

Transfer of Management Rights to Chinese Investment Companies within North Korea

The trade volume and economic cooperation between China and the DPRK are on the rise. The trade environment for Chinese investment in North Korea has also changed.

Currently in the DPRK, there are about 200 Chinese companies in operation and more than 70 percent of these companies are concentrated around the cities of Rajin and Sonbong. China has pursued economic cooperation with the DPRK based on the four principles of state-ownership, corporate-centeredness, market-management, and mutual benefit. In the past, China persuaded North Korea with various joint venture projects arguing that, "You have nothing to lose from these projects. Although it's based on market principles, ultimately it's beneficial for both parties." North Korea on the other hand maintained the stance, "You (China) invest and we will manage," holding on to management rights of these companies. However, for this very reason Chinese companies were reluctant to directly invest in North Korea. Even after contracts were signed, large -scale investment did not transpire due to poor management.

However, North Korea finally yielded to China's request, handing over major management rights to Chinese investors. This recent move is analyzed as an attempt to attract more foreign investment to actualize North Korea's goal of building a "Strong and Prosperous Nation" by 2012. With large-scale management rights transferred to the Chinese companies for joint ventures, the DPRK-China economic cooperation volume is expected to grow.

North Korea also seems to be exploring other ways to improve the investment environment for the Chinese companies. Recently, Chinese trade investors are reported to be receiving special treatment. They are exempt from strict body searches at the airport and mandatory tours required for all visitors, which included visits to Mangyongdae, the birthplace of Kim Il Sung, Panmunjeom, the International Friendship Exhibition in Myohyang Mountain, and Kim Il Sung monuments. Their trips are now considered and treated strictly for the exclusive purpose of business.

When concerns are raised about the volatile North Korean policies involving foreign investment, North Korean officials offer elaborate explanations: "Even if policy changes or the regime, management rights are like private property protected by the Investor Protection Act. One's investment will be protected even after a policy change, just as your real estate properties would. There is nothing to be worried about." Many Chinese businessmen are reported to be expressing some concerns over these unexpected changes in policy related to attracting foreign capital and the attitudes of North Korean officials.