

THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA (NORTH KOREA)
SEPTEMBER 2008

CREDIT GUARANTEE COUNTRY PROFILE:

IES 02/ ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt Recovery
ZZ	↓	↓	N/A

Credit Guarantee Experience

We are currently off cover in this market.

Political Highlights

- ❑ Head of state and government is Kim Jong II.
- ❑ North Korea missed an August 11 deadline to verify its nuclear programs that would lead to its removal from a list of nations that support terrorism. This June, President Bush gave Congress 45 days notice of his intention to remove North Korea from the list, after it submitted an inventory of its nuclear materials and programs, ending a six-month stalemate in the six-party denuclearisation negotiations. Delisting would open the door to international investment and permit North Korea to receive loans from institutions such as the World Bank, signaling its integration and return to the global community.
- ❑ In June, North Korea also destroyed a water cooling tower at its nuclear facility in Yongbyon. The implosion was hailed a symbolic way of showing that North Korea is committed to ending its nuclear program. The US said it will not remove North Korea from a terror blacklist until Kim Jong II's government has agreed to a plan to allow international inspectors to verify an accounting of its nuclear programs. The US wants to verify whether the North turned in a correct account of its nuclear activity and facilities in June, a step towards their dismantlement and eventual abandonment. Verification is expected to take months to finish
- ❑ Japan said it has made progress in a long-standing row with North Korea over its abduction of Japanese citizens as the two nations agreed to complete a new probe this autumn. Analysts say the deal could give fresh impetus to international efforts to end North Korea's nuclear drive. Japan has refused to give aid to North Korea until the emotionally charged kidnapping issue is resolved.
- ❑ North Korea has refused to co-operate with the South's investigation of the killing in July of a South Korean tourist by the North's army at Mount Kumgang. When the South stopped tourists from visiting the resort, the North threatened to take military action against the slightest hostile act. South Korea suspended tours to the resort and North Korea rejected the South's repeated requests to let its own investigators visit the resort and survey the site.

Economic Trends

- ❑ North Korea's economy contracted for a second year in 2007 as bad weather hampered agricultural production and led to food shortages. According to an estimate published by South Korea's central bank, the economy shrank 2.3% after contracting 1.1% in 2006, ending seven years of growth; North Korea does not release official economic data. North Korea's gross national income was valued at \$26.7bn.
- ❑ The agricultural, forestry and fisheries sector, which accounts for 21.2% of the country's output, contracted 9.4% in 2007. Rice output declined by 19% while corn production decreased 9.3% from a year earlier. The country's manufacturing sector expanded merely 0.8% in 2007, while the mining sector grew 0.4%. The service sector which accounts for 34.1% of the country's total output gained 1.7% as more foreign tourists, mainly South Koreans, traveled to the North last year. The number of tourists increased to 377,000 from 266,000 the previous year. The number may drop with cross border tensions mounting this year.
- ❑ With its mining and manufacturing sectors remaining sluggish, the North has few items to export. Foreign trade decreased 1.8% to \$2.9bn in 2007. Exports dipped 3% to \$920 million while imports decreased 1.3% to \$2bn. However inter-Korean trade increased 33.2% from a year earlier to \$1.8bn on the back of brisk growth in the joint industrial complex.
- ❑ Analysts have long blamed the oppressive rule of the world's only dynastic leader for isolating the relatively resource-rich state from the economic surge of the rest of the region. Firm political control remains the Communist government's overriding concern, which will likely inhibit the loosening of economic regulations. North Korea is the world's least free economy, ranking 157th out of 157 countries. All aspects of business operations are totally controlled and dominated by the government.
- ❑ According to North Korea's quarterly economic publication, the country has set the goal of construction of a strong and prosperous state (ideologically, militarily and economically) by 2012, the 100th anniversary of the birth of the country's founder, Kim III Sung. In light of that goal Pyongyang has prioritised economic prosperity for this year, the 60th anniversary of the DPRK government.
- ❑ Parts of North Korea are experiencing their worst levels of hunger in nearly a decade, the UN World Food Programme (WFP) said as it called on donors to provide urgent assistance over the next few months. A food security assessment conducted by the WFP showed that parts of the country could fall into a humanitarian emergency ahead of the autumn harvest. Flooding, higher oil and commodity prices and a decline in shipments of aid from countries including South Korea are all adding to the shortfalls. WFP has called on international donors to contribute \$20 million needed to enable the WFP to expand its food distribution to reach 6.4 million of the country's 23 million people, up from the current 1.2 million, ahead of the autumn harvest. WFP has estimated that it needs \$500 million to carry out its expanded programme from September until the end of 2009. The 2007 harvest was a failure with only 3.8million tons, well short of the critical 5.2 million ton benchmark. In recent times regular shipments of South Korean fertiliser, to the tune of 300,000 tons a year saved the situation. Lack of fuel and fertiliser threatens to lower production this season.
- ❑ As the circulation of the Chinese yuan in the North Korean markets increases, it is suggested that the value of the North Korean won will fall. Direct transactions in the yuan began in the fall of last year in significant parts of the border regions, usually in residential deals and in the sales of furniture and electronic goods. Since the first half of the year, with the rapid rise in general food prices in the country, 5, 10 and 20 yuan notes began to appear in the purchase of daily necessities in public markets. The exchange rate of one yuan ranged from 435-450 at the end of June. With the devaluing of the North Korean currency, people are flocking to the yuan. There have been predictions

that as long as the state fails to resume normal food distribution and the state-operated stores do not sell products, the Yuan will soon take over as the standard currency for all transactions.

- ❑ North Korea may start allowing some individuals and government agencies to access the internet next year, according to the Internet Opening Roadmap established in 2002. Kim Jong III's regime currently allows a few high-ranking officials to access databases on scientific and technological information at central government agencies. North Korea has succeeded in upgrading its internet security program to prevent interruption by hackers from outside and to stem the outflow of North Korean internal information.

Trade Developments

- ❑ Main exports: minerals, metallurgical products, manufacturers (including armaments), textiles, agricultural and fishery products.
- ❑ Main imports: petroleum, coking coal, machinery and equipment, textiles and grain.
- ❑ Major trade partners: South Korea, China, Thailand and Russia.

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