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# Doing Business in North Korea

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## Introduction

The Democratic People's Republic of Korea, often referred to as North Korea, stands as one of the most enigmatic and challenging environments for business in the modern world. Shaped by a rigidly centralized command economy, a deeply entrenched political ideology, and decades of international isolation, the country occupies a unique, often daunting, position for those considering commercial engagement. With its official motto of self-reliance—*Juche*—North Korea has crafted an economic system that operates outside most globally accepted norms, subjecting even the most basic commercial activities to intricate state oversight and scrutiny.

In recent decades, North Korea has made intermittent attempts to attract foreign investment. Legal frameworks have emerged outlining the rights of foreign investors, and a small but significant set of Special Economic Zones has been established, with the aim of channeling international capital, expertise, and technology into the country. Yet for all the laws on the books, actual experiences on the ground have routinely confounded even the most seasoned entrepreneurs. The practical realities of doing business in North Korea are dictated less by written statutes than by political priorities, volatile leadership decisions, and a sanctions regime among the most severe on earth.

This comprehensive guide is written for prospective entrepreneurs and business professionals contemplating entry—or at least seeking to understand—the North Korean commercial landscape. Rather than rehashing generic concepts applicable to emerging markets worldwide, this book focuses squarely on the specificities that define the North Korean context. Every facet, from forming joint ventures to navigating the extreme complexities of sanctions compliance, is explained in detail, grounded in the realities and case studies of those who have tried and, in most cases, failed to succeed in this deeply challenging market.

The risks of engaging with North Korea are substantial and multifaceted. Entrepreneurs must contend not only with unreliable infrastructure, opaque bureaucratic processes, and the absence of reliable rule of law, but also the very real prospect of severe legal penalties for even the slightest misstep in the web of international sanctions. Political instability, pervasive corruption, and a lack of access to reliable financial channels further complicate matters. Add to this the reputational hazards associated with operating in a country regularly cited for human rights abuses, and it becomes clear that due diligence and risk management are not just prudent—they are existential necessities.

However, for those compelled by the challenge, North Korea does offer a distinct, if perilous, kind of frontier. Select foreign businesses—mainly from neighboring

countries—have, at times, carved out niches in sectors ranging from infrastructure development to resource extraction. Their stories provide insights not only into what is possible, but more often, what pitfalls await the unwary. Whether driven by geopolitical considerations, the pursuit of untapped markets, or genuine curiosity, foreign entrepreneurs will find that North Korea redefines the concept of “difficult” business.

This book is intended as both a warning and a resource. It provides an unvarnished account of what it takes to do business in North Korea, the frameworks that exist, and the daunting realities that persist. Prospective entrepreneurs will find within these pages a detailed map of the terrain—one marked with hazards, but also the fleeting possibility of unique opportunities for those prepared to navigate them.

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## CHAPTER ONE: The North Korean Economy: A Foundational Overview

Venturing into the economic landscape of the Democratic People's Republic of Korea (DPRK) is akin to stepping onto a different economic planet. It is a system shaped by decades of rigid central planning, an overarching ideology of self-reliance known as *Juche*, and near-total isolation from the global financial and trading systems that most businesses take for granted. Understanding this unique context is the absolute first step for any prospective entrepreneur, not merely as background information, but as a fundamental prerequisite for grasping the scale of the challenges and the peculiarity of any potential opportunities that might exist. Forget conventional market metrics and assumptions; North Korea operates under a different set of rules, often unwritten and always subject to political winds.

The foundation of the North Korean economy is the command system. Theoretically, the state owns virtually all means of production, from the largest factories down to small workshops and agricultural collectives. Economic activity isn't driven by supply and demand or the profit motive in the way a market economy understands it. Instead, it follows meticulously crafted national economic plans, typically spanning several years, dictated from the highest levels of the Workers' Party of Korea and the government. These plans set production targets for every conceivable good and service, allocate resources, determine prices, and direct labor. Historically, this system prioritized post-Korean War reconstruction and the development of heavy industries—steel, chemicals, machinery—along with massive investment in the military, reflecting the state's security preoccupations.

This devotion to central planning was heavily influenced by the Soviet model adopted after the country's establishment. In the early decades, particularly with substantial aid from the Soviet Union and China, North Korea experienced periods of relatively strong industrial growth compared to its war-ravaged southern counterpart. Factories were built, infrastructure was laid down, and the state positioned itself as a workers' paradise, at least in its propaganda. However, the inherent inefficiencies of central planning—the difficulty in coordinating complex economic activities, the lack of accurate price signals, the stifling of innovation, and the tendency towards hoarding and resource misallocation—were present from the start, even if masked by initial reconstruction efforts and external support.

