

## Increase in DPRK's Mineral Resources Exports to China Expected Again for This Year

The trade volume between North Korea and China has steadily increased, reaching its record high of USD 3.4 billion in 2010. Total exports amounted to 1.19 billion USD while imports doubled that figure to USD 2.22 billion. Imports have continued to grow, increasing by 2.4 times over the previous year.

Since the Cheonan incident and the implementation of May 24 sanctions, inter-Korean economic cooperation has come to a halt, naturally resulting in rise in exports to China. In particular, a significant growth in anthracites exports was observed. The monthly anthracites exports that averaged around USD 10 million surpassed USD 70 million mark last August and maintained USD 50 million monthly average between September to November. In addition, cost-per-ton of anthracite in March which was USD 52.2, jumped to USD 82.8 in November, a climb of 60 percent. This boost is attributed to its increased export.

The current supply of electric power consists mostly of hydroelectric power -- reaching over 60 percent-- but during the winter season most of the hydropower plants are unoperational due to frozen facilities from harsh winter weather. Anthracites were the alternative resource to fill this gap. Sacrificing power production and exporting great amount of anthracites despite severe winter is a strong indication of the poor foreign currency situation in North Korea.

In its New Year's joint editorial, North Korea placed heavy emphasis on its anthracite export that took up 60 percent of its total exports. In the statement, four vanguard sectors of coal, electricity, metals, and railroads were highlighted as important industries as "rich underground resources that will help with securing funds and resolving raw material problems." This is the first time in 13 years that is, since the Arduous March -- for coal to be mentioned first in the New Year's message.

North Korea also began to lift export restraints of mineral resources like coal and silver from the latter half of last year and ordered to increase imports of rice and corns in place of minerals.

The reason food procurement is placed first at the expense of its mineral resources is believed to be associated with the implementation of the succession involving Kim Jong Un, and to keep North Korean people's dissatisfaction under control and manage the domestic situation.

North had placed restraints on coal, gold, silver, lead, and zinc exports from 2007 through adopting export control of mineral resources.

In addition, North Korea and China will meet in Beijing to sign an agreement on joint development of underground resources. This agreement will include Musan Mine and rare-earth mines that POSCO (The Pohang Iron and Steel Company of South Korea) has shown interest in in the past for development. China's moves in this sector are suspected as China's attempt to monopolize the DPRK's underground resources.

The DPRK's Joint Venture and Investment Guidance Bureau and China's Ministry of Commerce were expected to meet on February 15 to discuss agreements related to underground resources development. On the agenda was Musan Mine, abundant in gold and anthracite, and other mines rich in rare-earth elements. Other mines are also known to be specified in the agreement.

China is expected to bring private companies into the underground resources development project after reaching an agreement with the DPRK. According to our source, "both parties will establish a joint venture investment corporation in Hong Kong after signing the agreement."

Construction of a highway connecting Heilong City of Yanbian Korean Autonomous Prefecture to Nampyong and Chongjin of North Korea and railway system linking the cities of Heilong, Nampyong, and Musan are currently underway, expected to be in operation by end of this year. Jilin Province and Ministry of Railways of China began construction of this railway system from October 2010 investing CNY 1.19 billion, which runs a distance of 41.68 km. However, it is expected to extend further onto Chongjin and is considered to become the major transportation hub, integrating economic cooperation between the two countries.

Musan Iron Mine is known as the largest outdoor iron mine in Asia and Tonghua Iron and Steel Group along with three other Chinese corporations acquired 50-year development rights of Musan Iron Mine. They are bringing in about 120 tons of iron ore each year and more is expected to be brought in once the Heilong-Musan rail link is completed.

