

# EFFICIENT BUSINESS VENTURES IN NORTH KOREA: STRATEGIES AND CONSIDERATIONS

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## South-North summit and business opportunities

The June 12-14 summit will be a landmark event in inter-Korean relations. If the summit is a success, we can expect not only improved relations but also an advance in economic cooperation.

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How will economic cooperation change after the summit? Basically, cooperation will go beyond private efforts to government-led projects that may involve private participation. At this point private exchange has almost exhausted its possibilities. Since there hasn't been any government-level discussion or cooperation, private economic exchange is limited to trade while investment is halted. In the case of investment, Daewoo's factory in Nampo is currently closed, and Hyundai's Mt. Kumgang Tour is the only project in operation.

Therefore, by bringing government agreement on economic cooperation, the summit is expected to lead to government level economic exchange and greater private cooperation.

**Table 1. Fields of Economic Cooperation**

Category	Description	
<b>Government Level</b>	agriculture	- Provision of water maintenance infrastructure and agricultural supplies - Farm exchange and creation of a trial farm
	infrastructure	- Energy: repairing electricity generators, power lines - Transportation: opening of roads and railways connecting South and North Korea, Northeast Asia railway project - Ports: Expansion and modernization of ports such as Nampo - Communication: linking South and North Korea
	other	- Creation of a "Peace Belt" on the Peninsula - Environmental cooperation
	<b>Private</b>	- Industrial park in North Korea's Imhae region - Various investment based on the profit motive

## Stages in economic cooperation

Firms investing in North Korea should consider the strengths and weaknesses of both the South and North Korean economies. There are four aspects in particular that should be noted: changes in South Korea's industrial structure, North Korea's economic advantages, technological development, and the North's socio-economic needs.

**Table 2. Factors affecting Economic Cooperation**

Factor	Contents
<b>Changes in South Korea's Industrial Structure</b>	- Transfer of South Korean sunset industries (mostly light industry) to the North
<b>Advantages of North Korean Economy</b>	- Wages are low and people use the same language - Advanced science and technology in certain fields - The geographic center of Northeast Asia
<b>Technological Advances</b>	- Economic cooperation in step with world IT and high-tech developments
<b>North Korea's Socioeconomic Needs</b>	- Provision of supplies needed for economic recovery and goods needed by North Korean population

South-North economic cooperation is predicted to occur in three main stages. In the first 1-5 years, South Korean aid will be combined with business expansion into the North. The South's sunset industries will be transported to the North, as well as some labor-intensive high tech industries. The demand for infrastructure is especially urgent, and this will account for a large portion of the investment in the North.

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Although light industries will be the easiest category for cooperation in the short-term, investment in heavy and chemical industries and high tech industries will also be possible from the beginning. Thus, in the short run, promising ventures include: light industry exports, heavy and chemical products needed for the North's economic recovery, introduction of high-tech products, and participation in other industries such as tourism or natural resource extraction.

The second stage is expected to occur at around the 6th year of economic cooperation. Demand for infrastructure is expected to be steady, and heavy and chemical industry is expected to grow with North Korea's economic recovery, and light industry production is expected to rise with a gradual increase in North Korean consumer demand. In the third stage, which will probably occur after 10 years, cooperation in all industries is predicted, and will enhance the complementary nature of the South and North Korean economies.

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Table 3. Stages of Economic Cooperation

	First Stage (1~5years)	Second Stage (6~10years)	Third Stage (10years and beyond)
<b>Scope of Cooperation</b>	-Limited exchange	-Open exchange	-Full exchange
<b>Field</b>			
<b>Infrastructure</b>	-Agro Infrastructure -North-South highway connection -Maintenance of electricity and ports	-Expansion of roads, electricity, and ports -Communication	-Transport network for Northeast Asia -Increased communication investment
<b>Other</b>	-Export industries -Labor intensive industries -South's sunset industries	-Export and domestic industries -Capital intensive industries	-Export and domestic industries -Capital and technology intensive industries
<b>Form of Cooperation</b>	-Transport, consignment of goods -Joint operation	-Varied: joint management, individual projects, and consortiums	-Individual projects, project financing, consortiums
<b>Industrial Parks</b>	-Infrastructure sites -West coast complex	-Infrastructure sites -Activating West coast complex -East coast complex	-Linkage of South and North Korean industrial sites
<b>Investment Scale</b>	-Large scale infrastructure -Small scale investment	-Large scale infrastructure -Medium scale investment	-Large scale infrastructure -Large scale investment
<b>Business Goal</b>	-Risk minimization -Inter-government cooperation	-Basic investment for a long term strategy	-Investment for growth
<b>Target Market</b>	-Foreign markets	-Foreign and South Korean markets -North Korean market	-North Korean market -Foreign and South Korean markets