The guiding principle meant to differentiate North Korea's path, even from its socialist allies, was *Juche*, or self-reliance. While its deeper philosophical and political implications are explored later, its economic impact was profound. *Juche* dictated that

North Korea should, as far as possible, meet its own needs using its own resources, technology, and labor. This fostered an inward-looking economic strategy that historically shunned foreign investment and emphasized import substitution. While never fully achievable—North Korea has always depended on external inputs for crucial items like oil, advanced machinery, and often food—this ideological commitment shaped investment priorities and created structural barriers to integrating with the world economy long before comprehensive international sanctions became a factor.

The practical result of this system, over the long term, has been chronic underperformance and stagnation. While official statistics are notoriously unreliable, painting pictures of consistent growth even during periods of obvious hardship, the observable reality tells a different story. The industrial base, once a source of national pride, became increasingly dilapidated. Decades of underinvestment, coupled with the inability to access modern technology and spare parts due to both self-imposed isolation and later sanctions, left factories operating far below capacity, often with machinery dating back to the 1960s or 1970s. Maintenance lagged, breakdowns were frequent, and productivity plummeted across most sectors.

A defining feature of the North Korean economy is the immense drain imposed by military spending. The country maintains one of the largest standing armies in the world, alongside ambitious nuclear weapons and ballistic missile programs. These endeavors consume a disproportionately large share of national resources—materials, energy, skilled labor, and scarce foreign currency—that could otherwise be directed towards civilian industry, infrastructure development, or improving the population's living standards. This prioritization is non-negotiable from the regime's perspective, rooted in its security concerns and political ideology, but it severely constrains the potential for broader economic development and diversification.

Energy shortages are perhaps the most visible manifestation of the economy's struggles. Chronic lack of electricity plagues the entire country, hindering industrial production, disrupting transportation, and impacting daily life. Factories often operate for only a few hours a day, if at all. While showcase projects in Pyongyang might enjoy relatively more stable power, the situation in the provinces is often dire. This energy deficit stems from a combination of factors: aging power generation facilities (primarily hydroelectric and coal-fired), difficulties in importing fuel due to cost and sanctions, poor grid maintenance, and potentially the diversion of energy resources to priority state and military projects. No business activity can realistically be planned without accounting for severe energy unreliability.

Agriculture has also been a persistent weak point. Despite the emphasis on self-sufficiency, North Korea has struggled for decades to feed its population adequately. The collectivized farming system, combined with limited arable land (much of the country is mountainous), scarcity of inputs like fertilizer and fuel for machinery, and

vulnerability to natural disasters like floods and droughts, has resulted in chronic food shortages. The collapse of Soviet support in the early 1990s triggered a catastrophic famine, known euphemistically as the "Arduous March," during which hundreds of thousands, possibly millions, are estimated to have perished. While the outright famine conditions eventually eased, food security remains precarious for a significant portion of the population.

The economic crisis of the 1990s fundamentally altered the North Korean economic landscape, albeit unofficially. As the state's Public Distribution System, which provided citizens with rations of food and basic goods, effectively broke down, people were forced to find alternative means of survival. This led to the spontaneous emergence and proliferation of informal markets, known as *jangmadang*. Initially small-scale, illicit bartering affairs, these markets grew rapidly as individuals began trading handicrafts, household goods, and food grown on small private plots or procured through other means. These markets became essential lifelines for ordinary North Koreans, filling the vacuum left by the failing command economy.

The state's reaction to the rise of the *jangmadang* has been ambivalent and inconsistent. Recognizing their necessity in preventing mass starvation and social unrest, authorities have generally tolerated their existence, even attempting to regulate and tax them at times. However, these markets represent a fundamental challenge to the principles of the command economy and state control. Periodically, the government has cracked down on market activities, implemented disastrous currency reforms aimed at wiping out private savings, or attempted to reassert the dominance of state-run enterprises and distribution channels. This ongoing tension between the official command economy and the increasingly entrenched unofficial market economy is a key dynamic.

Despite the *Juche* ideology, North Korea's economic survival has become heavily dependent on its relationship with China. Following the collapse of the Soviet Union and the cooling of relations with Russia, China emerged as the DPRK's dominant trading partner, primary source of foreign investment (albeit limited and often politically motivated), and crucial provider of aid, particularly fuel and food. Estimates suggest that well over 90% of North Korea's official external trade is conducted with or through China. This dependence gives Beijing significant leverage but also makes the North Korean economy highly vulnerable to shifts in Chinese policy or enforcement of international sanctions.

