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The Rajin-Sonbong Economic and Trade Zone: A Geoeconomic Perspective
Théo Clément



ABOUT SINO-NK

Founded in December 2011 by a group of young academics committed to the study of Northeast Asia, Sino-NK focuses on the Sino-North Korean borderlands and the transnational links that bind China, the DPRK (Democratic People's Republic of Korea, or North Korea), and the Republic of Korea (or South Korea). Using multiple languages and an array of disciplinary methodologies, Sino-NK provides a steady stream of China-DPRK and DPRK-South Korea documentation and analysis covering the culture, history, economies, and foreign relations of these complex nation-states.

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EXECUTIVE SUMMARY

The Kaesong Industrial Complex is by far the best-known Special Economic Zone (SEZ) of the Democratic People's Republic of Korea (DPRK; North Korea), mostly because of its symbolic value: a divided Korean working together. But with Kaesong closing in August 2015, there are now 25 other special zones remaining in the DPRK. The oldest one of the lot, and maybe the second most well-known, is Rajin-Sonbong ("Rason"). As the *de facto* doyen of economic zones in North Korea, Rason is most often depicted in the specialized literature as a failure and an ill-timed, desperate attempt to incentivize foreign direct investment that has been stagnating since its opening in 1991. Among the most oft cited reasons for Rason's allegedly poor performance are the unstable business environment, poor legal security, a lack of commitment from Pyongyang, and tense ties with foreign countries around the controversial North Korea nuclear program.

This report, based on field research in the Chinese borderlands as well as in the DPRK (Pyongyang and Rajin-Sonbong), aims at challenging these assertions. First, it will try to give back to Rason its own historicity: opened to foreign investment for 25 years now, the northeasternmost SEZ of the DPRK has had its highs and lows, which do not necessarily match the fluctuations of the rest of the country's economy. As far as we know, investment in Rason peaked in the middle of the Arduous March, while the zone benefited little from the 2003-2004 investment wave from China.¹

Instead of considering Rason's economic results as signs of nation-wide economic issues, I adopt a "local" approach, focusing on developments in the zone and its direct periphery, including the legal issues, policies, infrastructure, and the like, and assess potential differences with the rest of the country's economy or other SEZs. The introduction of epistemological tools previously unused in North Korean studies and the attention paid to North Korean publications dealing with Rason will also help us understand, from the DPRK's point of view, how Rason differs from the rest of the country and to provide alternative assessments of its "success."

My main research finding is that, even if the zone-specific policies often considered to be too conservative for significant economic activity to take place, the business environment of the zone still bear undisputable differences with that of the rest of the country. I also point out that, while North Korea is often believed to have an unstable business environment, foreign partners (like the international community) have themselves adopted a fluctuating attitude regarding Rajin-Sonbong. In response, local or central authorities of the DPRK have tried to adapt themselves to external changes, sometimes directly mimicking international standards and practices.

Since Rason is relatively easy to access, I could gather important amounts of data and information regarding economic activity in the zone. However, as in any research and maybe especially with DPRK studies, there are grey

1 Kim Jae-chol, "The Political Economy of Chinese Investment in North Korea, A Preliminary Assessment," *Asian Survey* 46 no. 6 (2006): 898-916.

areas where data is missing or where more research is required before drawing conclusions.² Quantitative data might be easier to gather in Rason, but I am unable, for example, to provide detailed data on investment stocks and flows to the zone. I was also unable to conduct research which required Russian language capacity; I encourage Russian-speaking scholars to provide additional analysis regarding potential cooperation between Rason and the Primorsky Krai in Russia.

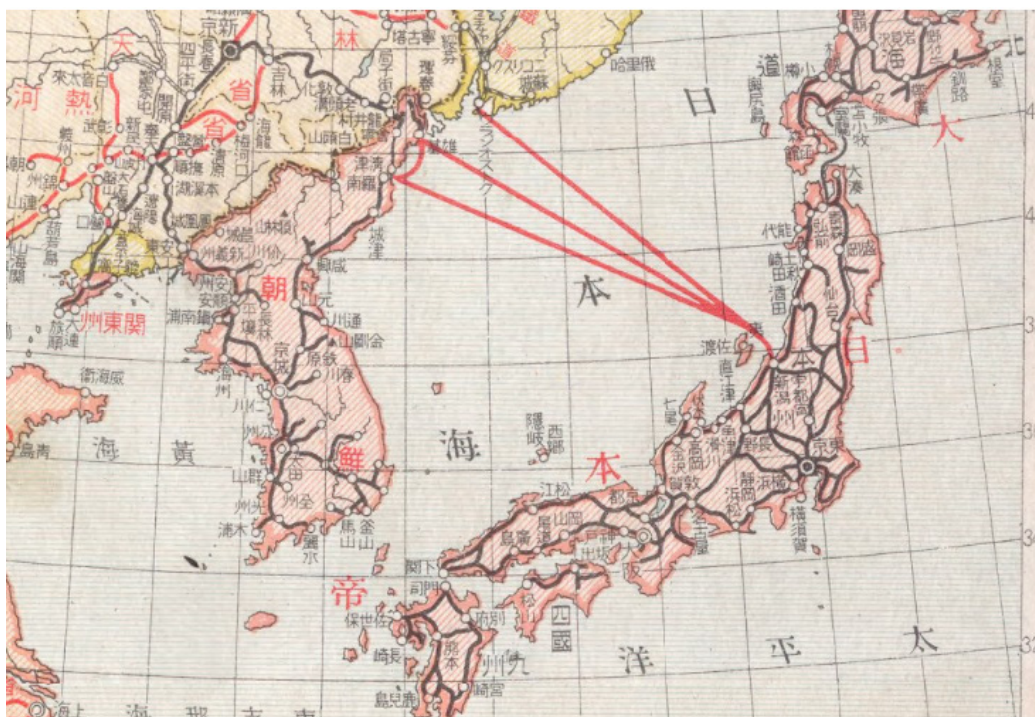
My hope is this report will trigger active debate among scholars on the role of Rason and other SEZs in the DPRK's and northeast Asia's economy.

- Théo Clément, December 21, 2016

2 Lack of access to statistical data is most likely the largest obstacle for researchers dealing with the DPRK. Pyongyang stopped publishing economic data on a regular basis during the 1960s and only periodically reveals economic indicators. On this issue, see: Kim Byung-yeon, Kim Suk-jin, and Lee Keun, "Assessing the economic performance of North Korea, 1954–1989: Estimates and growth accounting analysis," *Journal of Comparative Economics* no. 35 (2007): 564–582.

INTRODUCTION

The Rajin-Sonbong Special Economic Zone³ opened its doors to foreign investment in December 1991. Located in the Tumen River area, on the northeastern tip of the peninsula, the location of North Korea's very first SEZ was chosen because of the Rason's historical legacy as commercial "hub." The port infrastructure of Rajin dates back to 1938,⁴ and its original structure was built by the Japanese following the the invasion of Northeast China and the creation of the Manchukuo puppet State (*Manzhouguo*, 満洲国 or 滿洲國) in 1932. Since the Qing Empire China lost access to the Sea of Japan (East Sea) when the "unequal treaties" (不平等条約; *bupingdengtiaoyue*) of 1858 and 1860 were signed, the most direct access from the Japanese archipelago was through its Korean colony. In what is currently part of the Rason SEZ, three ports were designed and built to better link the Japanese Empire and its Manchurian puppet state, via northeast Korea. Listed from West to East, they are: Rajin (largest), Sonbong, and Ungsang. In the context of the Japanese colonial economic system, cargo routes were opened between these three ports and strategically located ports in the Niigata prefecture.



Postcard of important Manchukuo/Chosun-Niigata transport routes (undated).
Image: Lafayette College Digital archives.

After the Korean peninsula was first liberated and then divided, the Rason area quickly attracted the attention of the central authorities in Pyongyang in the context of the early diversification of foreign trade partners in the

3 The official name of the Zone was initially Rason Free Economic and Trade Zone, but it changed several times (the "Free" was dropped in 1998) afterwards. See: Tsuji Hisako, "The Tumen River Area Development Programme: Its History and Current Status as of 2004," *Economic Research Institute for North East Asia Discussion Papers* no. 0404e (2004).

4 Ibid.

1950s.⁵ When the DPRK began to achieve significant successes in its diplomatic outreach, Pyongyang decided to turn Rajin port into a trade-focused port, perhaps because it used to host ship-building facilities.⁶ Eventually, in 1983, its role as a hub for international trade and interaction with foreigners in general was explicitly mentioned by Kim Il-sung:⁷

Nowadays, these two cities [Chongjin and Rajin] are not different than open cities. Given that foreigners trade with other foreigners through [Chongjin] port, they come in numbers. Rajin harbor also sees large crowds of foreigners who engage into trade with our country. [...] [Ch'ongjin] and Rajin have to build numerous residential hotels, create an international hotel and modern restaurants in order to serve foreigners the best we can.⁸

The reference to “open cities” is almost transparent here. Even if North Korea has always trumpeted its idiosyncratic development path, the mention of “open cities” only six months after the Kim Il-sung – Kim Jong-il visit to Shenzhen (and to the soon-to-be Open Coastal city of Shanghai) in February 1983 can be considered as more than a coincidence.⁹ And indeed, after the opening of Rason, in the context of a promotion campaign led by the Rason authorities, the Chinese inspiration of the project was partially acknowledged.¹⁰ But the early interest in opening Rason to foreigners, as well as the fact that the zone was opened *before* neighboring cities in China (Hunchun) or even Russia is enough to bury the scenario of a forced opening under Chinese pressure.¹¹

5 Kim Il-sung, “Instaurons une discipline et un ordre rigoureux dans le secteur des Transports ferroviaires, discours prononcé devant le personnel de la Direction des chemins de fer de Tcheungdjin” [Let’s implement a rigorous order and discipline in the rail transportation sector, Speech at meeting of the Tcheungdjin railway department], *Œuvres*, (1982). See also : Kim Il-sung “Tâches des structures du Parti de la province du Hamkyeung du Nord, Discours prononcé lors de la session plénière élargie du comité de la province du Hamkyeung du Nord du Parti du Travail de Corée” [Tasks of the Party structures in North Hamgyong Province, speech at enlarged plenary session of the North Hamgyong Province Committee of the Workers Party of Korea], *Œuvres* 13 (1983).

6 Kim Il-sung, “De quelques tâches économiques des structures du Parti de la province du Hamkyeung du Nord, Discours prononcé devant le personnel du Parti, des organes de pouvoir, des organismes de l’administration et de l’économie de la province du Hamkyeung du Nord” [About some economic tasks of the of the Party structures in North Hamgyong Province, speech at meeting of Party personnel, power, administration and economic organs in North Hamgyong Province], *Œuvres* 27 (1986).

7 Contrary to James Cotton’s explanation in a 1996 working paper, the *Great Leader* did comment on Rason (and Chongjin) before 1984. James Cotton, “The Rajin-Sonbong Free Trade Zone Experiment: North Korea in Pursuit of New International Linkages,” Working Paper, Australia National University (1996). See p. 6: “Though the managers of the Rajin zone may be engaging in a little hyperbole when they claim that the site was chosen and the scheme developed by Kim Il Sung personally, nevertheless his support for the 1984 innovations is a matter of record.”

