

# Regaining trust with the other side through sustainable win-win trade

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Presentation by Panelist Felix Abt...



...seen here dancing with North Koreans

- I feel honored to be invited to this webinar by the Universal Peace Federation because I know that you believe strongly in the benefits of engagement, and I do too.
- And I am impressed by your commitment and work for a more peaceful world.



*My daughter engaging/playing with North Korean kids*

- Engaging does not mean that we have to agree with everything the people we are dealing with are doing. But the alternative of not engaging would mean not knowing what's going on, not being able to exert a positive influence, and not contributing to help lead the world's most isolated country out of the cold and to join the world community of nations. I also believe we need to see past politics and the mainstream media narratives to understand this part of the world a lot better and your webinars enable people to get a more balanced view in a media world where the usual black and white portrayals, grounded in fear and prejudice, are dominant.

I'll talk about the following 3 topics:

- 1. Sanctions, impact and how to possibly lift them*
- 2. The role of South Korean, Chinese and other foreign companies in the North*
- 3. A post-reunification scenario*

I'm happy to answer questions related to the Vietnam experience and the "Sunshine" policy period during the Q & A session.

## 1. Sanctions, impact and how to lift them

- “Given the UN prohibitions on essential energy imports, it should be no surprise that in 2018 North Korea’s agricultural production collapsed to levels similar to those of the famine years of the 1990s.” – Professor Hazel Smith who has researched East Asian security and North Korea, where she lived and worked for United Nations humanitarian organizations
- “Sanctions to be eased to facilitate lifesaving assistance and to enable the promotion of the right to an adequate standard of living of ordinary citizens”. – Tomás Ojea Quintana, Professor of Law, U.N. Special Rapporteur on human rights in North Korea

### **Summary of the Impact of Sanctions**

- No noteworthy impact on North Korea’s nuclear and missile development program even though sanctions were officially meant to stop or reverse the program (interpersonal diplomacy during Trump presidency led then to a test moratorium)
- Foreign trade and inter-Korean economic cooperation came to an almost complete halt in recent years (China-DPRK trade also diminished: 2014 \$6.9B, 2020 \$0.8B)
- No more influx of foreign investment
- No legitimate way of generating revenue to pay for imports as main hard currency earners (natural resources, garment) prohibited from being exported

### *One concrete example of the impact of sanctions:*

- Reagents, needed by the food processing as well as the pharmaceutical industry, suddenly banned in 2006 by UN Security Council (including China).
- Laboratory tests in medicine and food production and end products to detect germs/pathogens that can make consumers sick or even kill them were prevented. Our pharmaceuticals became unsafe for patients.
- I offered the Chinese embassy in Pyongyang the right to have the use of reagents audited against the uninterrupted import of these chemicals. Given the fact that the Chinese government has seen the devastating impact of sanctions on health care and food security since then, I’m convinced it would accept this proposal today.



*Essential quality medicine at affordable prices made our pharmaceutical company popular with North Koreans.*

**Gradually lifting sanctions is an imperative. And here are the benefits:**

- Restoration of food security for all North Koreans and enabling powering and heating civilian factories, office buildings and residential buildings as well as public transportation by removing ban on energy supplies such as oil and gas.



*Without fuel workers can't be taken to the fields and agricultural produce are rotting in the fields as it can't be transported to the consumers.*

- Tackling unemployment by removing the import ban on input materials including dual-use products required for the manufacturing of civilian products; and by allowing the export of non-military products (e.g. the export-oriented garment industry used to employ hundreds of thousands of workers pre-sanctions).



*The families of innumerable garment factory workers lost their livelihood when garment exports were prohibited by foreign-imposed sanctions.*

- Lifting millions out of poverty by allowing the set-up of power stations, substations and transmission lines in co-operation with South Korean and foreign companies



*A village to be electrified.*

- Saving miners' lives by allowing the supply of foreign equipment to modernize mines



*At a North Korean underground mine.*

- Better integrating North Korea economically into the wider world of business and bringing good business practices to the country by allowing South Korean and foreign companies to set up legitimate factories in the DPRK again, and to sell their products locally and abroad (perhaps with a license and under monitoring by the UN sanctions body)



*“An Introduction to International Commercial Law and Practice” (left), a document used at the [Pyongyang Business School](#).*

- Helping to create an adequate infrastructure the economy and the people need by allowing DPRK membership at Asian Development Bank and loan allocation.

