

## **PRC INVESTMENT IN DPRK DRIES UP AFTER NUKE TEST**

Following North Korea's bold nuclear test in October of last year, it appears that Chinese (PRC) investment in its northern neighbor has virtually dried up. According to a South Korean government official's statement on February 2, it appears that PRC investment in North Korea (DPRK), which makes up the bulk of the North's foreign capital, has been nowhere to be found ever since the nuclear test. In addition, while some industries have been carrying out talks with Pyongyang regarding small-scale investment in the North's mining industry, they have been unable to reach any agreement.

Chinese investors have offered no specific explanation for the lack of investment, but the leading theory is that international sanctions following the nuclear test have increased investment risk to an unpalatable level. In recent years, Chinese investment in the North has been growing rapidly, and just prior to the DPRK nuclear test, investment was brisk. According to the South Korean Ministry of Unification, Chinese investment in North Korea during 2003 was only about one million USD, but this amount grew to 50 million USD in 2004 and 100 million USD in 2005, mainly through investments focused on the North's mining industries. Growing one hundredfold in just two years, Chinese cross-border investment continued to increase from January to September of 2006, having already reached 2005 investment levels by the time the North's nuclear test served a direct blow to this economic lifeline.

International sanctions following the nuclear test appear to be affecting the North

Korean economy in other sectors, as well. The door to trade between Pyongyang and Tokyo is swiftly being closed. In September and October of last year, Japan-DPRK trade amounted to 7.9 million USD, down 75% from the same period in the previous year (31 million USD). Immediately after the North's test in October, Japan banned the import of all goods from the DPRK and denied all North Korean vessels entry into Japanese ports.

Furthermore, international sanctions were levied against North Korea prohibiting the sale or purchase of dual-use equipment that could be used for the production of weapons of mass destruction (WMD), as well as the import of raw materials or equipment that could aid such a weapons program. In addition to the difficulties caused by these sanctions, with Washington's pressure since September 2005 to freeze North Korean accounts with Banco Delta Asia (BDA) and the resultant reluctance of Western businesses to conduct business with North Korea, Pyongyang's nuclear program has caused it to be faced with a wide range of serious trade hurdles.