

# 2014 Annual Report

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Supporting North Korean  
entrepreneurs through  
business, economics and  
legal knowledge sharing.

## 2014 Facts and Figures

### Moving On

**70%** of investment officers (Class of 2013) left to join businesses in 2014

### Reaching Out

**400** participants from **7** provinces and regions in 2014

### Staying Active

**10** in-country workshops, **3** overseas study trips, and **2** year-long Masters Degree scholarships in 2014

### Matchmaking

**1** couple (Class of 2011, Class of 2013) emerged from programs



# Executive Letter

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In 2014, our programs went from facing disruptions from the 2013 purge of DPRK politician Jang Sung Taek to facing disruptions from Ebola. As North Korea instituted tough Ebola quarantine measures, we were forced to cancel programs in November and December, and faced massive uncertainty over all of 2015.

These disruptions upended what was otherwise a smooth and successful year for Choson Exchange. We had more than 400 Koreans take part in ten workshops in Pyongyang, Wonsan and Rason. We had over 30 Koreans take part in two scholarships and three study trips abroad to Vietnam and Singapore. Topics focused on entrepreneurship, land policy, women's business associations and fiscal policy. We were proud to see program alumni launch an innovative new retail model, develop ideas for an incubator, and institute land policy changes. About 60 percent of participants in one overseas workshop have moved from the public sector to exciting new careers in the business sector.

We also continued with our tradition of innovation. Choson Exchange launched a Tech Entrepreneurship program emphasizing entrepreneurial skillsets, business incubation and connectivity. We developed a consulting-driven relationship, where volunteers are engaging with a single Special Economic Zone over the long-term, developing a set of governance structures, strategic planning tools and legal formats that can be replicated elsewhere.

In 2015, we will continue with our three key programs: Women in Business, Tech Entrepreneurship, and Provincial Development. New program formats will emphasize greater post-program engagement in the areas of business networking and startup formation.

We look forward to what we hope will be a peaceful year for entrepreneurs in what is arguably one of the world's most challenging business environments.



**Geoffrey See**  
CEO  
Choson Exchange



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### Participant Profile

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Ms. Pak (pseudonym) runs a restaurant and is a manager at a factory that makes biscuits. She dreams of setting up a department store selling washing machines, TVs, refrigerators and other consumer products to the growing consumer segment. In Singapore, she presented how her envisioned store, which she calls “Beautiful Dream”, will be a standard setter for what up and coming urban dwellers aspire to in home living. She is now sourcing products to set up this dream store.



# Our Programs

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Choson Exchange has three program streams focusing on three ecosystems: **Women in Business**, **Provincial Development** and **Tech Start PY**.

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## Women in Business

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2 workshops

57 participants

Our oldest program focuses on female managers and entrepreneurs running small and medium-sized enterprises. Traditionally, most of them work in Food and Beverages, retail or service industries. However, as we expand the reach of our programs, more female business leaders from other sectors participated in workshops.

In Singapore, a workshop leader told participants about four key challenges to businesswomen around the world: access to finance, access to markets, access to skills training, and access to capacity-building. The workshop leader emphasized the importance of networking and role models among businesswomen as one way of tackling these problems. In 2015, our focus is on further engaging our alumni to tackle these issues.

“On access to finance, when hearing that women generally have more difficulties accessing loans because of the conventional and often misunderstood perception that women pose higher risks, the participants burst into laughter. They explained that in North Korea, it is the opposite. Banks generally trust women more.”

- Workshop Leader's Op-ed in Forbes, June 22, 2014

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## Provincial Development

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5 workshops  
244 participants from  
7 provinces & regions

This program overlaps with domestic interest in Special Economic Zones. We focus on provincial officials and policymakers involved in provincial development. We launched our first workshop in this area in November 2013 in Wonsan and Pyongyang, attracting officials from almost all provinces in North Korea. In 2014, we held workshops in Rason, Wonsan and Pyongyang for this audience.

In the latter part of 2014, our alumni have gone on to update land use laws and regulations in the Wonsan-Geumgansan Tourism Zone, changed regulations and governance at Unjong Special Economic Zone, researched the implementation of taxation policy and laid the foundations for incubators and startups. Business participants have founded a new retail concept (i.e. a chain of convenience stores with opening hours targeted at people coming home from work), set up a department store, and introduced new marketing approaches, such as giving samples for toothpaste.

A key innovation suggested by a workshop leader was to hold multiple consultations for the executive team of one of these Special Economic Zones. By focusing on one high-potential zone, we train a team in strategic thinking and work with them to implement suggestions. At the end of 2014, we identified potential zones from which we would shortlist one to focus on.

