



INVESTORS IN DPRK TAKE HUGE HITS; INTEREST IN FDI PLUMMETS

The majority of joint ventures investing in North Korea have suffered significant losses since the South Korean government began to enforce sanctions as a result of the sinking of the ROKS Cheonan. On average, companies have incurred losses of almost one billion won, and most companies are no longer interested in investing in the North.

According to the Korea Chamber of Commerce and Industry, a survey of 500 companies (200 inter-Korean economic cooperative schemes and 300 other companies involved in business with the North) showed that 93.9 percent of respondents said they had suffered losses due to trade restrictions put in place due to the Cheonan incident, while 66.5 percent responded that they faced “financial difficulty” due to the sanctions. The companies have suffered an average of 974 million won in losses.

Investment and operational losses due to the ‘all stop’ order from the government amounted to 51.9 percent of losses reported, while 26 percent of respondents pointed to a reduction in orders and 22.1 percent blamed an increase in transportation and other associated costs. One company importing anthracite from the North turned to China, Vietnam, Russia, and other vendors after inter-Korean trade was restricted, but due to each country’s efforts to secure its own natural resources, this year’s sales are expected to be more than 10 billion won less than that seen last year.

Another company, investing in textiles, was strategically producing hand-made works in a North



Korean factory, but now production has come to a halt and it may not be able to deliver goods it has produced. A source from the factory stated, “Personnel and raw material expenses in China, Vietnam, and other countries mean that profit margins will be minimal, and there is no alternative.” The same source also stated, “Special funds were distributed from the government, but [companies] are concerned about how long they can hold out.”

As companies invested in North Korea suffer losses in the wake of the Cheonan incident, interest in North Korea investment opportunities is also waning. 82.7 percent of responding companies believe that “even if economic cooperation was normalized, there would be no new investments or continuation of existing projects,” and 76.9 percent of respondents believed that “because of the uncertainty of the North Korean system” non-economic issues would dampen investment enthusiasm. 13.7 percent stated that difficulties with transportation and other infrastructure issues would discourage investment, and 9.4 percent of respondents answered, “North Korean authorities’...interference and restrictions” would turn away foreign investors.

Among those businesses not involved in cooperative economic ventures, 41.5 percent pointed to “North Korea’s overall reform and opening,” while 22.2 percent chose “guaranteeing the security of investments and expanding domestic SOC” as being necessary to propel investment in North Korea. Another 19.7 percent answered, “security issues like North Korean denuclearization” were necessary for improvement in the investment environment.

Many also voiced concerns over the ongoing ban on inter-Korean exchanges. When asked about the impact on business if sanctions against the North were to continue, 5.18 percent of respondents stated, “opportunities for foreign investors will suffer,” while 25.6 percent responded that the North’s economic reliance on China would grow, and 22.6 percent feared that



the national image would suffer due to an increase in the security risk.

63.6 percent of respondents call for strengthened protection for investors, including protection against losses as well as guarantees on operational freedoms. 20.1 percent called for easing restrictions on businesses in the Kaesong Industrial Complex, and 16.3 percent pointed to the need for more monetary support.

Even after the government's announcement halting inter-Korean exchanges on May 24, , inter-Korean trade worth approximately 80 million USD (90 billion won) was recorded due to a number of goods with special exceptions. 639 different cases of imported goods manufactured from raw materials or parts sent to the North prior to the May 24 restrictions amounted to 31.15 million USD, while 269 cases of pre-ordered exports amounted to just over 49 million USD.

This survey was conducted from August 12 to September 1, calling or faxing 200 companies invested in inter-Korean cooperative schemes and 300 of the 1000 companies involved in sales.