8 Kim Il-sung, “Concentrer les efforts sur les cinq fronts de l’édification économique du socialisme, Discours prononcé à la réunion consultative des responsables du domaine économique” [Let’s focus on the five fronts of socialist economic construction. Speech at a meeting of officials of the economic domain], *Œuvres* 38 (1995).

9 Funabashi I Yoichi, *The Peninsula Question: A Chronicle of the second Korean nuclear crisis* (Washington, DC: Brookings Institution Press, 2007), 439.

10 “Q&A: Kim Jong-un: North Korea’s bids for Investment,” *New York Times*, August 12, 1996.

11 Darren C. Zook, “Reforming North Korea: Law, Politics, and the Market Economy,” *Stanford Journal of International Law* 48 (2012): 131-183, 151.

The fact that among all North Korean cities, Rason was the first SEZ in the DPRK can be explained in several ways. Part of the answer is logistical. The Zone is strategically located for export-processing and transshipping activities, linking together not only China, the USSR/Russia (the most important trade partners of the DPRK at that time), but also Pyongyang's most important capitalist trade partner (Japan) and the South Korea.¹² Sharing a border with both China and Russia, Rason benefitted from the cultural proximity with strong Korean Diaspora communities in both countries. From Pyongyang's perspective, this was also a politically safe choice: remotely located from the political and economic heart of the country, Rason was considered an "exception" in the DPRK economy as it was largely dependent on port-related activities (especially transshipping activities or exports of raw materials). It was chosen mostly for its "unconnectedness"¹³ to the mainstream of the DPRK economy. Rajin's exceptional nature is particularly apparent when compared with the important city of Chongjin, in the neighboring North Hamgyong province, which was chosen as a stronghold of heavy industry because of its proximity to raw materials.¹⁴ Unlike the gigantic Musan coal mine, Rason could not bear the comparison (before 1991 at least) and never had an important industrial legacy. Scarcely populated (less than 140,000 inhabitants for the whole 726 km² Zone in 1993¹⁵) and with little industry and limited agriculture (exploited lands constituted only 13 percent of the zone, while 67 percent of the Rason SEZ were unexploited forests in 1998) the area's unique economic interest was its ideally-located port facilities. As a revealing sign, in 1972 Kim Il-sung personally advised against the expansion of urban and industrial areas in Rason, and instead asked them to be redesigned to accelerate the transition to a trade-focused harbor city.¹⁶

12 Deliveries of South Korean goods to Europe through Rason would be 50 percent shorter and 30 percent less expensive. Jin Cheol-jo and César Ducruet, "Rajin-Seongbong, New Gateway of Northeast Asia," *Annals of Regional Science* 41 no.4 (2007): 927-950.

13 Ibid.

14 Kim Il-Sung, "Tâches des Structures du Parti de la province du Hamkyeung du Nord dans la lutte pour réaliser le plan triennal de rétablissement et de développement de l'économie nationale d'après guerre" [Tasks of Party Structures in North Hamgyong province in the struggle to achieve the post-war national economy three-year plan], *Œuvres* 9 (1981).

15 United Nations Development Program, *D.P.R. Korea's Rajin-Sonbong Economic Trade Zone, Investment and Business Guide* (1998).

16 Kim Il-sung, "De quelques tâches économiques des structures du Parti de la province du Hamkyeung du Nord, Discours prononcé devant le personnel du Parti, des organes de pouvoir, des organismes de l'administration et de l'économie de la province du Hamkyeung du Nord" [About some economic tasks of the of the Party structures in North Hamgyong Province, speech at meeting of Party personnel, power, administration and economic organs in North Hamgyong Province], *Œuvres* 27 (1986).

1. TUMEN RIVER AREA DEVELOPMENT: RASON IN THE REGIONAL FRAMEWORK

The opening of the Rajin-Sonbong Free Economic and Trade Zone¹⁷ (FETZ) in December 1991 was not a spontaneous unilateral decision (contrary to the attempted establishment of the Sinuiju Special Administrative Region in 2002, for example¹⁸) from the DPRK, but rather an opportunity seized by Pyongyang in the context of the UNDP-supported Tumen River Area Development Plan (TRADP).

In July 1990, at the conference on Northeast China Economic and Technical Cooperation in Changchun, PRC, a delegate of the Jilin provincial government raised the issue of economic development in continental Northeast Asia (NEA) and unveiled his vision on how to turn the Tumen River Area (TRA)¹⁹ into an international industrial, trade, and transport hub.²⁰ The fact that a Jilin representative first raised the idea of a better economic integration in the TRA is seemingly revealing of China's Northeastern provinces (collectively known as *Dongbei* [东北]) and a growing awareness of their economic slowdown in the context of the reorientation of the Chinese economy towards export-led growth. In order to fully embrace the transformation of the Chinese economy, Chinese provinces like Jilin or Heilongjiang had to sharpen their competitiveness on foreign markets and thus find a quicker and cheaper access to the sea than through ports facilities in or around Dalian (Yingkou, Baiyuquan) in Liaoning Province. It also means that in order to follow the export-led model of economic growth that made the economic success of Chinese territories like Guangdong or Shanghai, *Dongbei* provinces depend on the cooperation with the DPRK or, as an alternative, the Russian Federation.

The Chinese vision was unveiled in a context of increasing demand for enhanced regional economic integration in Northeast Asia, with the concomitant opening of different Russian port cities in Primorsky Krai (like the Nakhodka Free Trade Zone in November 1990). At that time, the most important cities of the region were banned not only to foreign investment, but also to foreigners in general, and were only opened at the beginning of the 1990s. Vladivostok, due to its strategic importance, was mostly closed to foreigners (especially from outside the bloc) during the Soviet Era; Hunchun, bordering both the DPRK and Russia in Yanbian, was opened to foreigners only in 1992,²¹ after Rason.²²

The United Nations Development Program (UNDP) quickly saw potential in this project and announced its full support to the TRADP at its Northeast Asia Subregional Program Conference in Ulanbataar in July 1991²³, order-

17 This was the initial name of the zone, but the “free” was dropped in 1998. The zone thus goes by the official name of Rason Economic and Trade Zone (라선경제무역지대; *Raseon gyeongje muyeok jidae*).

18 Funabashi, *The Peninsula Question*, 443.

19 The TRA encompasses the Yanbian Autonomous Korean Prefecture in the PRC, North Hamgyong province and Rason in the DPRK, as well as the southern part of Primorsky Krai in Russia.

20 Tsuji, *The Tumen River Area Development Programme*.

21 In 1991, at the very beginning of the TRADP, even foreign diplomats had difficulties accessing Hunchun city. See: James Hoare, “Old Stories Told Anew,” in Adam Cathcart and Christopher Green (eds.), *The Tumen Triangle Documentation Project, Sourcing the Chinese-North Korean Border*, Sino-NK (2013).

22 Hunchun became an “open city” before Rason, in November 1991, but it was only turned into an “open border city” (allowing border crossings) in March 1992. Cotton, *The Rajin-Sonbong Experiment*.

23 Ibid.

ing an expertise mission on the implementation of the TRADP, the so-called “Miller mission,”²⁴ and presenting its enthusiastic and “grandiose”²⁵ vision for the future of the TRA. Thanks to about 20 billion dollars²⁶ in infrastructure investment (that were, and still are, the Achilles’ heel of the TRA and especially Rason)²⁷ the primary objective was to turn the TRA into “North East Asia’s Hong Kong.” The findings of the Miller mission were introduced to officials from different countries involved in the project in October 1991, in Pyongyang, and were followed by an official announcement during a press conference at the UNDP headquarters in New York the same month.²⁸ Two months later, in December 1991, the Rajin-Sonbong FETZ opened its doors.

The TRADP involved countries that were outsiders to the TRA *stricto sensu*, including for example Mongolia or South Korea. The Program Management Committee, the executive institution of the plan, thus encompassed the PRC, the DPRK, the ROK, the Russian Federation, Mongolia, and Japan. The latter only held an observer status,²⁹ but was hoped to be the most important supplier of technology and capital in the zone.³⁰ The complementarities of the economic profiles of countries involved in the project was one aspect that triggered the TRADP, but the very heterogeneous socio-political nature of NEA at that time also certainly constituted a hurdle to the economic development of the TRA. The fragile equilibrium between national interests and regional cooperation was hard to maintain in this context, as actors often pursued different objectives. Mongolia was mostly trying to diminish its economic dependence on the Tianjin port in China and South Korea was eager to establish a foothold in the Yanbian prefecture.³¹ The PRC, meanwhile, was first and foremost trying to find a direct access to the sea. Beijing stubbornly tried to impose to other partners its “Fangchuan plan,”³² which aimed at creating river port facilities in Fangchuan, 15 km upstream from the Tumen River mouth, and to open the river to Chinese, DPRK, and Russian ships. Not only did this plan pose extreme technical difficulties (it necessitated the construction of new port facilities, the constant dredging of the river etc.) it also necessitated an agreement on navigation rights on the Tumen River that would basically cut short both the DPRK and Russia and directly provide China access to the Western Sea/Sea of Japan. As we will see later, this attitude from the Chinese partner has not completely disappeared. The political developments that shook the region at the beginning of the 1990s also did their part in obstructing the UNDP’s plan for enhanced economic integration. For example, in the global context of *perestroika*, Mikhail Gorbachev visited the Primorsky Krai in 1986 and announced his intention to see an opening of a Special Economic Zone, a move confirmed by Boris Yeltsin in a visit to Nakhodka in 1989. The Russian Supreme Council

24 Zhu Yuchao “The Tumen River Delta Project and Northeast Asian Regional Economic Cooperation” Paper presented at the International Studies Association meeting, Chicago, Illinois (1995): 99. The Miller Mission report is unavailable, according to the UNDP offices in New York.

25 Hoare, *Old Stories*, 9.

26 Chinese scholars sometimes provide an even much higher figure: \$30 billion. See: Chen Hsi-I Angel, *Transnational Sub-regional Cooperation in Practice: Dynamics of Micro-regionalism and Micro-regionalisation in the East Asia Pacific*, PhD dissertation (University of York, 2009), 180.

27 Théo Clément, “[How Not to Invest in a DPRK Special Economic Zone: the Case of Rason](#),” *Sino-NK*, July 15, 2015.

28 Zhu, *The Tumen River Delta*.

29 Ibid.

30 Hoare, *Old Stories*, 9. Zhu, *The Tumen River Delta*, 108.

31 Sébastien Collin, “La préfecture autonome des Coréens de Yanbian : une ouverture frontalière aux multiples enjeux géopolitiques,” *Perspectives Chinoises* no. 77 (2003).

32 Zhu, *The Tumen River Delta*, 108; and Tsuji, *The Tumen River Area Development Programme*.

approved the law on the Development of Nakhodka Free Trade Zone one year later.³³ However, in the early years of the Russian Federation, Moscow's attitude changed: A SEZ project in Vladivostok was abandoned in 1991 and, two years later, in the context of the global economic slowdown following the fall of the USSR, the Russia Duma estimated that SEZs' preferential regulations were detrimental to domestic industries and put a *de facto* term to the existence of the Nakhodka SEZ. In 1999, the Duma also killed hopes for the establishment of a 330 hectares Russian-Korean Industrial Complex in southern Primorsky Krai.

