

Special Economic Zones in the DPRK

This issue brief covers the history and recent upsurge of interest in special economic zones (SEZ) in the DPRK. For over twenty years, North Korea has periodically attempted to bolster its economy through the creation of SEZs, starting with the establishment of the Rason Special Economic Zone in the far northeast of the country in 1991. The two Koreas have also established two joint economic zones in the North, the Kaesong Industrial Complex (KIC) and the Mount Kumgang Tourist Region (where operations are now suspended). All of North Korea's SEZs established to date have been enclaves, attracting investment and foreign currency but not spurring greater economic growth in the rest of the country through the establishment of linkages or through a "demonstration effect" leading to more effective economic policies elsewhere.

North Korea's interest in developing SEZs has been sporadic, but several recent developments indicate that SEZs are becoming an increasingly important part of the country's economic planning. Beginning in 2010, the DPRK renewed attempts to encourage investment and infrastructure developments in Rason, and more recently announced that new SEZs would be established in each province of the country.¹ This issue brief will cover the history of North Korean SEZs and review recent developments in this field.

History of SEZs in North Korea

Rason: North Korea's first SEZ, the Rajin-Sonbong Free Economic and Trade Zone (later contracted to the Rason Economic and Trade Zone), was established in 1991, several years after North Korea first introduced laws allowing foreign investment. Located in the far northeast of the country, near the borders with China and Russia, the zone offered an ice-free port which could potentially connect China's landlocked northeastern provinces to the sea. In 1993, the DPRK designated Rason as a "directly governed city," and issued laws governing foreign investment in the zone. In its first two decades, Rason attracted only a modest amount of foreign investment – reportedly under \$150 million from its establishment through 2010, including a Hong Kong-invested hotel and casino catering to Chinese tourists.² The lack of transportation, energy, and communications infrastructure was a major impediment to early investment in Rason, and only recently has this infrastructure deficit begun to be addressed in a systematic fashion.³

Sinuiju: In 2002, North Korea announced plans to establish a special administrative region at Sinuiju, a city near the mouth of the Yalu River, granting the zone an unprecedented degree of independence and putting a Sino-Dutch businessman, Yang Bin, in charge.⁴ However, shortly after Sinuiju's new status was announced, Bin was arrested in China over tax fraud, and plans for the zone fell by the wayside. Subsequent North Korean SEZs have also been established near the city of Sinuiju, but have not replicated the ambitious scale of this short-lived plan.

Inter-Korean SEZs: The Kaesong Industrial Complex (KIC), an inter-Korean joint venture located just north of the DMZ, is North Korea's largest Special Economic Zone, although it falls under different legal and administrative authorities than other SEZs in North Korea and has a unique status as a cooperative endeavor between the two Koreas. At its peak in early 2013, KIC had attracted 123 South Korean companies employing over 50,000 North Koreans and about 800 South Korean staff. The complex was shut down in April 2013 during a period of high tension between the two Koreas, but reopened in September of that year with most South Korean investors returning, and an agreement between the two Koreas to seek international investment in the zone.

Initially endorsed by the two Koreas during the first inter-Korean summit in 2000, KIC was meant to develop in three phases, eventually employing more than 350,000 North Koreans on a 5,000 acre campus surrounded by a joint economic and tourism zone.⁵ However, KIC has stalled in its first phase. During the 2007 Summit between ROK President Roh Moo Hyun and DPRK leader Kim Jong Il, both pledged to complete the first phase of construction and begin the second phase, as well as to build new transportation infrastructure linking the two Koreas.⁶ They also discussed opening another SEZ in Haeju, near the coast along the disputed inter-Korean maritime border.⁷ However, none of these initiatives were realized, and Kaesong has not expanded as originally envisioned.

The Mount Kumgang Tourist Zone, which opened in 1998 with investment from an arm of the Hyundai group, is another inter-Korean SEZ. Over two million tourists, mostly from South Korea, visited the zone, but tours were suspended in 2008 after a South Korean tourist was killed by a Korean People's Army soldier.⁸ Beginning in 2011, North Korea confiscated South Korean assets at the resort and began bringing tourists from Rajin port to Mt. Kumgang via ferry, but with little success.⁹ More recent discussions between the two Koreas to reopen the resort have yet to bear fruit.¹⁰

Recent Developments in North Korea's SEZ Policy

The Rason Revival: In the past few years, North Korea has demonstrated a renewed interest in attracting foreign investment to Rason, overhauling its administration and deepening its regional linkages. These changes began with Rason's designation as a "special city" in early 2010 (its previous status as a directly-governed city lapsed in 2004, putting it back under provincial control).¹¹ The investment laws for Rason were also revised in 2010 and 2012, granting the zone greater autonomy in attracting and managing foreign investments, and establishing a China-DPRK Joint Management Committee to oversee the zone.¹²

North Korea has also partnered with China and Russia to build the infrastructure necessary for linking the zone to the broader region. In tandem with its 2009 *Changjitu* plan for developing its northeastern provinces, China began repaving roads in Rason and constructing new railways and roads in its northeastern provinces connecting to the border with North Korea.¹³ Chinese companies have also leased two of Rason port's three piers. News reports since 2011 have indicated that China may extend electricity lines from Jilin province into Rason to upgrade its energy infrastructure, but this has slow to move forward.¹⁴ A Russian company signed a 49 year contract to lease and develop Rason's third pier in 2008, and a DPRK-Russian joint venture

completed construction of a new rail link from Rason to the Russian border town of Khasan in September 2013.¹⁵ In November of that year, the ROK government signed a memorandum of understanding with Russia allowing several South Korean companies to invest in the Russian railway and port project, although such investment has not yet taken place.¹⁶