“We don’t have a strong sense  
for what non-Chinese investors  
expect”

- Participant in Rason

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## Tech Start PY

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3 workshops

88 participants

We launched a pilot program that focuses on Technology Entrepreneurship. The program focuses on startups, networking and the building blocks of a startup community. This program has been a great hit with our pool of entrepreneurial workshop leaders, as well as with large segments of potential and active Korean entrepreneurs!

This program has continued into 2015 and we hope it will lead to the possibility of an incubator in the DPRK, allowing for the next step in the development of a start-up community.

“... despite the setbacks they face, North Korean researchers and businesspeople attended a two-week workshop last month as part of Choson Exchange’s Tech Start PY programme in August, which took place with state permission, and focused on helping build an entrepreneurial culture and a supportive environment for startups in North Korea.”

- Article in Guardian NK Network, September 22, 2014

“Tell us more about incubators...  
we want our researchers to gain  
exposure to entrepreneurial skills.”

- Participant in Tech Start PY

## Success Story: Hwang Gum Bol

A company whose key staffs that we've trained in several CE workshops in the last two years set up 'big-ish box' style shops or department stores in several neighborhoods across Pyongyang. A chain store was a new idea, but perhaps the main innovation was the opening hours: 6 a.m. to midnight, far longer than any of its competitors. Opening later allows their customers to buy products on their way home from work. By offering a wide-range of products, and affordable fresh produce, such as vegetables and fruits, Hwang Gum Bol aims to keep customers coming in everyday.

Hwanggumbol managers have taken part in CE mind-mapping and team-building exercises, as well as lean startup methodology and customer needs strategies. In interviews with DPRK media, managers spoke of "responding to people's demands"- a concept and PR-conscious statement closely connected to the content we introduced them to.

Store managers have ambitious plans to expand their four stores into a chain of 20 stores, with an additional three stores coming up every quarter. They also aim to offer additional services such as drycleaning and laundry, home deliveries and an integrated point of sale system.







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## **Success Story: Rason Web Presence**

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A Provincial Development Program workshop we held in Rason in June focused on the need for frequent and consistent communication with foreigners, if a region hopes to develop partnerships with investors. Rason SEZ's lack of a website seemed normal to the participants – we emphasized that the lack of a website was positively 20th century and greatly damaged Rason's prospects for investment attraction. Within six months a very basic website appeared, hopefully the beginning of greater communication with the outside world.

# Communicating our Work & Findings

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## Our Website and Social Media

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Practicing what we preach, we have also sought to improve our online presence. Choson Exchange increased readership over the past year, in no small part due to a revamped website with an attractive, user-friendly design. The redesign has helped us to better prioritize how and what we communicate.

Since the format switch, our regular readership increased over 30 percent in the second half of 2014. We have also leveraged a group of volunteers to help us translate key blog articles into Korean, helping better reach out to constituents who may have a keen interest in our work but lack the language skills to discover or engage with it in English.

We also communicate more with our constituents on social media and increased our Facebook community (choson.exchange) from 905 to 1735. On twitter (@chosonexchange), we increased followers from 730 to 1176. We also started an Instagram (@choson\_exchange) account.

“This is better than what we’re  
working on”

- Participant who was developing OCR software, upon being shown an app that’s already on the market

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## Major Research Projects

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We produced two major research reports this year.

### Report 1

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#### **Making Training More Effective for North Koreans by Separating Ideation from Capacity-Building, International Journal of Korean Unification Studies vol. 23, no. 1**

The first looked at effectiveness in training methods. This argued the need to separate ideation with capacity building objectives. Ideation focuses on the exposure to new ideas in order to encourage participants to see hitherto unimagined possibilities for their future. Capacity-building aims to support government policies by transferring necessary skillsets and knowledge. North Korea, at its stage of economic thinking, requires more ideation than capacity building in its external programs.

### Report 2

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#### **The ABCs of North Korea's SEZs US-Korea Institute at SAIS, Johns Hopkins University November, 2014.**

The second paper aimed to provide a comprehensive overview of the DPRKs Special Economic Zone policies. It argued that despite the probable failure of most of the SEZs, the zones deserve attention. A few will manage to develop faster than the national economy and as the government's most visible experiment with the economy, they have helped change expectations for economic development among DPRK businesspeople and officials. They offer multiple platforms for further economic and social experiments – spaces in which there can be tinkering with some of the rules that currently limit development in the DPRK.

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## Media Outreach

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Choson Exchange also communicates about North Korea to a global readership, in order to improve understanding of the DPRK's economy and business environment among global audiences, communicate the goals of our work and help contribute to discussions on North Korea issues. To that end, we were quoted by or heavily featured in mainstream media 51 times in 2014. Major outlets included the Washington Post, the Guardian, Financial Times, Forbes, La Croix, The LA Times, The AP and others.

CE also had half a dozen or more citations on the North Korean news specialist website NKNews.org and as a partner of the Guardian NK Network, joins a community of experts who engage on North Korea issues.