Indeed, the enthusiasm for the project peaked in 1993, at the Pyongyang PMC meeting, when the three riparian States agreed on the three-party joint management of a key issue: land lease.³⁴ However, in practice, the PRC, the DPRK, and the Russian Federation were extremely reluctant in relinquishing what they considered to be their sovereignty and, less than a year after the PMC meeting in Pyongyang, the common management of land lease was abandoned. The next PMC meeting, held in July 1994 in Moscow, witnessed a spectacular "leap backwards" as the UNDP withdrew a 20-billion-dollar plan (but not its support for the project), citing the TRADP's lack of political momentum. As a matter of fact, the common management of the whole project under the auspices of the UNDP turned out to be a failure and, after 1994, the development-focused agency only tried to harmonize foreign direct investment in the area, the initiatives being taken by individual member countries. Revealingly, the TRADP office in New York closed its doors in 1994, and a new Tumen River secretariat office (a lower level than former TRADP headquarters in New York) opened in Beijing in 1998. In addition to uncooperative attitudes of member States, several specialists and International Organizations pointed out that the TRA was a crucial but fragile ecological environment and the three riparian States of the TRA had to sign a Memorandum of Understanding regarding environmental concerns in order to appease several UN agencies.³⁵ The UNDP, however, did not withdraw its support to the TRADP and kept on funding some key projects in the area, including a \$4.4 million dollars technology transfer project to the DPRK and a \$1.3 billion investment in roads near Hunchun in China (Yanbian).³⁶ A Tumen trust fund was also created (with Seoul providing about \$1 million) in order to coordinate the implementation of the TRADP. The UNDP also published an investor's guide to Rajin-Sonbong at the end of the 1990s, which is likely the most detailed source we have on Rason's business environment at that time.³⁷

For a certain number of factors that we will study in details later, the TRADP program (and its successor since 2005, the Greater Tumen Initiative, or GTI), like Rason, has not lived up to its potential. Since the mid 2000s, the UNDP's activities in TRA have been quiet, and China has taken the lead (through different government-led programs like the *Changjituplan*) in developing infrastructure in its share of the TRA. The fact that the UNDP delegation in Pyongyang is not allowed, because of political pressure in the UNDP's executive board, to imple-

33 Tsuji, *The Tumen River Area Development Programme*.

34 Chen, *Transnational Sub-regional Cooperation*, 183.

35 The eastern part of Rason is made of wetlands that have a key role in bird migrations; numerous sightings of endangered species have been testified in a series of academic papers: Edwards J. Philipp, Pertwee Nicholas, and Peter Garland, "Bird Records from the Rajin-Sonbong Economic and Trade Zone, Democratic People's Republic of Korea," *Korean Journal of Ornithology* 10 no. 1 (2003): 25-50. In addition, sightings of big cats like Amur leopard and Siberian tiger in the TRA regularly emerge in the Chinese and Russian local press.

36 Chen, *Transnational Sub-regional Cooperation*, 185.

37 United Nations Development Programme (UNDP), *Rason Investment Guide*.

ment development programs in the DPRK's SEZs also prevents the creation of better conditions (infrastructure, capacity and trust-building initiatives) for increased economic integration in the area.³⁸

38 Interview with a former UN agencies coordinator in Pyongyang, Paris, September 2014. He said that western countries and some of their allies have collectively vetoed all capacity-building activities in the DPRK, especially SEZs.

2. RAJIN-SONBONG AS A PLAN OF HIGH POTENTIAL

There is a large consensus among scholars and DPRK watchers that Rajin-Sonbong is among the DPRK's high potential SEZs.³⁹ This section will try to show that Rajin-Sonbong has indeed several cards to play in order to attract investment and to bolster trade (and trade-related) activities. Instead of focusing on country-wide comparative advantages (human capital, etc.), I will limit the analysis to zone-specific advantages.

Locational advantages

Rajin-Sonbong is often considered to have high potential because of its locational advantages, the “L” of John Dunning famous “OLI” model.⁴⁰ The latter are threefold: first, Rason is a borderland SEZ; second, it is located on a coastline; and third, it is (or could be) located major trade routes.

Rajin-Sonbong is located on the Northeastern tip of the Korean peninsula, and is the only part of Korea that borders two different countries (China to the north and Russia to the east). In the beginning of the 1990s, when the zone was opened, both countries constituted the most important trade partners of the DPRK, even though Moscow was on the eve of a major historical transformation (Rason opened a few weeks before the official collapse of the USSR). With the new government of the USSR having no interest at all in engaging into “trade” with the DPRK (trade with friendly prices well-under world market prices), the least that can be said is that the opening of Rason was ill-timed: “the fall in imports from Russia in 1991 was equivalent to 40 percent of all imports by the DPRK, and by 1993 imports from Russia were only 10 percent of their 1987–90 average,” writes Marcus Noland.⁴¹ As a result of the collapse of the USSR, during the 1990s Rason saw little Russian involvement.⁴² With the Russian-DPRK ties warming up during the 2000s, and especially after the cancellation of an important part of the DPRK's debt in 2014, the perspectives of Rason regarding the Russian Federation seemed brighter as we will see.

Rason's second neighbor, China, is obviously an extremely important economic partner of the DPRK, as it nowadays is not only the first investor in the country,⁴³ but also by far its most important trade partner with over 90 percent of the DPRK's external trade made with the PRC in 2014.⁴⁴ What's more, Rason and the northern part of North Hamgyong province actually share a border with the Yanbian Korean Autonomous Prefecture, an administrative subdivision of Jilin province whose official language, in addition to Chinese, is Korean. As we have seen, Jilin Province, and Yanbian in particular, is suffering from its remoteness from the mainstream of the Chinese

39 Andray Abrahamian, Geoffrey K. See, and Wang Xinyu, “[ABC of North Korea's SEZ](#),” United States Korea Institute Report (2015).

40 Dunning, John H, “The Eclectic (OLI) Paradigm of International Production: Past, Present and Future,” *International Journal of the Economics of Business* 8 no. 2 (2001): 173-190.

41 Marcus Noland, “[The Political Economy of North Korea: Historical Background and Present Situation](#),” in *New International Engagement Framework for North Korea: Contending Perspectives*, Korea Economic Institute (2011).

42 UNDP, *Rason Investment Guide*.

43 Drew Thompson, “[Silent Partners, Chinese Joint Ventures in North Korea](#),” U.S.-Korea Institute at SAIS report (2009), 29.

44 Rüdiger Frank, “[North Korea's Foreign Trade](#),” *38 North*, October 22, 2015.

economy and especially from the fact that it lacks access to the sea. Dongbei provinces, the Chinese industrial “rustbelt,” do indeed depend mostly on the very busy port facilities in Dalian (Liaoning province, about 900 km from Yanji) in order to reach domestic⁴⁵ or foreign markets like South Korea, given the common cultural background. South Korean companies bolstered Yanbian’s economy over the course of the 2000s, but the area is still lagging behind most other administrative divisions in China.

Paradoxically, Yanbian borders Korea, but locally-manufactured commodities cannot directly access some of their target markets, both domestic and foreign (South Korea, Japan, Europe). On this point, port facilities in Rajin-Sonbong provide important opportunities for Chinese companies based in Yanbian, Jilin, and Heilongjiang, as they would open a much faster trade route. The road from Yanji to Rajin harbor is only 150 km long. Estimates of the savings in both time and money that result from preferring the Rason route widely differ among experts,⁴⁶ but everyone agrees on the fact that, if this “new” trade route is implemented, it will provide a major advantage to Chinese companies: transshipping time from road to boat was said to be four times faster in Rason than in Dalian, for example.⁴⁷

As said above, the Rajin-Sonbong SEZ has numerous ports, but only three of them can host foreign ships.⁴⁸ The biggest one is the one in Rajin. This three-pier port was built by the Japanese colonial power in 1938, and can handle ships that weigh between 30,000 and 40,000 tons,⁴⁹ on nine different berths. Total port capacity is around 5 million tons a year,⁵⁰ but the port is in fact mostly idle, at its busiest time. In 1979, it only handled 800,000 tons a year⁵¹ and only 200,000 tons in 2011⁵². Nevertheless, in 2014, a DPRK-Russia joint venture (RasonKon Trans) and a Russian State-owned company (JSC Trading House RZD) refurbished a wharf in Rajin⁵³ especially designed in order to transship Russian coal coming through the Tumangang-Khasan railroad to ships leaving for foreign markets, including South Korea.⁵⁴ The southernmost pier is leased by a Russian company for 49 years,

45 Ibid. Per a principle known as “*neimao, waiyun*” (内贸外运) or “internal trade, external transport,” businesses in Dongbei provinces aim at exporting goods to Southern China via Rason.

46 The route from Rajin (instead of Vladivostok) to Pohang in South Korea lasts about 36 hours, and saves up about 15 percent in both time and cost. See: “[First Shipment of Russian Coal to be Transported through Rajin to Pohang](#),” *NK Briefs* (2014). The route from South Korea to Europe via Rajin is said to divide shipping time by two and to cut costs by 30 percent. Ducruet Jin, *Rajin-Seonbong*. Lin and Hao explain that the Hunchun-Niigata route via Rason (instead of Dalian) divides terrestrial travel time by ten and maritime travel time by two. See: Lin Jinshu, Hao Fanglong, “长吉图先导区与朝鲜罗先市的经贸合作” [Economic cooperation between Changjitu Pilot Zone and the DPRK’s city of Rason], *Yanbian University Journal of Social Science* 44 no. 2 (2012): 14-18.

47 UNDP, *Rason Investment Guide*, 20.

48 Law of the Democratic People’s Republic of Korea on the Rason Economic and Trade Zone, in *Laws and Regulations of the Democratic People’s Republic of Korea Governing External Economic Matters* (2012). See: article 78.

49 Andray Abrahamian, “[Report on Rason Special Economic Zone, Democratic People’s Republic of Korea](#),” Choson Exchange (2011).

50 Six million tons, per recent DPRK sources. “[Rason Economic and Trade Zone](#),” *Naenara* (see “nature and geography”).

51 Andray Abrahamian, “[The Honeymoon Period is Over: Short Report on Rason Special Economic Zone, Democratic People’s Republic of Korea](#),” *Choson Exchange* (2012).

52 Ibid.

53 Hong Won-choi, “[N. Korea opens Russia-backed wharf in Rajin](#),” *NK News*, July 24, 2014.

54 “[N. Korea improves coal shipment capacity at Rajin port](#),” *Yonhap*, April 27, 2015.

starting in 2008.⁵⁵ The middle pier is used by North Korean and foreign companies, and the northernmost is exclusively used by Chinese companies. This pier has been leased for ten years, starting in 2010 and renovated for 3.6 million dollars by a Chinese company, the Dalian-based Chuangli Group.⁵⁶ The initial deal also included the construction of several additional piers in Rajin, which was canceled in 2012.⁵⁷ As we will see, the port is mainly accessible by road, even if railroad tracks leading to the port exist. The port is equipped with relatively modern cranes, supplied by Yanbian Hyuntong Shipping Group Co., but is only able to load or unload about 6 containers per hour, meaning that if Rajin harbor wants to live up to the zone's potential important infrastructure works will be needed.