Hwanggumpyong and Wihwa SEZ: In June 2011, North Korea and China announced plans to jointly develop new special economic zones on Hwanggumpyong and Wihwa islands, two largely undeveloped sites in the Yalu River estuary. In an August 2012 meeting between North Korea's Jang Song Taek and Chinese Minister of Commerce Chen Deming, the two sides signed agreements on administrative and infrastructure cooperation at the two island zones and Rason.¹⁷ A groundbreaking ceremony was held at the Hwanggumpyong SEZ the next month, followed by the apparent construction of administrative buildings, access roads, and other infrastructure. One analysis of infrastructure development at Hwanggumpyong estimates that the zone may be ready for operation by 2015 or 2016.¹⁸

Planning for Additional SEZs: In June 2013, North Korea enacted a new law governing special economic zones, which excluded existing zones in Rason, Hwanggumpyong and Wihwa islands, the Kaesong Industrial Complex, and Mount Kumgang from its purview – indicating that additional zones were being planned for the future.¹⁹ The following October, the DPRK announced the creation of the State Economic Development Commission (SEDC) and related Korea Economic Development Association (KEDA), which would oversee the development and promotion of DPRK SEZs other than the Kaesong Industrial Complex.²⁰

On October 16-17, 2013, North Korea collaborated with the University of British Columbia's Canada-DPRK Knowledge Partnership Program to host a conference in Pyongyang on SEZ development. The conference included 13 foreign experts from North America and Asia and over 60 North Korean participants and observers, and used case studies from other countries to cover topics such as SEZ best practices, linkages to the domestic economy, and investor incentives.²¹ During the conference the DPRK announced that fourteen new SEZs were being established in the DPRK.²²

In November 2013, the Korean Central News Agency announced the establishment of several new SEZs, spread across most of the DPRK's provinces.²³ Additional detailed information on most of these SEZs has not yet been forthcoming. However, in December North Korea signed an agreement with the Chinese city of Tumen to develop the Onsong Economic Development Zone in North Hamgyong province. Investors from Hong Kong have also reportedly backed plans to develop an SEZ in Sinuiju, and North Korea has reportedly signed a contract with investors from Singapore, Hong Kong, and mainland China to invest in the Kangryong Green Development Zone in South Hwanghae province.²⁴ The *Asahi Shimbun* has reported that the Kangryong SEZ, located near the Northern Limit Line, would focus on developing renewable energy, organic farming, and tourism, and it could possibly draw investment from South Korean firms.²⁵ Additionally, the DPRK has established a Science and Technology Development Zone at Kaesong, separate from the inter-Korean KIC, under the auspices of the Peace Economic Development Group.²⁶ KCNA has stated that a consortium of foreign investors will develop projects there.²⁷

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- ³ Marcus Noland, "We'll Always Have Rason," *Witness to Transformation*, January 12, 2012. <http://www.piie.com/blogs/nk/?p=4493>
- ⁴ Aidan Foster-Carter, "Stop Fief: Was Sinuiju Thought Through," *Asia Times*, October 2, 2002. <http://www.atimes.com/atimes/Korea/DJ02Dg02.html>
- ⁵ Patrick Cronin, "Vital Venture: Economic Engagement of North Korea and the Kaesong Industrial Complex," Center for a New American Security, 6-7. http://www.cnas.org/files/documents/publications/CNAS_VitalVenture_Cronin_0.pdf
- ⁶ Cronin, *Vital Venture*, 12
- ⁷ Chris Green, "Lankov Looks to Cooperative Future for Korea," *DailyNK*, August 17, 2013. <http://www.dailynk.com/english/read.php?cataId=nk02500&num=10855>
- ⁸ Cronin, *Vital Venture*, 10.
- ⁹ "N. Korea to resume cruise ship tour between Rajin and Kumgang resort," *Yonhap News*, March 6, 2013.
- ¹⁰ Resumption of reopening Mt. Kumgang Resort was discussed in late August after agreeing to reopen Kaesong Industrial Complex. However, North Korea canceled the family reunions that were scheduled for September and South Korea postponed discussing reopening Mt. Kumgang. See "Seoul has no plans to start Mt. Kumgang tour talks," *Yonhap News*, September 23, 2013. <http://english.yonhapnews.co.kr/news/2013/09/23/37/0200000000AEN20130923004951315F.html>
- ¹¹ Park In Ho, "Rason Becomes Special City," *DailyNK*, January 5, 2010. <http://www.dailynk.com/english/read.php?cataId=nk01500&num=5866>
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- ¹³ Yeon Ho Lee and Jeong Shim Kang, "The *Changjitu* Project and China-North Korea Economic Cooperation: Beijing's and Pyongyang's Intentions," BISA Annual Conference, Manchester, 27 April 2011, Session 1.8; Jeremy Page, "China Builds up its Links to North Korea," *Wall Street Journal*, June 6, 2013. <http://online.wsj.com/news/articles/SB10001424127887324069104578527080945326710>
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²² "North Korea Opens Fourteen Special Economic Zones Nationwide," *IFES*, October 31, 2013. http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM131031_0001

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²⁵ Akihiko Kaise, "N. Korea sets up economic zone near military demarcation line," *Asahi Shimbun*, November 6, 2013. http://ajw.asahi.com/article/asia/korean_peninsula/AJ201311060083

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