpyong and Wihwa islands) despite past reports that Chinese officials had suspended the project, according to *38North*.

Construction began in late 2012 and was largely focused in this initial phase on infrastructure improvements and closing off the zone’s boundaries, which encompass over 300 acres. In September 2012 China and the DPRK held a groundbreaking ceremony for a new administrative building to house the Hwanggumpyong Economic Zone Management Committee. Since then, a new entrance to the island has been built, consisting of customs and security buildings, gate houses, a paved road and a new electrical power line that terminates near the Chinese customs building. Additionally, two areas within the zone have been graded, possibly to house initial industries located in the zone. This work may be the first of a number of infrastructure improvements intended to support the industrial development of the island. Based on the current pace of construction, the zone may be ready for operation in around 2-3 years.

Yonhap reported that the Chinese Ministry of Commerce invited about 20 North Korean economic and government officials and scholars to Tianjin for training in special economic zones in May 2012.

During a visit to Beijing in August 2012, North Korea’s Jang Song Thaek and Chinese Minister of Commerce Chen Deming announced the establishment of an administrative committee for the economic zones in Rason and the Hwanggumpyong and Wihwa islands. Following Jang’s visit, *Yonhap* reported that China dispatched about 70 specialists from Jilin Province to North Korea to help accelerate progress on North Korean special economic zones (SEZs).



Groundbreaking ceremony for a new administration building for the Hwanggumpyong Economic Zone management committee, September 15, 2012.

New Law on Economic Development Zones

[The following is an edited version of a report by the Institute for Far Eastern Studies.]

Since the start of the Kim Jong Un era internal economic management measures continue to be established in the DPRK. Recently, a new law was enacted governing the establishment of economic development zones.

KCNA reported on June 5 that a law for economic development zones was adopted and “in this regard, ordinance of the DPRK Supreme People’s Assembly’s Standing Committee was promulgated at the session on May 29.”

This legislation is a follow-up to the decision reached in April this year by the Supreme People’s Assembly for the creation of economic development zones.

The legislation is composed of seven chapters and 62 sections, which cover matters such as configuration, development, management and conflict resolution.

The report added that “Economic development zones, in accordance with the regulations set forth by the state, are entitled to various privileges as special economic zones.”

In addition, “Foreign corporations, individuals, economic organizations and overseas Koreans are able to invest in the economic development zones, and can freely engage in economic activities including establishment of businesses, branches and offices.”

It also indicated that “the state will provide preferential terms to investors in areas such as land usage, recruitment and tax payment.”

The details of the rights granted to investors were expounded, emphasizing that an economic development zone is a special zone, and provides legal safeguards to protect the rights, investment, property and legitimate profits of foreign investors.

According to KCNA, the economic development zones will include various economic and science and technology sectors such as industrial development, agricultural, tourism, export processing and high-tech.

DPRK leader Kim Jong Un delivered a speech at the WPK' s Central Committee Meeting titled, "Economic Development Zones Must Be Created in Every Province Reflecting their Regional Characteristics," hinting at the state' s policy to attract more foreign investment to accelerate the development of the economic zones.

In particular, investment in infrastructure construction, state-of-the-art science and technology, and production of goods highly competitive in the international market are especially encouraged.

The management of these economic development zones will be separated into local-level and central-level zones, indicating that economic development zones will be established in all parts of the country.

However, this law does not apply to the preexisting economic and trade zones in Rason, Hwanggeumbyeong, Wihwa Island, Mount Kumgang and Kaesong. The new legislation indicates that North Korea is committed to economic development regardless of the tense relations on the Korean Peninsula.

``50-year Lease on Development Zone Land''

Yonhap reported that North Korea will offer a maximum 50-year lease on land in all economic development zones, including those it wants to set up across the country to spur outside investment, an analysis of a DPRK magazine monitored in Seoul showed.

Close examination of the May 29 edition of the *Tongil Sinbo* revealed the lease system, according to *Yonhap*.

The 50-year scheme for development zones is on a par with land-lease favors offered by Pyongyang to businesses operating in the Kaesong Industrial Complex and the Rason Economic and Trade Zone. The plan can offer assurances to investors, which can be a critical incentive.

Kaesong is on the west coast just north of the Demilitarized Zone, while Rason is located in the country' s northeastern region near the border with China and Russia.

In addition, the weekly said, companies will be able to freely buy and sell rights to buildings and land in the economic zones and even hand over property deeds with a clause being fixed that can allow the present rights holder to release it to a third party.

Development of land leased can be assisted by North Korean state organizations and companies.

The weekly said Pyongyang has set corporate tax rates for these zones at 14 percent of earnings after the settlement of accounts, with the government pledging the safety of all foreigners in the special zones under North Korean law.

With regard to where the development zones will be set up, the weekly said the North will give priority to areas that can trade easily with the outside world, that can contribute to the advancement of the national economy, and are separate from local residences.

The report said that all authority for the new development zones will be given to a centralized economic oversight organization to make it easier for investors to talk to authorities and receive administrative assistance.

Comment

The news that talks between the two sides on the Korean peninsula --due to be held in mid-June and heralding the end of a period of unprecedented tension -- were cancelled at the last minute was both disappointing and puzzling. Negotiators for the two sides agreed to hold the talks after 17 hours of discussions, and the fact that the talks were to be held in Seoul marked a major concession by the North. Cui bono? It is hard to see who benefits from a return to tension and sabotage of economic exchanges between the South and the North. But given that Pyongyang plans to build more joint economic zones and is unhappy with having only one economic partner (Who wouldn't be?) and that South Korean business people are missing out on a golden opportunity to cash in on the North's labor and minerals as well as a market for the South's rice and other foodstuffs, it is reasonable to suppose that the talks will resume before long.