# Response to “Status and Future of the North Korean Minerals Sector”

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# Response to “Status and Future of the North Korean Minerals Sector”

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I. Introduction
The following are comments on the essay, “[Status and Future of the North Korean Minerals Sector](#)” by Edward Yoon, which appeared as a Special Report on February 10th, 2011.
This response includes comments by Aidan Foster-Carter, Honorary Senior Research Fellow in Sociology & Modern Korea, Leeds University, UK.The views expressed in this article are those of the author and do not necessarily reflect the official policy or position of the Nautilus Institute.  Readers should note that Nautilus seeks a diversity of views and opinions on contentious topics in order to identify common ground.
II. Comments by Aidan Foster-Carter
As they say about London buses: You wait for ages, and then two come along at once.

Hard on the heels of Drew Thompson’s comprehensive report on Chinese investments in North Korea, we now have this fascinating account of the DPRK minerals sector by Edward Yoon. The topics are not identical, but clearly they overlap. All Pyongyang-watchers must be grateful to both authors and their respective publishers, USKI-JHU and Nautilus.

While far from having fully digested either of these studies yet, may I venture a comment on Yoon's view, which Nautilus flags up in its summary, that:

> "exploitation of the DPRK's mineral resources through linkages **with South Korean** and overseas consumer markets is likely to be the most profitable way for the DPRK to develop its minerals sector." (emphasis added)

In theory, maybe. But in practice, the current ROK government has perversely thrown away that opportunity for partnership. As the conservative daily JoongAng Ilbo noted in a recent mournful article, this chance may now be lost forever – and Seoul's loss is Beijing's gain.

Below I offer an account of this, preceded by a brief summary of Drew Thompson's paper (no substitute for reading the real thing!). In my view there is much to ponder here, and for South Koreans in particular to worry about; both now, and for their longer-term futures.

Kind regards, and a happy new Year of the Rabbit to one and all,

Aidan FC

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**A new report details Chinese joint ventures in North Korea**

Data on Chinese business activity in North Korea has hitherto been scarce and fragmentary. A substantial new report, published in February, provides a much-needed overview and fills in many of the blanks. (Drew Thompson, Silent Partners: Chinese Joint Ventures in North Korea. Washington DC: US-Korea Institute (USKI), Paul H Nitze School of Advanced International Studies (SAIS), Johns Hopkins University. The full 88 page report, a 7 page executive summary, and transcripts of the launch event are all available as free downloads at [http://uskoreainstitute.org/research/special-reports/silent-partners-chinese-joint-ventures-in-north-korea/](http://uskoreainstitute.org/research/special-reports/silent-partners-chinese-joint-ventures-in-north-korea/)

This thorough study puts such activity in context, and in a sense cuts it down to size. So far the scale is not large. During 2003-2009, Chinese investment in North Korea totaled just US$98.3m: far less than to any other neighbouring state. (South Korea received US$1.2bn.) Nor is it very successful: North Korea is "a particularly difficult environment for Chinese investors due to rent seeking, poor infrastructure and the oppressive political environment."

Although many – especially in Seoul – view China's investment through a geopolitical lens, in fact "the majority of Chinese investors in North Korea are not State Owned Enterprises (SOEs) controlled by the central government, but privately owned companies and provincial, prefecture and municipal-owned SOEs." Only four out of 138 are companies owned by the Chinese central government. Also largely absent are the largest private firms. Only two of China's top 100 companies are invested in North Korea, both steel-makers. (In South Korea too the chaebol have all along shunned the North, with the sole exception of Hyundai which paid dearly for its founder Chung Ju-yung's generosity – much milked by Kim Jong-il.)

By sector, mining and consumer goods are prominent. Of the 138 joint ventures established between 1997 and August 2010, 41% are in extractive industries and 38% in light industry, with 8% in heavy industry and 13 % in services. Geographically, the two Chinese provinces which border North Korea predominate. 28% of Chinese firms involved in JVs are from Jilin and 34% from Liaoning; others hail mainly from Beijing, Shandong and Shanghai.

The overall sense is that so far this is fairly small beer, driven more by specific (often local) commercial interests than some grand hegemonic design. But Chinese investment in North Korea could grow significantly in future, if fresh infrastructural plans come to fruition – as some past projects, for instance to upgrade the Hunchun-Rajin transport corridor, have not – and above all if North Korea opens up and becomes a less awkward customer.