## **2. The role of South Korean, Chinese and other foreign companies in the North**

- Even after lifting of sanctions: North Korea will not become a major investment hub. Reason: small population (25 million), small middle class, absence of large pool of skilled labor, good infrastructure and logistics major companies expect.
- DPRK is highly competitive for lower-margin manufacturing which is often labor-intensive and which requires a low-cost and a less sophisticated ecosystem. Many lower-margin businesses have been leaving China in recent years for lower-cost destinations such as Vietnam due to China's skyrocketing labor cost and to a much lesser degree due to great power rivalry. (Yet, for higher value add manufacturing such as advanced engineering and smart appliances China remains the world's most competitive production hub due to its highly sophisticated ecosystem and supply chain).
- IT requiring low investment with the potential for high returns in DPRK. Cost is lower than in other software hubs such as India and Vietnam. Software business in the DPRK can draw on an unrivalled pool of highly skilled mathematicians and scientists, both in terms of numbers and ability (many also have a good working English). North Korean [IT-companies](#) exported in the past animation and computer graphics, games for mobile phones and other platforms, medical software, fingerprint identification products used for access control, car license plate identification, face-recognition and voice/face recognition. (However, its potential will remain limited as long as North Korean software engineers remain unable to use the Internet and communicate with foreign clients online - a common practice in this industry - while developing their projects).
- The DPRK has a modern and competitive Foreign Direct Investment (FDI) Law and complementary laws and regulations governing foreign trade, a bureaucracy that is smaller and more business friendly than in many other Asian countries and less corruption, and it has already a long experience with different industrial parks where both South Korean and foreign companies had manufactured goods. So the necessary conditions for foreign investment and foreign trade are in place.



*Together with the chairman of Rason, an industrial zone founded in 1996. Located in the Northeast it was the first industrial park to attract dozens of foreign companies and where also the first joint North-South company was established. Like China more than a decade earlier, North Korea experimented with the market economy in this new economic zone.*

- The DPRK has already a system of dispute resolution (notably arbitration) in place. It understands that this is an important part of a business environment that foreign businesses consider as essential. Understanding is one thing, translating it into action is another one. But as it has been the case in all emerging markets this will be an evolving process. The late French-British lawyer Michael Hay who worked for several years in Pyongyang represented foreign corporate clients who won some litigation cases against local companies at DPRK courts.
- A major hurdle for foreign investors and traders that the DPRK will have to address is the limited possibility for foreign businesses to interact with a wide variety of potential local business partners. So far, foreign investors have been tied to one sponsoring organization (that has its own particular interests, of course) which may lead to suboptimal business decisions.

### **3. A post-reunification scenario**

- Reunification - politically probably a confederation with two parts with some safeguards (including veto rights) for the smaller part to avoid being overrun by the larger part – would offer a highly synergistic economic cooperation benefitting all Koreans. [The Sunshine period which I experienced](#) gave me a foretaste of it and convinced me that economic cooperation between the Northern and Southern parts of Korea would work out well and would become a win-win situation for all. The North-South projects I was involved in made good progress (but came to a sudden end due to a policy change after the election of a new South Korean president critical of engagement).
- North Korea contains the great bulk of all known mineral deposits on the peninsula. It is estimated that some 200 minerals are of economic value. Most important are iron ore and coal, although greater emphasis has been given to the extraction of gold, lead, and zinc. Other abundant minerals include tungsten, graphite, barite (barium sulfate), and molybdenum.
- From the resources of economic value the following are the most important ones which may be of interest, not just for simple extraction and export but, more importantly, as a potential base for the development of new processing industries.

#### **Large resources and some possible industrial applications, examples:**

- -Magnesite: Flooring, fireproofing and fire-extinguishing compositions, filler material and smoke suppressant in plastic, reinforcing agent in neoprene rubber
- -Iron Ore: depending on the grade (purity) of the ores, from steel to paints, inks and dyes or even cosmetics
- -Molybdenum: steel alloys production
- -Gold: jewelry production
- -Lead: bullets and batteries
- -Zinc: brass production
- -Rare earths: permanent magnets, fluorescent lamps, x-ray tubes
- -Tungsten: an additive in the production of specialty alloys
- -Graphite: piston rings, thrust bearings, journal bearings
- -Barite: manufacture of paper and rubber

- -Copper: production of wiring, cables and busbars

Each of the natural resources would need a thorough evaluation to find out if it could serve as an economically viable base to build an industry on it.

### Reunified Korea's Comparative Advantage

Reunification will offer important synergistic benefits and competitive advantages for the country as a whole. It will not only allow Korea to enormously boost existing industries but, in addition, to develop new industries.

- To fully develop the extractive industry (mining industry) in the North, which is of great importance, multi-billion dollar investments will be needed which will mainly come from the South.
- The non-extractive Industry which further processes the results of the extractive industry and which adds value will get an instant boost. It will develop both in the North and the South.
- The facilitative industry engages in industrial activities that produce and sell services for the needs of the non-extractive industry. Its services for example include marketing, trade, banking, transportation, expeditions and insurance. It will be located firstly in the South, and gradually also develop in the North.

The combination of these three types of industries will undoubtedly turn Korea into an economic powerhouse.

**Thank you for your attention!**



*From left to right, together with 1) North and South Korean business people 2) South Korean lawmaker visiting our booth at a Pyongyang trade fair 3) Miss Korea from Seoul on a goodwill mission in Pyongyang on behalf of the World Trade Centers' Association*

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