The second port in Rason is the one located in Sonbong, and is an oil-specialized port. It has a handling capacity of about 250,000 tons a year and is located close to the Sonbong thermal power plant and the biggest oil refinery in the DPRK, the Seungri Chemical Plant.⁵⁸ This chemical plant was built in 1968-1973 thanks to Soviet investments in this strategic area. The DPRK could refine Siberian heavy oil to be either re-exported to the USSR or foreign markets or use it domestically.⁵⁹

Finally, the third relatively important port of the area is Ungsang, formerly a timber specialized port, which was used extensively during the Japanese colonization and the Cold War (North Korean timber was sent to the USSR in the context of friendlier trade policies). Timber handling capacity of Ungsang port is evaluated at 6 million cubic meters.⁶⁰ In addition, the zone has about half a dozen of smaller ports (most likely fishing ports).

55 Abrahamian, *Report on Rason*, 3. In this report, it is stated that a Russian company invested 1 billion US dollars (quoting a DPRK official).

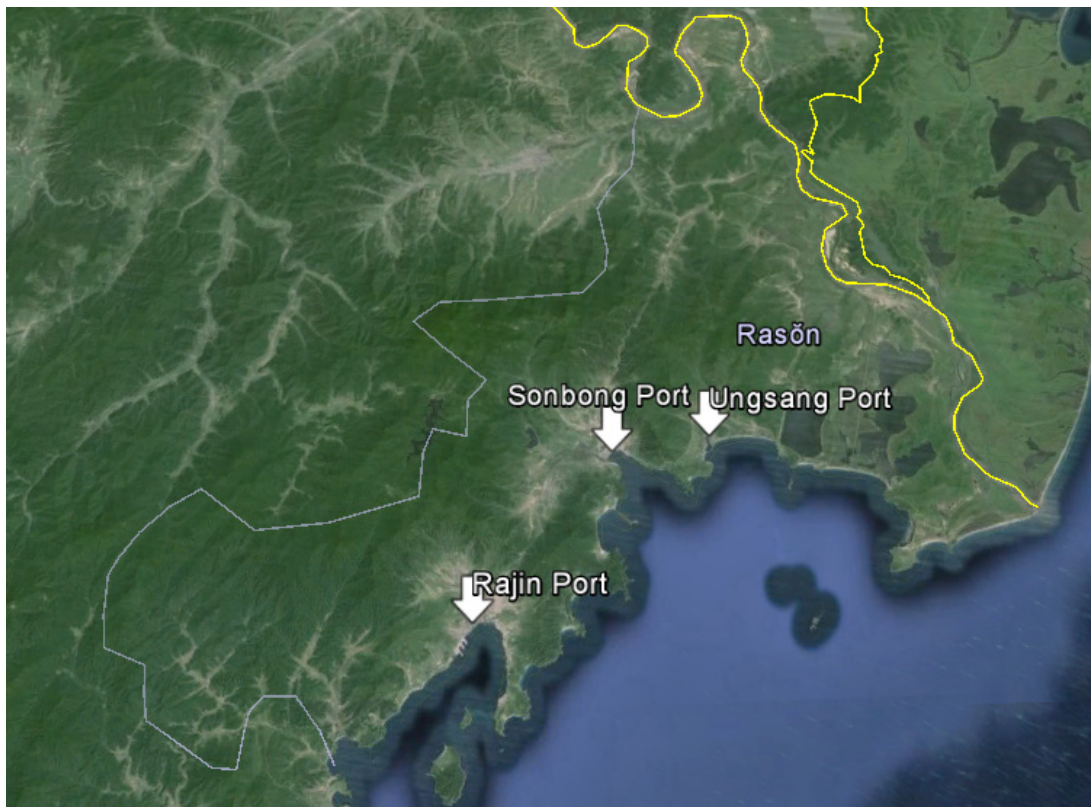
56 "[China's Jilin Wins Use of N.Korean Sea Port](#)," *Chosun Ilbo*, March 9, 2010; "[No Chinese Naval Base in N. Korea, Experts Say](#)," *Defense News*, March 20, 2010; and Lin and Hao, *Economic Cooperation*.

57 Interview with Rason Representatives in Yanji, April 2014 and February 2016.

58 UNDP, *Rason Investment Guide*.

59 Rainer Dormels, "[Profiles of the Cities of DPR Korea – Rason](#)," Universität Wien Research Report (2014).

60 Alan Ferries, "[Introduction to Rason Special Economic Zone](#)" *Sino-NK*, February 2, 2012.



Location of Rason's main ports | Image: Google Earth, 2013

While ports in Rajin-Sonbong are certainly small in scale, especially compared to other world-famous facilities in Vladivostok, Dalian, and Tokyo, they have an extremely strategic importance that go much beyond providing access to the sea to the Chinese hinterland. Rajin-Sonbong is said to have the northernmost year-round ice free port in continental Asia. This fact is of particular importance because it might be much more practical for China to seek access to the sea via Russia instead of Rason, with DPRK-PRC dialogue often complicated by political issues. However, not only are the large Russian ports already quite busy and might be unusable in winter, they also have additional disadvantages for the Chinese. First of all, railway linkages (and thus commodities transfers) are complicated, since China and Russia use different gauge standards.⁶¹ Port infrastructures in Zarubino and Posyet are inadequate and can only deal with very small volumes of cargo (until recently at least) and they suffer from the competition of bigger and more modern ports (Vladivostok, Nakhodka), that have all the infrastructure needed, contrary to Zarubino and Posyet, remotely located.⁶²

Rajin-Sonbong is also located on the fastest route from South Korea to Europe via rail (through the Trans-Siberian railway or the well-worn project of a “Eurasian land bridge”), with the “old” South Korean project of creating an “Iron Silk Road” running from Busan to Moscow being often lobbied by important political figures, most recently

61 The DPRK also uses Chinese gauge, except for its Rajin-Khasan (Russia) railway.

62 In 2004, for example, Zarubino could only handle 1.2 million tons of cargo, and Posyet slightly more (1.5 million). Tsuji, *The Tumen River Area Development Programme*; “China, Russia, to build port near North Korea,” *ECNS*, November 9, 2014. The renovation and upgrading of port facilities in Zarubino has been announced with the overly optimistic objective of multiplying cargo handling capacity by almost 50. To my knowledge, nothing suggests that actual construction is on the way.

Russian President Vladimir Putin.⁶³ In addition, in the more general framework of the Chinese “one belt, one road” initiative (一带一路; *yidaiyilu*) Rason would also be China’s logical pick when trying to connect the economically depressed Yanbian prefecture to South Korea and other foreign markets.⁶⁴ Finally, as the northernmost year-round ice-free port in continental Asia, Rason is also in a front seat for an event that is highly anticipated by political and business circles: the opening of Arctic routes. Indeed, while port facilities in Rason can certainly not, for the moment, accommodate icebreakers that are able to cross the Bering Strait and the Arctic ocean, the PRC, most important exporter to Europe, is preparing for the opening of Arctic routes.⁶⁵ In fact, China is the first non-polar actor to build an icebreaker, the *Xuelong* (Snow Dragon). South Korea, a major player in the shipbuilding sector, is also looking for opportunities in the Great North, and recently built one of the most modern icebreakers in the world, the RV Araon. If Arctic routes are opened for freight someday, it will be a major shift for China (whose exporting industries are traditionally located on the southern coast), and will give a definite impetus to the *Dongbei*’s economic development, as well as the entire NEA area, and thus increase the need to find a window on the Eastern sea. As a matter of fact, test-runs have already been made in 2013 (leaving from Ust-luga in Russia to Rajin),⁶⁶ raising even more the expectations on Rajin-Sonbong. Jin et al., in 2007, explain that shipping goods from Hunchun to Europe via the Arctic instead of via the Suez canal would cut in half both time and distance.⁶⁷

Despite these important locational advantages, Rajin-Sonbong is still a remote, scarcely populated area. The zone itself counts less than 200,000 inhabitants,⁶⁸ with about half of them being considered as active population. While this figure reveal an important increase if compared with the demographics at the time of the opening of the SEZ, it remains far behind the announced objectives of 350,000 inhabitants, not to mention the vaguer ultimate purpose of creating a new one million people growth pole in Northeast Asia. As mentioned before, Rason is an exception in the North Korean economic landscape, with little linkages with other national productions centers, but growing linkages with neighboring countries. It seems that the DPRK authorities have been trying to keep it that way, going as far as fencing off the SEZ, which *de facto* limits potential positive and negative spillovers. When Rason was opened, Hunchun and most territories inside Primorsky Krai were also quite isolated, or to say the least inward-oriented: they were opened to foreign investment after Rajin-Sonbong. The acceleration of the transformation of the Chinese economy after 1992-1993 raised the stakes for Rajin-Sonbong as a SEZ (hence the opening of Hunchun at that time), and thus the need for better cross-border transportation linkages and infrastructure in the area.⁶⁹

63 Katherine Burns. “Subregional Power and Regional Integration: the case of Tumen River Development,” *The Massachusetts Institute of Technology Japan Program Report* (undated); Funabashi, *The Peninsula Question*, 460; [“Putin lobbies for ‘Iron Silk Road’ via N. Korea, hopes political problems solved shortly,”](#) *Russia Times*, November 13, 2013.

64 “珲春市与东北亚各国间的‘互联互通’再升级” [Hunchun city upgrades again its connexions with other countries in Northeast Asia], *Xinhua*, June 25, 2015.

65 Cécile Pelaudeix, “China’s interests in the Arctic and the EU Arctic policy: towards a proactive EU foreign policy?” *The Yearbook of Polar Law* 7 (2016).

66 Mia Benett, [North Korea and the Northern Sea Routes](#), *Cryopolitics* (2014).

67 Jin, *Rajin-Seonbong*.

68 Abrahamian, *Short Report*. Per Alan Ferries, the population of the zone is about 170,000. Ferries, *An Introduction*, 1.

69 Barry Naughton, “A Political Economy of China’s Economic Transition,” in Loren Brandt and Thomas G. Rawski (eds.), *China’s Great Economic Transformation* (University of Toronto, 2008).

Additional advantages

Besides locational advantages, the Rason SEZ has additional cards to play to attract foreign investments. Indeed, local authorities in Rason have been implementing different preferential policies to lure in foreign companies in Rason (with limited but existing success).