**South Korea frets that it is losing out**

Conversely, China's growing role as an investor in North Korea is South Korea's loss. Last year's two Northern attacks poisoned relations, prompting the South to ban trade with the North – with the major exception of the joint venture Kaesong Industrial Zone (KIZ), near the DMZ north of Seoul. But even before that, President Lee Myung-bak's repudiation of the former 'sunshine' policy of aid and engagement – and in particular of the summit accord signed in October 2007 by his predecessor Roh Moo-hyun, with its concrete plans to expand economic cooperation – had taken its toll, nipping nascent business ventures in the bud.

Such lost opportunities were lamented in an intriguing and little noticed article published on January 18 in the JoongAng Ilbo: a conservative daily and Seoul's most influential paper. This bore the stark headline "South losing race for the North's resources." It can be read at http://joongangdaily.joins.com/article/view.asp?aid=2931111 [But be careful of the chart, which is riddled with errors; won and dollars are confused, iron ore is called steel, etc].

The article focused on Korea Resources Corp (KoRes), a South Korean parastatal which in happier times had begun to forge links with the North. In 2003 KoRes invested US$6.65m in the first inter-Korean mining joint venture: a $10m graphite mine at Chongchon near Haeju in Hwanghae province in southwestern North Korea. In return the South was supposed to receive a steady supply of graphite for 15 years. In fact there were just two shipments: in 2007 and January 2010. The project came to a halt after the Cheonan's sinking last March.

A separate US$80m quasi-barter agreement was to see South Korea sending raw materials for light industry, such as soap and textiles, in exchange for mineral products. In 2007 the South duly supplied its side of the deal, and received some zinc in return. KoRes also began joint explorations in Tanchon: a mineral-rich area – especially in zinc and magnesite – of South Hamgyong province on North Korea's north-east coast (Kim Jong-il recently visited it, in December). But this cooperation too ceased after Lee Myung-bak took office in 2008. KoRes' inter-Korean department, which once had a staff of ten, is now reduced to two.

**China cleans up**

South Korea's withdrawal leaves the field wide open for China. KoRes' Yoon Hong-gi told the JoongAng that the North is selling mineral rights very cheaply, having no one else to turn to. His fear is that “we could be faced with a situation where we would have to repurchase those minerals at a higher value from China” even when ties between the Koreas improve. Most of China’s annual imports from North Korea, worth US$750m, are natural resources.

The broader context here is that, by a quirk of geography, most of the peninsula’s minerals lie north of the DMZ. According to the South’s state agency Statistics Korea, in a round-up released on January 5th of various North Korean numbers, the North’s resource deposits are estimated to be worth no less than US$6.1 trn, as of 2008. That is a large multiple of North Korea’s current GNP – 142 times, according to Goldman Sachs – and also worth 24 times as much as South Korea’s exiguous endowment. Specifically, North Korea’s minerals include the world’s largest reserves of magnesite (6bn tonnes, valued at US$2.38trn), as well as coal (20.5bn t, US$2.36trn), limestone (100bn t, US$1.05trn), iron ore (5bn t, US$270bn), gold (2,000 t, US$54.5bn), zince (21m t, US$2.18bn) and more.

Formally, South Korea claims the North’s territory as its own – and vice versa: ten years of ‘sunshine’ never got as far as full mutual recognition, unlike between the former Germanys. At a time of rising commodity prices and growing regional and global competition to secure resources, this formal claim acquires fresh substance, even urgency. On both economic and political grounds – security, in the broadest sense – it is surely in South Korea’s interests to gain access to the North’s mineral wealth. One wonders if Lee Myung-bak and his advisors had fully thought this through when they in effect abrogated the 2007 summit agreements.

**Why on earth did he do it?**
Finally, for a fuller discussion on the wider context of Lee Myung-bak’s fateful and short-sighted decision in 2008 to nip nascent inter-Korean business cooperation in the bud, see a pair of articles by this writer recently published on the website 38North:

“Lee Myung Bak, Pragmatic Moderate? The Way We Were, 2007”
http://38north.org/2011/01/lee-myung-bak-pragmatic-moderate/

“Scrapping the Second Summit: Lee Myung Bak’s Fateful Mis-step”
http://38north.org/2011/01/lee-myung-bak-fateful-misstep/

III. Nautilus Invites Your Responses
The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: napsnet@nautilus.org. Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.The views expressed in this article are those of the author and do not necessarily reflect the official policy or position of the Nautilus Institute.  Readers should note that Nautilus seeks a diversity of views and opinions on contentious topics in order to identify common ground.

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