

DIGGING FOR ANSWERS IN THE DPRK MINING SECTOR: Seeking Solutions for the North Korean Economy

North Korea is looking to its energy and mining sectors to ease the pain of economic hardship. The DPRK is working not only with neighbors China and South Korea but has reached resource development agreements with Russia, Ireland, and other countries, and is seeking means for opening up and overcoming its economic woes through these cooperative ventures in the previously unopened energy and mining sectors.

Currently, China, Singapore, Germany and Sweden are promoting seven projects to mine gold, steel, zinc, and fluorite. In particular, China is eyeing its neighbor's mining resources as a solution to China's lack of raw materials. China has agreed to invest 100 million dollars to upgrade equipment at the Duksung mining facilities in South Hamkyung, and 15 million dollars to modernize facilities at the Musan mines in North Hamkyung.

Vice Premier Ro Tu Chul of the DPRK visited China last December and signed a 500 million-dollar PRC-DPRK joint oil development agreement with Vice Premier Zeng Peiyan of China. This appears to be the North's largest cooperative economic agreement with a foreign country to date as Pyongyang works to surmount economic sanctions imposed by the West.

One Hong Kong newspaper reported on March 27 that the largest state-owned firm in China's Jilin Province, Tonghua Steel and Iron Group, was preparing an 860 million dollar deal for 50-year mining rights to the Musan iron mine in North Korea. The mine, the largest open-air iron mine in Asia, holds seven trillion tons of reserves, 66 percent of which is recoverable ore. In addition, the Wookwang Group and San-doong's Guoda Gold Corporation are also pursuing cooperative ventures in North Korean mining development.

Not only in China, but rather energy firms around the world are showing interest in the future for cooperative ventures involving DPRK natural resources. Ireland's oil and gas exploration firm Aminex signed an agreement in September 2005 giving it first rights to oil exploration throughout all of North Korea for the next twenty years. North Korea's state-run natural resource venture Kobril bought in for 10 percent last January. This is the first time such opening measures involving Western firms have been seen in North Korea's energy sector. While the future of DPRK oil development may have potential, measures to improve the obsolete technology and outmoded facilities are not yet visible.

Representatives from Russia's largest natural gas company, Gazprom, visited Pyongyang to discuss energy cooperation at the beginning of the year. The Korea National Oil Corporation of South Korea is already in the process of oil exploration along North Korea's continental shelf under the Yellow Sea. However, South Korea is more focused on the North's abundant mineral resources than on its oil or coal. The South Korean government is developing North Korean mining operations for magnesite, zinc, apatite, iron ore, molybdenum, tungsten, and more.

The South Korean firm Korea Resources Corporation (KRC) expects to grab a 50 percent stake in an inter-Korean cooperative operation in magnesite mines in Daeheung, located in western Hamnam, as well as interests in mining operations there for the next three years. In addition, last year, KRC examined the investment environment in five mines, including Dukhyun Iron, Oryong Iron, and Yongkang Oil, and is currently examining the viability of investments in seven additional regions. POSCO, Daejoo Industrial Resources, and other South Korean firms are exploring plans to enter the North Korean mineral sector.

Over 200 of the 360 types of natural resources that North Korea has can be profitably exploited. In particular, North Korea holds the world's largest deposit of magnesite, and its tungsten, molybdenum, graphite, barite, and fluorite deposits are all in the top ten largest deposits in the

world. Despite this, in the field of mining, North Korea's professional knowledge remains deficient, its infrastructure wanting, and its related investments have been too insufficient for anyone to expect much in the short term.

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