North Korea's official exports primarily consist of raw materials like coal and minerals (though heavily restricted by sanctions), textiles produced under processing arrangements, seafood, and some agricultural products. Imports are dominated by essential goods: petroleum products, machinery, grain, fertilizer, and consumer goods. Trade volumes fluctuate significantly based on the political climate, the severity of sanctions enforcement, and North Korea's own economic needs. The persistent trade

deficit is often covered by aid, remittances from North Koreans working abroad (also increasingly sanctioned), and illicit activities, including cybercrime and smuggling, which have become significant sources of foreign currency for the regime.

While North Korea has, on paper, established laws and Special Economic Zones (SEZs) to attract foreign investment, the reality has fallen far short of aspirations. Zones like Rason, near the borders with China and Russia, have seen some infrastructure development, primarily driven by neighboring state interests, but have failed to attract significant diverse investment. The shuttered Kaesong Industrial Complex, once a flagship inter-Korean project, highlighted the extreme vulnerability of any investment to political volatility. For most foreign entrepreneurs, the practical hurdles, risks, and especially the comprehensive sanctions regime render direct investment virtually impossible or prohibitively risky.

One of the greatest challenges for anyone trying to understand or engage with the North Korean economy is the profound lack of reliable data. Official statistics released by the state are sparse, often inconsistent, lack methodological explanation, and are widely believed to be manipulated for political purposes. The government treats most economic information as a state secret. Consequently, external analyses rely heavily on estimations based on satellite imagery, tracking trade data from partner countries (primarily China), defector testimonies, and anecdotal reports. This results in widely varying estimates for fundamental indicators like Gross Domestic Product (GDP), economic growth rates, inflation, and sectoral output.

Most credible estimates place North Korea's GDP per capita among the lowest in Asia, often cited in the range of \$1,700-\$1,800 in purchasing power parity terms during the mid-2010s, though figures vary and accessing current reliable data is exceptionally difficult. Periods of reported negative growth have coincided with tightened sanctions, natural disasters, or internal policy shifts. While the emergence of markets may have improved livelihoods for some and created a degree of informal economic resilience, the overall picture remains one of a structurally weak economy grappling with profound challenges and heavily constrained by its political system and international isolation.

The state budget, as announced annually, provides some limited insight into official priorities, although the figures themselves cannot be independently verified. Reports often highlight planned increases in expenditure, sometimes focusing on science and technology, infrastructure projects (often linked to leadership priorities or prestige), or social welfare, alongside the ever-present defense allocation. However, the disconnect between budgeted plans and actual implementation is likely significant, given the resource constraints, inefficiencies, and potential diversion of funds inherent in the system. Transparency is entirely absent, making it impossible to track how state funds are truly allocated and spent.

The currency situation further complicates the economic picture. The official currency is the North Korean Won (KPW), but its official exchange rate is disconnected from reality. Within the country, foreign currencies, primarily the US Dollar and the Chinese Yuan, circulate widely, especially in the informal markets and for any transactions involving foreign goods or entities. This multi-currency environment reflects a lack of confidence in the official currency and the state's inability to manage foreign exchange effectively. Attempts at currency reform have historically been disruptive and damaging to ordinary citizens' savings. Navigating these currency complexities is a significant operational challenge.

Overlaying all these internal economic factors is the impact of international sanctions. Imposed primarily by the United Nations Security Council, the United States, the European Union, and key regional powers like South Korea and Japan, these measures are a direct response to North Korea's nuclear weapons and ballistic missile development. Sanctions encompass a wide range of restrictions, including bans on key exports (coal, minerals, textiles, seafood), caps on fuel imports, asset freezes, financial transaction prohibitions, and restrictions on joint ventures and North Korean labor abroad. While the regime has proven adept at finding ways to circumvent some measures, sanctions have undeniably curtailed its access to foreign currency and technology, further straining the already weak formal economy.

Understanding this foundational economic context—a centrally planned system struggling under its own inefficiencies, the weight of military spending, the constraints of *Juche* ideology tempered by unavoidable external dependence, the parallel reality of burgeoning informal markets, the critical lack of reliable data, and the immense pressure of international sanctions—is crucial. It sets the stage for exploring the specific legal frameworks, operational hurdles, and immense risks involved in contemplating any form of business engagement with the DPRK, topics delved into in the subsequent chapters. This is not an economy that rewards casual exploration; it demands deep comprehension of its unique and often contradictory nature.

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