Communication about North Korea by an in-country NGO is a recent innovation led by Choson Exchange and we use available platforms to focus attention on continuing economic and social issues.

“The difficulty for bright people trying to innovate in North Korea is that without easy and constant access to the web, they don’t always know what the competition might be. “We often find that when we talk to the smaller IT companies there, they are developing products for which there is already a very strong product on the market,” [Geoffrey] says... “You need a lot of collaboration with international programmers, being plugged into that network of programmers and venture capitalists who are able to tell you who else is working on such a product,” he explains.”

- Geoffrey See, BBC, 6 November, 2014

We strongly believe that the DPRK needs to be better connected to see economic growth and that this should be encouraged.

On the Ebola shutdown, we were also frank and open about the damage that the policy was having on the economy and their international partnerships.

“We could be seeing potentially tens of thousands of dollars of losses as we delay training programs, and possibly even more as this drags on. For businesspeople, a shutdown will likely hurt their investment plans or transactions.”

- Geoffrey See, NPR quoting from Choson Exchange website, 31 October 2014

Also, we try to tie together changes in the economic and business environments with the social trends we observe on the ground. For example, we were asked on one occasion to talk about high heels and fashion trends we observe in Pyongyang as connected to an increase in domestic manufacturing of fashionable shoes.

“The biggest shoe factory is responding to the desires of the market, a concept which we may take for granted but has only recently started growing in the DPRK ... an interesting challenge for them will be to see if they can make things that are perceived to be of a quality that matches foreign imports.”

- Andray Abrahamian, The Diplomat, 02 August, 2014



# North Korea's business guides

Pyongyang is enlisting tutors in the techniques of modern management, writes **Simon Mundy**

**T**wo years after Geoffrey See first visited North Korea, the Yale postgraduate received a message from a Pyongyang government official seeking his help.

It was near the end of 2009, soon after a currency devaluation had virtually wiped out the savings of many North Korean small traders. The reform was a disaster, prompting rare bouts of civil unrest and the execution of the finance official supposedly responsible.

But the request from Pyongyang provided a vital opportunity for Mr See, then 24, who had already spent months seeking ways to run business training schemes in North Korea. He now runs Choson Exchange, a non-profit group that has trained hundreds of North Koreans in modern management practices.

"The currency reform... made them aware that there were a lot of things that they didn't know about," says Mr See. When he received the invitation to organise a training programme on exchange rates, he enlisted friends from banking and economic development agencies to run a finance workshop in Pyongyang.

Since then, Choson Exchange has won the blessing of its North Korean government partners to run training programmes – in both North Korea and Mr See's native Singapore – at growing scale and frequency. More than 180 trainees took part in the first quarter of this year alone.

## 'What they lack is what people pick up just by growing up in a western economy'

The courses are designed to support North Korea's growing numbers of small-business owners, as the state shows increasing flexibility towards breaches of its collectivist official dogma in its efforts to revitalise a long-stagnant economy. Most Choson Exchange trainees work at state companies or institutions. But others are running small enterprises, typically restaurants or cafés, and the programme hopes to encourage more Koreans to follow suit.

The sessions in North Korea involve a foreign volunteer – usually an entrepreneur, or a marketing expert – giving a talk on western business practices, with the aid of an interpreter.

"There's a broad set of vocabulary that is missing" where business is concerned, notes Andray Abrahamian, executive director of Choson Exchange. "When the workshop leader delivers a sentence, the translator might speak for a couple of minutes to make sure the message got through."

Workshop leaders have lectured on topics from corporate social responsibility to asset-liability management. Practical exercises focus on skills that participants can use, from planning a business strategy to practising catering to customer tastes with role-play drills where they make paper toys for which they must find a buyer.

"What they lack is what people pick up just by growing up in a western economy. Seeing businesses succeed and fail gives an understanding of how customer relationships work," says Nils Weissensee, a Shanghai-based entrepreneur who joined Choson Exchange last year.

Mr See worked at the consulting group Bain in Boston for a year while getting Choson Exchange off the

ground, and the training programmes are suffused with modern business buzzwords, from lean production to e-commerce.

Such terms sit oddly with North Korea's official ideology, which continues to praise the "monolithic leadership system" under supreme leader Kim Jong Un. When Mr Kim's uncle and top adviser Jang Song Thaek was executed last year, his "decadent capitalist lifestyle" was cited among his crimes.

Yet Pyongyang has been showing interest in foreign practices as it battles to progress towards Mr Kim's promised "thriving socialist country". North Korea's ambassador to London, Hyon Hak Bong, told the Financial Times in an interview earlier this year of research visits to countries such as Singapore and Malaysia to learn from their successful development. "We want to learn from advanced economies but some countries keep their doors closed," he said.