First, as anywhere in the DPRK, Rason has a pool of cheap and high-quality labor. Contrary to most other Asian countries, unskilled workers in Rason work on a 6 days/48h⁷⁰ per week basis for \$80 dollars a month,⁷¹ plus potential benefits.⁷² These figures represent the amount that is transferred from companies to the DPRK authorities, with the share of the wage that is not socialized remaining a well-kept secret. It should however be noted that the minimum wage in the zone is to be decided by the zone's People's Committee, in consultation with the zone's management committee (technically speaking without interference from Pyongyang).⁷³ Surprisingly, contrary to Kaesong, the minimum wage does not seem to have increased since at least 15 years (or marginally). What's more, there is no additional rule on salaries besides minimum wage; forms of employment, wage standards, and form of payment are left to the enterprise's discretion.⁷⁴ On the other side of the border, Chinese borderlands, businessmen sometimes have difficulties to hire workers⁷⁵ (especially for unqualified jobs, perhaps due to the cultural importance of education among the Korean Chinese of Yanbian) leading wages to rise. Minimum wage in Yanji and Hunchun is currently around \$210 a month, 2.5 times more than inside the Rason SEZ.⁷⁶

As anywhere in the DPRK, the manpower in Rason is well-educated, with specific *ad hoc* education centers located inside the zone, most notably the Rajin University of Maritime Transport. This university, located less than a kilometer north from Rajin harbor, is rumored to be former Prime Minister (and long-time minister of marine transport) Kim Yong-il's *alma mater*. What's more, it is (or maybe was) also home to a local business school, the Rajin Business School⁷⁷, likely tasked with educating future managers of the zone, and an agricultural university in Sonbong.

Rajin-Sonbong also has quite substantial natural resources, even if the zone is not the most resourceful part of the country. The zone has important potential for timber (with the forest cover encompassing 67 percent of the zone, which tends to be quite rare in the DPRK), construction materials like sand, granite or gravel, and, most notably, sea food. As mentioned at length by Kim Il-sung as well as foreign experts, the DPRK territorial waters have great

70 UNDP, *Rason Investment Guide*.

71 Abrahamian, *Short Report*.

72 Contrary to Kaesong, I could not find any detailed information on wage benefits such as overtime pay, potential incentives, etc.

73 Law of the Democratic People's Republic of Korea on the Rason Economic and Trade Zone, in *Laws and Regulations of the Democratic People's Republic of Korea Governing External Economic Matters* (2012). See: article 50.

74 Ibid. See: article 37.

75 Lin and Hao, *Economic Cooperation*, 15. Businessmen in the zone confirmed that it was sometimes hard to enroll workers in Yanbian, some of them even thinking about closing all their businesses in Yanbian and to focus on Rason.

76 “[延吉珲春最低工资标准1380元/月](#)” [Minimum wage in Yanji and Hunchun set at 1380 yuan a month], *Yanbian Ribao*, December 2, 2015.

77 Ferries, *An Introduction*, 1.

potential for fishing, but the productivity of the North Korean fishing sector is very low, suggesting that there is room for improvement and thus economic potential. In addition to Rajin, Sonbong, and Ungsang SEZs, Rason has several small fishing ports with most likely a quite small output but that could be used to develop the local seafood sector.



Small fishing port in Sinhae-dong, Rason SEZ. | Image: Théo Clément, 2014

As explained by the UNDP, there are important deposits of more “strategic” resources like coal, ores, magnesite, and ceramic clay, in areas neighboring the zone, which can be “exported” to and processed in Rason. However, the latest version of the Rason ETZ law (2011) states that imports of raw materials from the DPRK to Rajin-Sonbong have to be negotiated not with local partners but directly with Pyongyang (article 47), whereas raw materials from abroad can be imported without any tax duties (article 50), surprisingly providing an incentive to import raw materials instead of using local resources.

Preferential policies and privileged business environment

What makes a Special Economic Zone is the fact that in a particular area, trade- and investment-related laws provide a different (most of the time preferential) treatment than the rest of the country. Rason is no exception to the rule, albeit SEZs in the DPRK have the particularity that the prices of labor are often higher in a SEZ than in the rest of the country.⁷⁸ Since 1984, the DPRK has been continuously developing its legal framework related to investment, and Rajin-Sonbong seems to have been the focus of a attention from North Korea’s Supreme People’s Assembly: as of 2016, the law on Rason has been amended no less than six times since the opening of

⁷⁸ Several Chinese entrepreneurs investing in the DPRK have explained that the wages they give to the DPRK administration does not exceed \$60 a month, versus \$80 in Rason.

the SEZ.⁷⁹

Drawing analytical conclusions from the DPRK's laws is a tricky exercise. Indeed, as lawyers and jurists have already pointed out, not only the wording to the law is often vague and short of details, but the actual implementation of the law also needs to be questioned. However, contrary to a common belief, the example of China, the world's largest FDI receiver, disproves the theory according to which secure rights provided by the legal system are a *sine qua non* condition for receiving FDI: the PRC's economy-related laws are also considered by experts not to "provide a secure system of property rights."⁸⁰

Towards increased legal security?

What is now known as the DPRK Law on the Rason Economic and Trade Zone ("the Rason law") was adopted on January the 31th 1993, more than a year after the opening of the Rason SEZ, under the name of "Foreign Investment Law." Until the Rason law was adopted by the Standing Committee Supreme People's Assembly, the law that applied to Rajin-Sonbong was the ill-adapted 1984 Joint-venture law (JVL). While the fact that Rason was open to foreign investment in such a vague legal context did certainly not help the SEZ in its quest for foreign currency and technology, the cause for this delay is quite interesting. It seems that the Supreme People's Assembly did not adopt any new investment-related legal norms before the beginning of 1992 because the DPRK constitution (adopted in 1972) simply did not allow it.⁸¹ On the 9th of April 1992, the Constitution was amended, with, among others things, the addition of the Article 37,⁸² legally allowing foreign businesses to invest in the DPRK. Somewhat paradoxically, this would mean that Pyongyang delayed the adoption of a law until more than one year after the opening of the SEZ in order to increase the legal security of investments. If not directly contradictory, the fact that FDI was allowed in the DPRK since the JVL in 1984, but was not recognized in the Constitution, created "legal grey areas" and undermined the credibility of the North Korean legal system in general. More practically, it could potentially scare off investors. This point is of importance as, if we follow Zook's distinction between a liberal democratic legal system and North Korea's one, the 1992 constitutional reform must be considered as a step away from the DPRK traditional legal practice; the fact that the constitution had to be altered in order to adopt new laws (while formerly the contradiction of different legal norms was not considered an issue) show that in the DPRK, for trade and investment-related issues at least, "political policy and practice must work within the legal parameters established by the constitution [...] to be legitimate."⁸³ In this case, the 1992 constitutional modification marks a step towards a liberal "democratic legal system,"⁸⁴ and thus a stretch from traditional DPRK

79 In 1999, 2002, 2005, 2006, 2010, and 2011.

80 Clarke Donald, Murell Peter, and Whiting Susan, "The Role of Law in China's Economic Development," in Brandt and Rawski (eds.), *China's Great Economic Transformation*, 400.

81 Lee Yong-joong, "Development of North Korea's Legal Regime Governing Foreign Business Cooperation: A Re-visit under the New Socialist Constitution of 1998," *Northwestern Journal of International Law & Business* (2000): 199-242. The 1992 laws are the laws on equity joint ventures, contractual joint ventures, and foreign enterprises.

82 Ibid., 208.

83 Zook, "Reforming North Korea: Law, Politics, and the Market Economy," 135 and 141.

84 Zook's dichotomy of "democratic political systems" and "socialist systems" is however quite vague and only based on the role of the constitution among other legal and political institutions.

practices. This very cautious approach might surprise in the context of the DPRK and its chronic legal insecurity regarding foreign investment, even nowadays, but it can be understood if we consider the fact that under the 1984 law, disputes had to be taken to local courts,⁸⁵ and not international ones, as it has become standard elsewhere in the world. As we will see, arbitration procedures have dramatically changed since then.

The Rason law was amended no less than six times since 1993, most often shifting towards increased decentralization and less strict constraints on foreign investors. Of course, it should be said that even if the DPRK had the most liberal and business-friendly laws in the world, the political context still certainly constitutes the most repealing element for potential investors. However, it should be noted that the Supreme People's Assembly (SPA) has made extensive efforts in order to provide preferential policies to foreign investors, especially in the latest version of the law, in 2011. As this version equals to a complete makeover of the law (45 articles divided in 7 chapters in 2010 vs. 82 articles and 8 chapters in 2011), we will only focus on a few meaningful changes in the context of our study.

Increased decentralization

In Rajin-Sonbong, 80 percent of the decision-making is said to be done locally, with the remaining 20 percent transferred to the Central Guidance Authority of SEZs (CGA), located in Pyongyang. Before the 2011 revision the responsibilities were split between the CGA and Rason People's Committee (RPC), which were both considered executive organs of the State,⁸⁶ respectively central and local. The CGA had extensive responsibilities, including the review of application of "major investment projects,"⁸⁷ but its involvement in Rason was diminished in the 2011 version, where the CGA's legal competence does not go beyond the selection of the screening criterion for investment projects, but not the projects themselves. In the latest version of Rason law, the CGA mostly has a coordination role with the rest of the DPRK's economy: as we explained a few lines above, foreign companies in Rason interested in using DPRK raw materials from outside the zone should first contact the CGA in Pyongyang. Of course, the CGA is also responsible for organizing forward linkages with the rest of the DPRK economy, providing support to foreign companies established that wish to target DPRK markets.⁸⁸ Contrary to the 2010 version, the role of the CGA regarding foreign partners is limited to establishing dialog with foreign partners, but not with foreign companies: as we said, until 2011, the CGA was tasked to screen applications for investment in the zone, and had to notify the results to the Rason People's Committee.⁸⁹ In the 2011 version, the whole application screening process is performed locally. Because of these measures, the delays upon reception of an application have been dramatically shortened: in 1998, potential foreign investors were notified the results of their applica-

85 Ibid., 203.

86 Law of the Democratic People's Republic of Korean on the Rason Economic and Trade Zone (2010). See article 6. (Hereafter "Rason Law (2010)")

87 Ibid. See: article 10.

88 Ibid.

89 Rason Law (2010). See: article 11.

tions within 50 days (80 days for wholly foreign-owned companies), whereas since 2011 it only takes 10 days.⁹⁰

Stricter separation of political and administrative aspects

The RPC's responsibilities also dramatically declined. The RPC is a political organ, and worked as a local executive branch, under the supervision of the CGA. It was tasked with relatively sensitive issues including, among others: Preparing rules for the implementation of the Rason law, assist investors in hiring workers, preparation and execution of the Zone's budget, screening of investment application,⁹¹ protect public order and property, "handle matters related to registration, licenses and categories of businesses," lease or transfer land and building, provide services for construction of buildings or infrastructures, and, "do other work entrusted by the State."⁹² The contrast with the 2011 version is total, with the RPC's role being reduced to preparing rules for the implementation of the law, providing workforce to foreign-invested companies, and carrying out work assigned by the CGA. The fact that the 2011 version explicitly mentions the CGA and not "the State" is revealing: the main purpose of the 2011 Rason law is to reassure investors by preventing interference in business affairs in the zone. People's committees being political organs, their role regarding business investment were diminished. As we have seen, Pyongyang's involvement in the zone was also reduced, and the fact that the CGA, and not, much more vaguely, "the State," is mentioned, seem to be an attempt at establishing stricter boundaries between (sometimes competing) DPRK institutions, to generate more legal security, or the illusion of it. In this regard, we should also notice that the very vague first article of the 2010 version of the Rason law (more of a political declaration than a law article), has been replaced by a much less optimistic sentence on the 2011 version, emphasizing legal security and "hard law":

Article 1 (Objective): This Law is enacted to provide strict guidelines for the development and management of the Rason Economic and Trade Zone, thereby contributing to developing it into an area of international transit transport, trade, investment, financing, tourism and service.⁹³

Since the responsibilities of both the RPC and the CGA have been diminished, the 2011 version of the Rason law created an additional organ, which is at the same time a local organ and only concerned with trade or investment-investment related issues. The CGA was seen as the visible hand of the State in local business affairs, and the Rason People's Committee's extensive powers were seen as a potentially unhappy marriage between local politics and business matters. The 2011 version of the law thus stipulates that the organ in charge of the management of the zone is the "management committee" (MC). The competence of the MC is manifold, and it is most likely

90 UNDP, *Rason Investment Guide*, 11; and Law of the Democratic People's Republic of Korea on the Rason Economic and Trade Zone (2011). See: article 37. (Hereafter "Rason Law (2011)").

