



AUSTRALIA AND NORTH KOREA

North Korea's severe shortage of hard currency ostensibly rules out conventional forms of international trade, while its past failure to honour barter-trade deals effectively rules out this form of commercial engagement. North Korea is a marketplace best suited for the commercial adventurer and frontiersman who thrives on the challenges of high-risk markets.

Australia-North Korea relations have been in a state of suspended animation since the abrupt break-off in diplomatic relations in the mid 1970s. However, the recent re-establishment of formal diplomatic relations between the two countries holds out the prospect for renewed commercial relations.

But, those in commerce and industry expecting a cornucopia of opportunities will need to take a reality check. In short, the North Koreans need just about everything, yet have the capacity to pay for virtually nothing.

The North Korean economy is built on the economic-political ideology of Juche, which officially means 'self-reliance' but more practically means pursuit of isolationist self-sufficiency.

For much of the post-Korean War period, North Korea was sustained by heavy subsidies from its main patron, the Soviet Union, and has been hard hit by the collapse of the socialist economic system in much of the rest of the world.

Economic growth in North Korea was estimated to be around 1.5 per cent annually during the 1980s, however this figure has turned negative with collapse of the Soviet Union and cessation of aid.

Better western estimates suggest the North Korean economy has contracted by around 5 per cent annually for most of the past decade. Manufacturing production is around 10 per cent of

the level of the late 1980s, and reliant on Soviet era (1960s-1970s), even Japanese occupation (1940s) era, technology. Energy resources are severely depleted.

The electricity shortage is at such a chronic level North Korean industry is reportedly operating at around just 5 per cent of capacity.

Agricultural production is greatly strained by poor land use practices (just 20 per cent of land is suitable for agricultural use; the remaining 80 per cent of North Korea is made up of uninhabitable and non-arable mountains), while human resources are being run-down through the lack of access to new ideas and technologies.

The North Koreans attribute their economic difficulties to three main factors: natural disasters (the floods of recent years); the disappearance of the Comecon foreign markets (which operated on a barter-trade basis); and, western economic sanctions (principally applied by the United States)

Against this background, the Australian Government has identified the main economic priorities for North Korea as: bilateral and multilateral aid to maintain food supplies; and, massive capital injections for infrastructure development and to restart a collapsed industry sector.

The Australian Government's official public assessment of the North Korean economy, its challenges and priorities for reform, can be found at the Department of Foreign Affairs and Trade (DFAT) website (www.dfat.gov.au) where it says:

‘The (North Korean) economy faces severe problems, a result of structural problems exacerbated by recent natural disasters. Much of the (North Korean) economy lies idle due to lack of inputs and supply bottlenecks. Food and energy shortages are pressing for the (North Koreans).’

‘International humanitarian aid has alleviated malnutrition but (North Korea) must implement significant changes if there is to be a sustainable improvement in the economic situation.’

Australian Commercial Access

Australia–North Korea bilateral trade is, by any measure, minuscule. Australian exports to North Korea totalled just \$A1 million last year, while our imports from them was just \$A6 million.

Australian exports to North Korea were a single shipment of ‘inorganic chemical elements’, while imports from North Korea were made up of civil engineering equipment, textile yarns and fabrics, iron and steel, chemicals and related products, and manufactures of metals.

Taken as a whole, North Korea ranked 125th in the order of Australia’s trading partners.

While some South Koreans may well make financial commitments (trade and/or foreign investment) into the North for sentimental reasons (such as those of the Daewoo and Hyundai groups), for most others (such as Australian firms) it will mean reliance on guaranteed aid financing, solid insurance commitments from third party governments, and/or ‘slip-streaming’ on the activities of South Korean firms.

Outstanding external debts, failed counter-trade deals with several countries including Australia, and the lack of market-based commercial experience and capacities in the North, mean conventional trade and commerce is likely to prove quite challenging.

Opportunity Sectors

There is virtually an infinite number and range of opportunity sectors in North Korea: in short, they need almost everything.

The most critical area for the North Koreans, and as such probably the main opportunity sector for Australian firms (if they can secure third country or international agency funding), is infrastructure.

Electricity generation and transmission are the North Korean’s main infrastructure priority. Domestic power production and supply system is unable to meet domestic needs, both for household and industrial purposes.

North Korea’s power generation and transmission infrastructure is out-of-date (much of it using Soviet era technology), with both expansion in capacity and modernisation being urgent.

Thermal (coal-burning) sources provide around half North Korea’s electricity (but is impaired by the lack of suitable coal), with the other half coming from hydro-power sources, however

the latter is reliant on spilling water from dams and thus dependent upon adequate rainfall and dam-building.

North Korea could potentially produce around 12 billion kwh of hydro-electricity annually, but currently only have the capacity for around one-third of this amount.

Plans for nuclear power generation are behind schedule because of delays in making operational two light-water reactors promised under the KEDO agreement (under which the North Korean's would halt their own plutonium nuclear power generation program in exchange for the West providing two light water reactors).

Water supply is also important. An Australian firm, the Snowy Mountains Engineering Corporation (SMEC), is already on the ground in North Korea doing a feasibility study of the rehabilitation of the Pyongyang water (both potable and waste) supply system, funded by a Kuwaiti aid program.

The Pyongyang water system was cobbled together by the North Koreans at the end of the Korean War, and suffers severe leakage (up to 65 per cent of clean water leaks out of the aged pipes) and cross-contamination of clean with waste water.

Transport is another priority infrastructure sector for the North Koreans, not so much the mobile parts (trains, trams and buses) but the fixed capital, such as highways and railways. The transport infrastructure problem is compounded by the fact that around 80 per cent of North Korea, by area, is mountainous.

Rail is the main mode of transport within North Korea. While the rail system is 90 per cent electrified, it suffers from the severe power shortages which afflict the nation as a whole.

The highway system is also in need of expansion and repair. The economically important highway from Pyongyang to the seaport of Nampo, while impressive at 6 lanes, was in need of further extension and maintenance.

While the North Koreans have an ambition to build a highway from their east to their west coasts, with around 70 per cent of this distance being through mountainous terrain, the necessary financial resources for such a massive project are unlikely to be forthcoming from domestic sources.



Metals smelting and manufacturing is the basis of North Korea's industrial sector.

The North Korean's have a number of very large iron and/or zinc ore smelters, but these have passed their 'use-by-date' and are operating well below capacity due to a lack of coking coal. While such coal is available on the world market, the North Koreans lack the hard currency to pay for it.

Other opportunity sectors include food processing (where the North Koreans want to import western technologies to lift the quality of their manufacturing systems) and housing (where they need to build around 150,000 housing units annually, both apartments in the cities and stand-alone abodes in rural areas, well ahead of their current capacity of 50,000 housing units).

Deep-sea fishing may also be an opportunity sector, given North Korea vigorously enforces a 200 km territorial limit, which has left abundant supplies of fish largely untouched. There are also opportunities for extensive crustacean farming along the north west coastline.

The North Koreans also need foreign direct investment across virtually all areas of economic activity. Full foreign ownership is permitted only in the Rajjin-Sobong Free Trade Zone, in the isolated north-east of the country, although joint venture/production arrangements can be located outside this area. Priority sectors for joint ventures identified by the North Koreans were textiles manufacturing and minerals processing.