### Strategy for businesses

*Companies should ask themselves whether their plan actually fits with North Korea's conditions.*

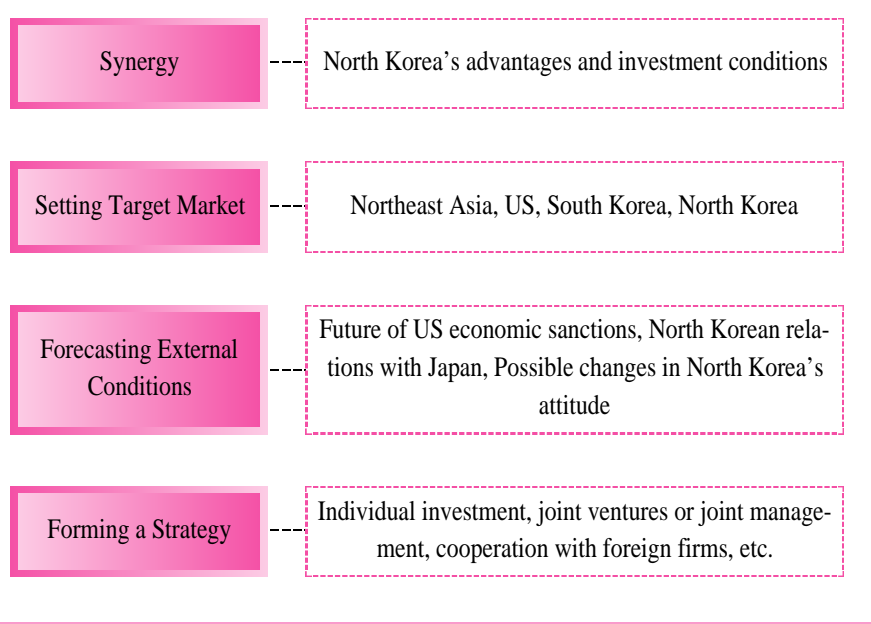
Businesses intending to enter into North Korean ventures should be aware of the business goal and environment, and then plan a strategy. Several points should be kept in mind. First, companies should ask themselves whether their plan actually fits with North Korea's conditions. Second, they should consider which markets they will sell the goods produced in North Korea.

An important external factor, especially if the US market is targeted, is the future extent of US economic sanctions on North Korea. Although the US lifted some of the sanctions on North Korea, the communist state still faces high trade barriers, and is not in a permanent trade relationship with the US. Another aspect that will affect economic cooperation is North Korea's relations with Japan and the size of Japan's reparations for colonial rule. In addition, North Korea's attitudes to economic

cooperation in general, as well as its stance towards specific industries or firms will be crucial.

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**Figure 1. Method for Business in North Korea**



Businesses should take the following approach to their North Korean ventures: first, they should initially enter low risk projects that will easily gain approval from the North, and gradually try to increase their occupancy in the North Korean market. A good way to do this would be for large companies to build industrial parks, while smaller firms invest in production equipment and occupy the site. This method would reduce risk and boost negotiating leverage with the North.

Second, investors should initially enter North Korea with the South Korean government to reduce risk, and gradually increase their autonomy. For infrastructure projects in particular, it is advisable for firms to invest in North Korea with government support, and shift to a build-operate-transfer system after the North Korean market expands and stabilizes. Joint ventures are another prudent approach. Joint ventures can happen in many forms, for example, a large corporation with information, funds, and marketing capability could cooperate with a smaller firm with technology in a specific area. This method would prevent excessive competition and would improve investment efficiency. A number of large firms could form a consortium to reduce risk and divide roles. Finally, South Korean firms could jointly invest with foreign firms, an approach that may lead North Korea to ease its restrictions and allow South Korean firms to raise funds more easily. **VIP**

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