91 Since "major projects" were screened by Pyongyang (CGA), it suggests that the RPC's screening role was centered on smaller-scale ventures.

92 Rason Law (2010). See: article 13.

93 Rason Law (2011). See: article 1. Emphasis mine.

designed to be the privileged interlocutor of foreign businesses inside the zone. The MC oversees preparation of rules required for the development and management of the zone, as well as attracting foreign investment and approving business applications (for projects located inside industrial parks).⁹⁴ It is also tasked with other practical but crucial responsibilities, including movement of personnel and goods in/outside the zone, financial matters, establishing a list of priority sectors (which is particularly important as investments in top-priority sectors benefit from additional tax cuts), but also limitation and prohibition of investments in some other sectors.⁹⁵ To put it in a nutshell, the MC is tasked with all that matters for investors, and is the result of an attempt by the Zone's local authorities to create a purely administrative interface with foreign investors in the zone, even if the MC is a sub-committee of the RPC (article 14) and responsible in front of the CGA (article 29). Another limitation regarding the MC is that the law provides additional details on its composition, but not how members are selected.

Commitment to market principles and international standards.

It may seem paradoxical to consider an SEZ with a “commitment to market principles” as a form of preferential policy. However, in the case of the DPRK, a socialist country, the explicit reference to market principle as a management guideline is not only a preferential policy but quite an ideological upheaval.⁹⁶ The reference to the market was introduced in the 2011 version, a move that alone says a lot about the complete makeover that happened to the Rason law between 2010 and 2011, and the fact that the authorities in Rason (or maybe in Pyongyang) seem to be always going further in terms of “reform.” For sure, the market principles that are supposed to drive the economy in Rason have a distinctly relative impact on the actual business environment of Rajin-Sonbong, but an ideological Rubicon has been crossed. The zone admittedly has important markets (one in Sonbong, one in Wonjong, right at the border, both flooded with foreign products) but these markets are ubiquitous in the DPRK⁹⁷ and Pyongyang has been using markets to better allocate resources since the founding of the country.⁹⁸ In fact, as always with trade and investment-related laws in the DPRK, “market principles” only apply to foreign companies and certain categories of products: as everywhere else in the DPRK, basic commodities are heavily subsidized and basic public services are mostly free of charge at the point of use. However, while the 2010 version of the law stated the RPC could arbitrarily fix the price of some goods,⁹⁹ the most recent amendment adds that in case a foreign-invested company suffers from what could be considered an exemption to the “market principles” of the zone, it shall receive a “monetary compensation.” From this perspective, it is not surprising that DPRK zone managers have shown little interest in attracting investments in the country's public services.¹⁰⁰ Basically, “markets principles” guide the business environment of the zone just so long as they do not touch upon the remit of local or central authorities. As often in the DPRK, business-related legal dispositions are vague, opaque, and

94 Ibid., article 37. For projects outside industrial parks, the RPC is competent.

95 Ibid., article 27.

96 Ibid., article 23.

97 Benjamin Katzeff Silberstein, “[Growth and Geography of Markets in North Korea, New Evidence from Satellite Imagery](#),” US-Korea Institute (2015).

98 Kim Il-Sung, “Conclusions énoncées lors de la 30ème session plénière du Conseil des Ministres de la RPDC” [Conclusions formulated during the 30th plenary session of the Minister Council of the DPRK], Œuvres (1986).

99 Rason Law (2010). See: article 25.

100 Choi Hyung-kyu, “[Pyongyang woos foreign investors](#),” *Joongang Daily*, September 22, 2014.

the actual implementation of market principle is likely to be very limited (to some actors, some sectors, and/or some commodities). Nonetheless, the fact that DPRK lawmakers chose to use these specific terms should not be underestimated: business practices in Rason evolve in a very slow and incremental fashion, but the authorities are showing signs of increasing ideological boldness. This can also be explained by the fact that lawmakers in Rason (Pyongyang and Sinuiju)¹⁰¹ increasingly consult with foreign experts on these issues.¹⁰² Besides market principles, article 23 of the 2011 Rason law also enshrines the reference to “objective laws of the economy,” an additional stretch from orthodox socialist economic thinking.¹⁰³ The term “objective,” likely chosen to insist on the fact that management of the zone shall be made with no reference to politics and ideology (as it is customary to do in most parts of the world), would be considered, from a standard Marxist perspective, as pure *ideology*. It is however not rare to find this type of ideological pragmatism in North Korean political and academic literature.¹⁰⁴

Another important evolution of the Rason Law made to provide a preferential treatment to trade and investment activities is the increased attention paid to international practices. The borrowing of foreign concepts and legal norms is especially important for us to consider, not as a measure of foreign influence, but as a measure of the DPRK’s willingness to adapt its own internal norms to better interact with the outside world. While this might seem “normal” to anyone familiar with SEZs, it constitutes the traversing of an ideological watershed for North Koreans: per the epistemological framework of Marxists economic thinkers like Samir Amin, who provided a fascinating formalization of *Juche* using Western concepts, this move is a stretch from traditional economic policies of the DPRK. To put it in Amin’s words, increased attention paid to international standards and practices, like in Rason, contradicts former economic cooperation patterns, in which “external relations are submitted to internal choices without any references to capitalist rationality.”¹⁰⁵ Clearly, in Rason, the DPRK’s law is influenced by foreign capitalist rationality, and to put it more bluntly, Pyongyang is not trying to impose its own terms on external exchange, but rather accepts dominant global norms.

Besides “market principles” and “objective laws of the economy,” article 23 of the Rason law also states that the authorities of the Zone shall refer to “international practices.” In the typically vague, imprecise and opaque wording of DPRK SEZ laws, the article does not provide additional details. But other elements of the law provide additional details: with the notable exception of subsidized products, goods and services exchanged inside or “exported” outside the zone must be priced with reference to international prices, for example. Once again, the idea is that the DPRK State has no say in the pricing of the products; pricing of “basic consumer goods such as food” by

101 Guan Shan, *Kim Jong-il’s Godson: From Orphan to Sinuiju SAR Chief* (self-published, 2009).

102 Lin and Hao, *Economic Cooperation*, 16.

103 Karl Marx, *Introduction to a Contribution to the Critique of Political Economy* (London: Lawrence and Wishart, 1971). See the first chapter, “Production.”

104 Kim Il-Sung, “On eliminating dogmatism and formalism and establishing *Juche* in ideological work, Speech to Party Propagandists and Agitators,” *Selected Works* (1955): 582-606. This speech is known as the famous “*Juche* speech” and includes a surprising Deng Xiaoping-like sentence by the Great Leader: “It does not matter whether you use the right hand or the left, whether you use a spoon or chopsticks at the table. No matter how you eat, it is all the same insofar as food is put into your mouth, isn’t it?” and Jon Sung-chim, “To introduce the International Standards is a Main Requirement to Increase the Exports,” *Kim Il-sung University Journal of Social Science* vol. 2 (2014).

105 Amin, Samir, *La Déconnexion, Pour sortir du système mondial* (Paris: La Découverte, 1985).

the RPC at heavily subsidized prices are an *exception* to the rule and foreign-invested companies suffering from these market disturbances are technically eligible for financial compensation.

In some cases, the contradictions between the adoption of international standards and the sovereignty of the North Korea State are too strong, and it seems that, in those cases, DPRK lawmakers chose to remain cautious and stick to the golden rule of “submission of external exchanges to internal political choices.” Dispute settlement is one example: while the 2010 version of the Rason law did not provide enough specifics on how to settle business-related disputes in the zone, the newer version stipulates that disputes can be settled either by local or central authorities, by mediation, or by arbitration.¹⁰⁶ The latter is interesting because, in most parts of the world, and especially in SEZs, business-related disputes are often settled either in a court of a third country upon which both parties to the dispute agree, or via a third-party international organization like the World Trade Organization Dispute Settlement Body (DSB). These methods are technically possible in the DPRK but if, and only if, *both parties agree* on the settlement method of dispute, ultimately giving the DPRK the upper hand, as pointed out by Zook:

In other words, if North Korea wanted to assume jurisdiction, it could simply refuse to cooperate in the consultation, ensuring failure, and also refuse to agree on a third country, leaving arbitration through DPRK institutions as the only option for an aggrieved foreign party.¹⁰⁷

Even if the DPRK lawmakers can sometimes cross or circumvent ideological redlines, or try to make compromises to get closer to international standards (showing that they are fully aware of what foreign investors are expecting from the DPRK’s SEZs), they also choose to remain cautious when it comes to key issues that could hurt the country’s interest.

Preferential policies towards investment

Just as the 1984 law is said to have been modeled on China’s own JV law of 1979, the Rason law, and SEZs-related laws of the DPRK in general, also closely follow legal norms in China. Regarding preferential policies aimed at attracting investment, the SEZs in the DPRK have almost everything in common with SEZs in China and around the world, providing quite complex tax-cuts regimes, reinvestment incentives, tariffs dramatically lowered or duty-free imports of products. In the DPRK’s case, differences with other countries are to be found, once again, in the lack of concrete provisions for implementation and the idiosyncratic characteristics of the DPRK economy: article 66, for example, explains the DPRK authorities *encourage* trade activities in the zone, but does not provide any additional preferential provision.¹⁰⁸ As a matter of fact, what they do is not encourage

106 Rason Law (2011). See: chap. 8, articles 80, 81, 82, and 83.

107 Zook, *Reforming North Korea*: 160.

108 Rason law (2011). See: article 66.

but *allow* trade activities with local or foreign partners. The same could be said about article 75, which explains that modern communications devices can be used in the zone (but do not clearly state if they can be used to make foreign calls), or the quite peculiar article 74, advertising the nice environment of the DPRK but not dealing with legal matters.

Enterprise tax, in Rajin-Sonbong, is 14 percent of the net profit, strategically lower than in most Chinese economic zones,¹⁰⁹ where investors can benefit from a 18 percent tax rate.¹¹⁰ The same could be said of strategic investment in “top priority sectors” (most often high technology) where both China and the DPRK offer an even lower tax rate (10 percent),¹¹¹ but in the case of China, it only applies for the first ten years.¹¹² Chinese economic zones and Rason also share incentives to attract lasting, long-term investment, but the Chinese laws are much more precise: if investments are made on a minimum 10 year-period, the foreign-invested company shall be exempted for the two first years after the first year of profit, and get a 50 percent discount on the normal rate for the following three years. In contrast, article 68 of the Rason law only states that companies operating for at least ten years can benefit either from exemption or from reduction of enterprise income tax, referring to unspecified “relevant regulations” for the specifics. The same could be said on additional tax cuts provided if foreign-invested companies plan to reinvest profits locally, with similar mechanisms existing in both countries.

