

Points in Economic and Technological Consideration on Foreign-Invested Enterprise

Hong Song Nam

As the DPRK continues to raise its international standing and boost external economic relations with other countries at present, many foreign investors are getting more interested in the country and the number is increasing with each passing day.

Under the circumstances it is very important to accurately calculate the economic potential and technological value of foreign-invested enterprise (FIE below).

The great leader Comrade **Kim Jong Il** said as follows.

“In guiding and managing the economy, it is very important to calculate cost-effectiveness accurately.” (“KIM JONG IL SELECTED WORKS” Vol. 13 P. 22)

Most important in consideration of economic potential and technological value of foreign-invested enterprise is to analyze market well.

The economic and technological calculation of foreign-invested enterprise begins with market analysis.

Even though a foreign-invested enterprise was established and it produced lots of goods, they are all meaningless if those products are not sold in time. Only when it sells the manufactured goods in time, can it recoup the money it invested in production, make profits and put production on normal track by continuously creating conditions for reproduction including the purchase of raw and other materials and repair of machines and equipment.

Market analysis plays as much important part as other economic and technological calculations in FIE, in which the sale of products in international market assumes a large proportion and which are largely affected by business fluctuations in international market.

It can be made by way of fixing the scope of market and examining the overall local and foreign markets.

In market analysis, it is necessary to carefully research and correctly estimate market demand for certain goods, market competition, goods, the amount of raw materials needed and other contents to be invested.

Major points in the research into and estimate of market demand are to grasp the demand in local and foreign markets, size of the market, the share of goods produced in a certain enterprise in market and potentials of various markets and estimate the sales of goods produced in FIE.

Research into and prediction of market competition include the grasp of the number of enterprises competing for certain goods in local and foreign markets, their position and role in market, advantages and disadvantages of each one of them in the aspects of production, technology and sale of products and the estimate of a variety of problems to be faced by certain goods in each market.

As for goods, it is required to study the competitive edge and adaptability of certain goods in market and estimate the potential competitive goods.

For the research into and prediction of the necessary amount of raw and other materials and other contents to be invested, the kinds, sizes, prices and amount of various raw materials to be used in a

project and the situations of their supply and import in the market should be studied correctly.

In market analysis the scope of production is confirmed, an preliminary plan is made for fixing the scope of production and its capability of the project on the basis of the market research, estimated situation and possible supply of raw and other materials, and production capacity that can be reached is confirmed by checking general balance of various factors including this preliminary plan, level of facilities in the process, level of investment, production cost, use of natural resources, selling capacity, scope of market and targeted interest rate in the project.

Technological analysis is another important thing in economic and technological calculation of FIE.

As it's the most important content in economic and technological consideration to make the whole production process work in line with the scientific and technological requirements, it makes it possible to increase the productivity of FIE, improve the quality of its products and thus sharpen its competitive edge in international market.

It includes the selection of technology to be introduced, study of data on the production process and equipment.

Technology to be introduced should be selected with utmost care.

The selection of technology to be introduced is one of the very important contents in technological analysis of the FIE construction project. Because an important purpose of establishing foreign-invested enterprises is to introduce latest technologies of the other party timely and safely, make them as their own and make effective use of them.

What kind of technology is introduced, what kind of production process and equipment are selected and what kind of raw and other materials are used are directly connected with technological analysis.

Usually, it is an important matter to decide what kind of technology is introduced after fixing the scale of production. It is the age of information industry and the period of technological renovation is very short. Three to five years are enough for a technology to be introduced and prove economically effective.

Therefore, technology should be carefully chosen and, once wrongly selected, the loss is irretrievable.

It should be the one that can produce greater interests with the least investment, improve the quality of products while reducing the consumption of raw and other materials and expand the market for goods. It should not be the worn-out or backward technology, but the latest one that is favourable to disseminating and applying to other local factories and enterprises and helps raise the country's technological standard.

It should be more advanced than the general international level, long in working period and have prospects of development.