Analysts say the state's increasingly sanguine attitude towards the market is largely a pragmatic response to a growing private economy that it was unable to suppress. When the state distribution system broke down in the early 1990s, famine forced people to resort to private trade to

survive. Now the network of black markets continues to flourish, providing sustenance for millions of North Koreans.

They are usually ramshackle marketplaces, selling goods from foodstuffs to consumer electronics. Choson Exchange mainly helps upper-middle class people who run, or hope to run, businesses in Pyongyang. Yet even these relatively privileged entrepreneurs are on precarious ground in a country where private enterprise remains officially off-limits. Most of their businesses are nominally part of a state-owned enterprise: in practice, this arrangement gives managers autonomy in running their business, provided they distribute part of their profits to the state company.

"The legal framework in which they operate is convoluted," says Mr Abrahamian.

Choson Exchange's focus on business skills contrasts with other North Korea-related charities that concentrate on helping refugees from the country, or drawing attention to its appalling system of prison camps and political repression.

But the full importance of Choson Exchange's work may become clear only after a North Korean transition to a truly market-based economy,

**Aiming high:** participants in a Choson Exchange workshop, where unfamiliar business terms take time to translate

when it would be in dire need of people who understand modern business, says Andrei Lankov, a professor at Seoul's Kookmin University. "They are one of a few groups doing something that makes sense," he says. "The only way to change North Korea is to expose North Koreans – especially the elite – to some knowledge of the outside world."

**C**hoson Exchange tackles this in an unusually direct way: by taking its most promising trainees to Singapore to expose them to the cutting edge of Asian capitalism. Permission – and resources – to travel abroad are hard to come by in North Korea, even for Pyongyang residents. Most of the trainees have never left the country, and even the exceptions have nearly always been only to northeast China.

Yet the organisation has been allowed to take groups of North Korean public employees on seven trips to Singapore that include tours of shops and meeting businesspeople and a member of parliament. The city-state is "a fantastic platform from which to engage North Korea", says Mr Abrahamian, as it offers an example of an Asian state that achieved rapid development while maintaining strong state control.

Participants have been sent out into a Singapore shopping district to compile a report using technical marketing frameworks. They are trained in online research – a skill that, for now, they cannot use at home – and in creating a product brand, including logos, slogans and voice-overs.

The experience has been overwhelming for many, says Mr See. "On the last trip, it was difficult to pull them out of shops." But there have been no attempts to avoid returning to Pyongyang.

"Some of them actually want to go home early," says Mr See. "It's: 'I have work to do, money to make'. Busy business people are the same everywhere."



## Pyongyang's initiatives to offer greater economic freedom

To expect "policy change" from North Korea, the country's official media wrote two years ago. "is nothing but a foolish and silly dream just like wanting the sun to rise in the west."

Yet while Pyongyang has angrily dismissed talk of reform, it has been developing initiatives that give citizens and foreign investors greater economic freedom, and drawing on lessons from abroad.

Pyongyang has experimented with schemes that allow some

farmers to keep a substantial share of their production, and it is moving to grant more autonomy to the distribution sector, a senior official said last year.

It has also put growing emphasis on its embrace of special economic zones, where foreign investors benefit from tax concessions – emulating an innovation that jump-started China's economic growth over the past three decades. Last year North Korea announced

plans for 14 new SEZs.

China and Russia have lent support to this initiative – especially to the existing SEZ at the port of Rason, which was connected to the Russian rail network last month.

But many western investors are waiting for the lifting of the extensive international sanctions against North Korea before committing capital to the country, says Michael Hay, a corporate consultant in Pyongyang.



# Our Team

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## Management and Governance

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An experienced Board of Directors and Board of Advisors support our management team. Our management team is led by Chief Executive Officer Geoffrey, Director of Research Andray, Associate Head of Design Calvin, who manages urban design aspects of our Provincial Development Program, and was joined by part-time staff Nils and David.

Nils is an adventurous entrepreneur with a passion for learning. He worked in media and technology in Germany and China, before setting up a coffee business in Shanghai. David is a final-year student at the National University of Singapore.

We also thank Ryan Russell for pro bono legal services, and our donors and volunteer workshop leaders for their incredible support.

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## Looking Ahead

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In 2015, we expect to expand participation in our three core programs. We aim to change formats to more prominently emphasize the importance of business networking skills and mentoring for business success.

We also aim to continue with our tradition of program innovation. We will focus more on post-training support and networking for participants. We are looking at initiatives that will create opportunities for program alumni to stay in touch with each other, as well as to provide support to entrepreneurs and would-be entrepreneurs to enable them to follow through on their ideas. Additionally, we also aim to increase longer-term program formats.

We are excited at the opportunities opening up for Korean entrepreneurs in what is arguably one of the world's most challenging business

Prepared by Geoffrey See, Andray Abrahamian, Nils Weisensee, David, Calvin Chua  
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