Rajin-Sonbong also provides businessmen preferential policies regarding tariffs and customs duties, but regarding these important issues the Rason law could not be vaguer, and certainly cannot be compared with legal provisions of Chinese economic zones, which have been criticized for their high degree of complexity. Article 53 of the Rason law only explains that “preferential tariff system shall be introduced in the Zone,” but stops short of giving additional details, *de facto* providing central authorities (namely, the SPA) *carte blanche* in interpreting and implementing this “preferential tariff system.”¹¹³

Rajin-Sonbong has ideal geographical advantages, and the DPRK leadership is trying to make it even more attractive to foreign investors by creating a more business-friendly environment, at least by local standards. As noted, in comparison to SEZs in Asia or elsewhere in the world, these reform and opening policies are lukewarm, even though they directly contradict the dominant economic discourse of the DPRK (“market principles”). They are not lukewarm in the sense that they are not “liberal” or “capitalist” enough, but they are intentionally vague, limited in scope and thus do not constitute a *reform* of the DPRK traditional policies *per se*, even if, to some extent, they try to look like it: reference to market principles and international practices *de jure* creates a dual-track economic system, capitalist for foreigners, socialist for DPRK citizens. As a matter of fact, Pyongyang is willing to go as far

109 By economic zones, we refer to the different kinds or areas where specific regulations apply (SEZs, Open Coastal Cities, etc.).

110 Wanda Tseng and Harm Zebregs, “[Foreign Direct Investment in China: Some Lessons for Other Countries](#),” *IMF Policy Discussion paper* (2002).

111 Rason law (2011). See: article 67.

112 Hainan island is an exception, with even lower tax rates to attract infrastructure development.

113 Rason law (2011). See: article 53. As the second appendix of Rason law (2011) explains, “Interpretation of this Law shall be provided by the Presidium of the Supreme People’s Assembly.”

as it can just so long as it does not contradict any of its core policies: external exchanges can only be submitted to internal accumulation. There are clearly very bold aspects to the opening of Rajin-Sonbong to FDI, but the DPRK State chose to protect itself from potential negative spillovers, including the use of national resources to support foreign investors' activities in the zone. Economically speaking, the DPRK can only win from this opening. While this attitude certainly limits the extent of the "success," if quantitatively measured in investments, of opening strategies, it does not entirely prevent it, at least not per tenets of this pattern of development. Non-policy-related hurdles, on the other hand, might prevent the further success of the Rason SEZ: while we are clearly dealing with a high-potential zone, even by local standards, results to date have been mixed at best.

3. RAJIN-SONBONG: MIXED RESULTS

Most assessments of the Rajin-Sonbong SEZ vary between failure and, at best, modest success. If considered against international standards, there is indeed much room for improvement. If compared with other SEZs in the DPRK, or with levels of investment and trans-border economic integration of North Korea in general, Rason has made substantial breakthroughs. As often with the DPRK, investment and trade figures are scarce and not necessarily reliable, but since (legal) interaction with foreign actors in Rason is much more frequent and “institutionalized” than anywhere else in the country (with the notable exceptions of Kaesong and Pyongyang), statistics of economic activities in Rason are relatively “easier” to gather. It does not, however, mean that the assessment of the Rason SEZ is simpler to do, first because the objectives of SEZs in the DPRK seems to differ greatly from those of other economic zones elsewhere, especially the ones in China; second, because key objectives of SEZs in general, like technology or knowledge transfers (and their diffusion to the rest of the national economy), are not measurable and do not appear in statistics. Thus, we need first to consider what the initial objectives of the zone were before we try to understand to what extent it succeeded or failed.

When the DPRK opened the Rajin-Sonbong Free Economic and Trade Zone, in 1991, its domestic economy was facing important difficulties; challenges that had appeared during the 1960-1970 period but also external shocks like the collapse of the Socialist bloc and the incremental change of attitude from Beijing. The DPRK had defaulted on its external debt and had almost no access to international finance, except through rarer and rarer loans from the USSR or the PRC. Even at friendly prices, the DPRK has tremendous difficulties in importing goods from abroad as it was not able to produce internationally competitive goods to export. As explained by World Bank economists Thomas Farole and Gokhan Akinci, SEZs are often established to achieve the following objectives:

1. To attract foreign direct investment (FDI): Virtually all zones programs, from traditional EPZ to China’s large-scale SEZs aim, at least in part, to attract FDI.
2. To serve as “pressure valves” to alleviate large-scale unemployment: The SEZ programs of Tunisia and the Dominican Republic are frequently cited as examples of programs that have remained enclaves and have not catalyzed dramatic structural economic change, but that nevertheless have remained robust, job-creating programs.
3. In support of a wider economic reform strategy: In this view, SEZs are a simple tool permitting a country to develop and diversify exports. Zones reduce anti-export bias while keeping protective barriers intact. The SEZs of China; the Republic of Korea; Mauritius; and Taiwan, China, follow this pattern.
4. As experimental laboratories for the application of new policies and approaches: China’s large-scale SEZs are classic examples. FDI, legal, land, labor, and even pricing policies were introduced and tested first within the SEZs before being extended to the rest of the economy.¹¹⁴

114 *Special Economic Zones, Progress, Emerging Challenges, and Future Directions*, ed. Thomas Farole and Gokhan Akinci (Washington, DC: The World Bank Press, 2011), 4.

This very standard definition only marginally applies to our study case, Rajin-Sonbong. The Rason SEZ was certainly established to attract FDI, but never suffered large scale unemployment. If anything, employment of DPRK workforce (allocated by the Pyongyang) is a mean to obtain more hard currency, but not to solve employment issues: as in any socialist country, an economic slowdown does not result in lay-offs, but in wasted workforce.¹¹⁵ Objectives 3 and 4 are more difficult to apply to Rason because Rason was not originally part of a “wider economic reform strategy” (item no. 3), and saying that it constitutes an “experimental laboratory for the application of new policies” would be reading the crystal ball: if many other zones have appeared since the opening of Rason (under new sets of rules), the rest of the country does not yet comply with the same economic rules. Originally, when Rason was still part of the TRADP, the objectives were to use FDI in the zone to turn Rajin-Sonbong into an international and transit trade, manufacturing and tourism hub.¹¹⁶ Of course, the DPRK needed hard currency and the zone is ideally located for the development of logistics-related activities and transit trade. But on the other hand, Rason was opened as a 621 km² (746km² now),¹¹⁷ and encompasses much more than port facilities: development of the local industrial sector was also on the agenda. Local industry, as anywhere else in the DPRK, needed two kinds of investment: capital and technology. Earlier versions of the Rason law actually allowed investment in the zone under extreme constraints regarding technology transfers, not only by screening investment projects based on their technological status,¹¹⁸ but also because investment project applications had to include the “details of industrial property rights, technological know-how to be contributed.”¹¹⁹ In other words, not only foreign investors had to “contribute” technology to local companies, but they actually had to prove that it would happen even *before* the projects took shape. More recent legal norms of the DPRK, like the Regulations on the Implementation of the Law on Foreign-Owned Enterprises (not applying to Rason), go even further, stating that:

A wholly foreign-owned enterprise may be established in certain economic sectors only if it fulfills at least one of the following conditions:

(1) it supplies high-technology or other up-to-date technology; (2) it produces internationally competitive goods; or (3) it will improve the quality of existing DPRK products up to international standards.¹²⁰

115 One example in Rason could be the “Sungri” (승리; *victory*) oil refinery in Sonbong and its 800 workers, basically idle. Ferries, *An introduction*.

116 UNDP, *Rason Investment Guide*, 2.

117 Cotton, James, “The Rajin-Sonbong Free Trade Zone Experiment: North Korea in Pursuit of New International Linkages,” Working Paper 1996/9 (1996). Parts of Undok county and Wonjong village were incorporated into the zone in 1993, in preparation for the establishment of the visa-free zone. Including Wonjong in Rason allows direct access from China via Wonjong bridge.

118 Article 6 of Rason Law (2011) explains that projects that are “economically and technically outdated” shall be prohibited or restricted in the zone. See Rason law (2011), article 6.

119 UNDP, *Rason Investment Guide*.

120 Zook, *Reforming North Korea*, 162.

As I explained in the introduction to this chapter, the development of Rason has seen several different stages in sync with either domestic or foreign developments. The collapse of the USSR and progressive withdrawal of the UNDP both played their parts in preventing the Rason SEZ from taking off. The outbreak of the *Arduous March* in the middle of the 1990s was also detrimental to the success of the SEZ. At the end of the 1990s, Rajin-Sonbong paradoxically enjoyed the most strategic locational advantage in the region but received only very limited investment compared with other parts of the Tumen River Area:

Foreign Direct Investment in the Tumen River Area (actually implemented)

(unit: million dollars)

	1985-93	1994	1995	1996	1997	1998	1999	2000	2001	Cumulative
Yanbian Pref.	42	61	78	134	95	47	33	29	32	551
Rajin-Sonbong	1	1	4	31	26	25	NA	NA	NA	88
Primorsky	141	2	53	97	95	56	54	78	66	642
Total	184	64	135	262	216	128	87	107	98	1,281

Source: UNDP Tumen Secretariat

TSUJI Hisako, 2004, The Tumen River Area Development Programme: Its History and Current Status as of 2004, Economic Research Institute for North East Asia discussion Papers No. 0404.

The fact that Rason, in the 1990s, received only about a sixth of the investment of both Yanbian and Primorsky Krai can be explained by several factors: first, the Rason region is a much smaller and less densely populated than either the Chinese or the Russian part of the TRA. Indeed, in the 1990s the population of the Primorsky Krai peaked at 3.2 million, and Yanbian, even though it was quickly decreasing, still had 20 times the total population of Rajin-Sonbong at the time.¹²¹ What's more, the total area of Rason is only a fraction of that of the Yanbian Prefecture or Primorsky Krai. Even if not necessarily in excellent shape, the zone already had the crucial infrastructure (port facilities), and the environment was much more “business-friendly” in China or in Russia, not only regarding legal provisions but also regarding wages: investments in China, especially at the beginning of the 1990 decade were attracted by low labor costs. Wages differences between the PRC (especially in *Dongbei*) and the DPRK at that time were not sufficient that investors would take on the additional risk of investing in North Korea. China had clearly shown its political willingness to host more foreign investment and was already considered a relatively safe and lucrative choice. The Korean-speaking Yanbian autonomous prefecture was a choice target for South Korean investors due to the complementarities of the Chinese and South Korean economy at the time in the context of rising wages in the ROK. As a matter of fact, following the establishment of Chinese-ROK economic relations at the end of the 1980s, and especially after full diplomatic recognition in 1992, South Korean investment started to pour into Yanbian.