To fully grasp the data on production process and equipment is also important in technological analysis.

It means making enough analysis of the production process of the enterprise, technical specifications of equipment and major technological data.

To understand production process, it is necessary to consider whether it can meet the demand for the amount and quality of certain goods and what are the methods and resources of using this production process and how much does it cost to use them.

After getting acquainted with the production process the supply of main and auxiliary facilities, parts and other necessary contents as required by the production process should be analyzed. It should be analyzed at that time whether the needed equipment would be purchased at home or imported from abroad, which one would be made at home or imported from other countries, and, particularly such matters as the assembly of foreign invested equipment and home-made one, new facilities and existing ones, the supply conditions of raw and other materials needed for invested equipment.

Technological data is of great significance in raising the country's technological level by introducing new technologies and on this basis continuously improving and developing technology. Therefore, in technological analysis particular attention should be paid to studying technological data and making deep analysis of them.

Analysis of effects on environment is also important in economic and technological calculation of FIE.

Environmental protection is an issue that should be considered seriously in economic and technological consideration of FIE.

Most important in this analysis is the potential pollution caused by materials to be used by FIEs.

In case natural raw materials, explosive and toxic materials are used in production, their transport is very complicated and often accompanied by a series of danger. So they may cause severe environmental pollution or deterioration in the economic progress of the country and the improvement of the people's living standard. Therefore, economic and technological calculation is a necessary one to see if it is really necessary to establish a certain FIE, where it is to be built if it should be and how to prevent environmental pollution and destruction caused by it.

It is also important to make a good analysis of the root cause of such issues as contamination of air, water and soil in the course of production, noise and sewage pollution, disposal of waste materials and soil erosion.

At present, businesses in capitalist countries are planning to establish foreign-invested enterprises by way of transferring pollution industries forsaken in their countries to other nations. So, such matters should be taken into full account as air, water and soil contamination, noise and sewage pollution, disposal of waste materials and soil erosion caused by the establishment of a certain FIE.

Pollution not only destroys natural environment, but also has negative effect on cultural activities, tourism and protection of animals and plant resources. Therefore, economic and technological calculation should be made by closely combining production process with environment.

Another important thing in the analysis of effects on environment is to correctly consider environmental issues to be raised while using products of FIE.

In particular, when the foreign-invested enterprise in chemical industry sector is established, some of its products might produce ecologically bad effects. As there are some demands in the handling and use of such products as acids, alkalis and other basic chemical products, agrochemicals and fertilizer, they should be correctly analyzed.

To make a good general preliminary appraisal is also important in economic and technological calculation of FIE.

General preliminary appraisal is the comprehensive technological and economic calculation of the FIE to be established on the basis of the analysis of market, technology and effects on environment.

It is, first of all, an overall preliminary estimate of the choice of plan of the investment. Mostly appraised in this stage are the possibility of its technological and economic success, possibility of the establishment of foreign-invested enterprise and favourable conditions, the period of time needed till it proves beneficial, the cost and sources, the long-term goals, scale of market and stability of the enterprise.

It is also a preliminary assessment of economic effects to be attained through the FIE establishment.

It is necessary to check in every aspect if the economic effect of the FIE establishment is ideal or not, carefully assess the interest rate of investment, labour and production efficiency, net social income, quality of products and other estimated effects of the project and appraise the state of analysis of the preliminary economic effects to be attained by investing in various aspects in the project and the price to be paid.

It is also a preliminary appraisal of the uncertain factors and risks in the FIE establishment project.

In this assessment possibilities of changes of various factors within the investment and production period of the project should be mainly checked. For example, effects caused by the changes of main factors, including possibility of price hikes of raw materials, that of fall of selling price of goods, excessive expenditure of investment, prolongation of terms of projects, technological problems, and the scope of capacity to be covered by the project should be analyzed and measures be submitted accordingly.

General analysis should be made of the matters related to the possibility, favourable conditions and usefulness of the establishment of the foreign-invested enterprise on the basis of them, before drawing a final conclusion.