In the 1990s, Rason made substantial progress, including a few projects that, with today's historical perspective, can be considered breakthroughs. First, reliable connections with neighboring countries were established, includ-

121 As we have seen, Rason had less than 200,000 inhabitants in the 1990s (UNDP, 1998), while Yanbian's population was about 2.2 million in 2000. See: Collin, *La préfecture autonome*.

ing a highly strategic direct maritime route from Rason to Busan in South Korea (in 1995) with an annual output of 4,000 to 5,000 TEU,¹²² a realization that local authorities in Yanbian and South Korean companies are still actively trying to revive today.¹²³ In 1999, an additional route from Rajin to Niigata was opened, mostly thanks to increased Chongryon-related economic activity in the Zone. The increased territorial integration of Rason into the TRA, a key element in the creation of a successful economic corridor, will be dealt with later. Levels of investment, in the 1990s, were below what was expected on the North Korean side, with only one fifth of Pyongyang's initial target achieved in 1996.¹²⁴ But DPRK (as well as Chinese) planners have a "tradition" of setting overly optimistic goals as a production incentive, and, in fact, investment projects in the zone were much more dynamic in the 1990s than in the following decade. Following the publication of the first Rason law in 1993 and the establishment of the visa-free zone, investment activities started to take off.¹²⁵ Per the UNDP report, in 1995, cumulative investment jumped from six up to \$37 million the following year, with 28 foreign-invested enterprises active in the zone.¹²⁶ 1996 is an important year in the history of Rason, because at that time the zone authorities not only opened the door but reached out to the world, trying to publicize investment opportunities in the DPRK. To my knowledge, this is the first time that the DPRK organized not only investment briefings for foreigners but also a public relations campaign reaching out to China, Asia and the Western world. During this campaign, Kim Jong-u, chairman of the DPRK's Committee for the Promotion of External Economic Cooperation¹²⁷ faced the difficult task of convincing foreign investors that the Rason was a safe investment choice, even that the North Korea state was open to "what was good for the country."¹²⁸ Kim Jong-u's advertisement of the zone was a bit naïve, explaining for instance that Rason was modeled not after Shenzhen, but after Singapore, due to having "similar potential." Kim Jong-u went as far as personally travelling to Japan to attract investors, and thus he could gather about 440 potential investors from 26 countries in Rason for the zone's first investment forum in September 1996, with the help of the UNIDO.¹²⁹

122 Twenty-foot equivalent unit.

123 Jin and Ducruet, *Rajin-Seonbong*; and "珲春市与东北亚各国间的“互联互通”再升级" [Hunchun city upgrades again its connections with other countries in Northeast Asia], *Xinhua*, June 25, 2015.

124 Babson, Bradley, "[Economic Cooperation on the Korean Peninsula, Northeast Asia Peace and Security Network Special Report](#)", Nautilus (2003).

125 Zhu, *The Tumen River Delta*.

126 Tsuji is less enthusiastic and mentions only \$4 million. See: Tsuji, *The Tumen River Area Development Programme*.

127 The Committee became later the State Economic Development Commission, which itself was merged with the Joint Venture Committee in 2014 to become the Ministry of External Economic Relations.

128 Murphy, Kevin, [Q&A Kim Jong-u : North Korea's bid for Investment](#), *New York Times*, August 12, 1996.

129 Cotton, *The Rajin-Sonbong Free Trade Zone*:3. The forum was held under the following name: Rajin-Sonbong Zone International Business and Investment Forum.



Kim Jong-u at an investment promotion event in Hong-Kong in 1996¹³⁰ | Image: Raphael Wober

Case Focus: Rajin-Sonbong September 1996 International Investment and Business Forum

On September 13-15, 1996 Rajin-Sonbong held its very first on-site investment forum, which took place after a certain number of trade missions and other investment briefings held abroad. The first investment forum took place in Yanji, in 1995. At this event, South Korean companies could not attend, due to tensed ties between the two Koreas at that time. Numerous agreements and letters of intent were however signed, for a total value of about \$600 million dollars,¹³¹ and the event was attended by more than 400 people from 27 countries.¹³² As we mentioned, Rason delegations also toured Japan, in July 1996 with similar preliminary success. Less known is that DPRK zone managers also made a trip to Taiwan,¹³³ this time with limited success, in order to show that the DPRK was open to business notwithstanding political issues, and, maybe, to put pressure on Beijing.

The 1996 investment forum was held at a time when infrastructures in the zone were not only limited but inexistent. The 170-member delegation from Japan, mostly Chongryon Koreans, had to stay on a cruise ship for the entire conference due to lack of accommodation in the zone. By every standard, and not only North Korean ones, the forum was a success. About 440 guests attended the forum, plus one hundred DPRK Koreans, either from Pyongyang or North Hamgyong province. The largest delegation was coming from Japan, with the Chinese (including Hong Kong) being a close second. Surprisingly, the third largest delegation was from a country that is not in Asia and was diametrically opposed to the DPRK: the United States. As a matter of fact, diplomats from the Embassy in Beijing and from the consulate in Shenzhen made the trip to Rason, but, according to our knowledge, not investment projects saw the light of day.¹³⁴ There had been discussions between Pyongyang and Seoul to send a South Korean delegation to the forum, but, because of the tensed ties and the presence of important political leaders from the DPRK, plans to attend the forum were cancelled by the South.

130 "Asia's Outcast Tires Out of Isolation," *Sunday Morning Post*, August 4, 1996.

131 Kim Ick-soo, The Rajin-Sonbong Free Economic and Trade Zone (RSFETZ): Transport Expansion Needs and Financing Perspectives, *Association for Northeastern Regional Studies* Journal working paper (1999).

132 "Rason Economic and Trade Zone; Today and Tomorrow," *Naenara*, March 20, 2014. Retrievable [here](#).

133 Marcus Noland and Gordon L. Flake, "Opening Attempt: North Korea and the Rajin-Sonbong Free Trade and Economic Zone," *Journal of Asian Business* 13, no. 2 (1997): 99-112, 107.

134 As of 2015, there is a business/humanitarian agricultural project led by Americans in Rason, basically a goat farm which also welcomes foreign tourists.

This last minute cancellation had a dissuasive effect in potential investment from Japan, Taiwan, and the ROK, reminding that political issues largely impacted the business atmosphere.

If most sources in the 1996 forum agree on the fact that the event was a success, there is no consensus on the number of contracts actually signed and their value. There is also no reliable figure on investment pledged, in total. However, even if calculations are made based on very different figures, they all agree that the rate of actual implementation of contracts, agreements and letters of intent was extremely low. Kim explains that less than 7 percent of investment pledged in the zone were actually implemented.¹³⁵ The biggest investment in the zone was the Emperor Casino Hotel (\$180 million), which necessitated for Kim Jong-u to explain that even if projects detrimental to “the DPRK morals” would be rejected, opening a Casino (closed to most locals) was not a problem. Other important investment projects signed during the forum include a hospital funded by the Chongryon.¹³⁶ Particularly interesting to know is that the DPRK is said to have spent about \$300,000 on the organization of this seminar,¹³⁷ hinting that the Rajin-Sonbong SEZ was actively supported by central power. Even if this sum, in itself, is not huge, it shows that DPRK resources were invested to attract foreign investors, and that the DPRK had a more long-term perspective on Rason. As we will see, this can be seen as a stretch from previous economic policies.

As a result of this pioneering investors’ briefing, the level of investment in Rason doubled¹³⁸ in one year, and the number of investment projects actually implemented in the zone multiplied 2.5 times from 28 to 75.¹³⁹ In 1998, number of foreign invested ventures kept growing, to 113.25 million dollars in value.¹⁴⁰ Interestingly, during the 1996 briefing, eight important investment contracts were inked worth a total value of \$285 million, and more than \$800 million in further investment was agreed upon.¹⁴¹

The overwhelming majority of investments were from Asia, with, unsurprisingly, more than half of the ventures established with Chinese companies. But as they still are today, Chinese investments in Rason (as in anywhere in the DPRK, even during the busiest periods) were mostly small-scale projects, with very low levels of technology.¹⁴² While China accounted for 56 percent of the projects implemented in Rason until 1998, the value of Chinese investment represented only one quarter of total investment in the zone. The Yanji-based Hyuntong Group was the only Chinese company to make a substantial investment, specifically in port facilities, some small factories and Rajin’s market, which opened in 1998. But Hyuntong Group’s participation ended abruptly, jeopardizing the future of the zone as we will see. Investment from British-then-Chinese Hong-Kong, on the other hand, had the opposite characteristics, with projects only accounting for 10 percent of all foreign invested ventures in the zone but all being massive investments: the best-known example, the Emperor Casino Hotel near Pipa-do, is nominally

135 Kim Ick-soo, RSFETZ.

136 The Chongryon Korean leading this project was Kim Man-yu, who already ran a hospital in Pyongyang at that time. I do not know if Rason’s Chongryon hospital was ever opened.

137 Noland and Flake, *Opening Attempt*.

138 Per Tsuji it nearly doubled, according to the UNDP report and Cotton it more than doubled. Differences in calculations are due to the difference between figures of investment pledged and project implemented.

139 UNDP, *Rason Investment Guide*.

140 Ibid.

141 Tsuji, *The Tumen River Area Development Programme*.

142 “朝鲜经济渐变中国企业把握投资机遇” [*gradual changes in the DPRK economy, Chinese businesses seizing investment opportunities*], Xinhua, August 14, 2004.

a \$180 million project, although the exact amount invested is not known for certain.¹⁴³ This project was a bet by Hong Kong tycoon Albert Yeung to attract Northern Chinese (gambling being forbidden in mainland China) and Russian clientele, a strategy which sometimes chilled Sino-Korean relations. It opened its doors to foreign tourists in 1999.



The Emperor Hotel under construction. | Image: UNDP, 1998

Other Hong Kong investments include a Joint-venture bank, known as Peregrine Daesong Bank, which was renamed Daedong Credit Bank after Peregrine collapsed in 1998.¹⁴⁴ Russia pledged minor investments (\$7 million) in the port of Rajin (designed to facilitate chemicals and alumina transit through the port¹⁴⁵), a little less than Japan.

One major success of Rajin-Sonbong, in the early years, was the highly lucrative¹⁴⁶ deal made with the Thailand-based Loxley Pacific Group, through the medium of Singaporean entrepreneur Richard Savage. Loxley Pacific invested about \$28 million in the zone telecommunication network, most likely benefiting from a special cut in enterprise taxes (10 percent instead of 14 percent of net profit) due to the relatively high-tech nature of the project which included, inter alia, an international link via Pyongyang and an optical fiber connection to Hunchun, China. The joint-venture seems to be still working, with, per DPRK sources at least, plans to extend the optical fiber network to additional branch offices.¹⁴⁷ Loxley Group secured a 30-year monopoly on all media and communication development in the zone and group delegations seem to regularly visit Pyongyang.¹⁴⁸

143 Rumors of an initial plan to build a 30-storey building, mentioned by South Korean outlets like Daily NK, are false, as the initial plans published in the UNPD Report reveal. Kim Young Jin, “[An Employee from the Emperor Hotel in Rajin Out to Do Business in a Market Place](#),” *Daily NK*, November 14, 2005.

144 Martin, Bradley K. “North Korea’s Kim Allows Tentative Stirrings of Profit Motive,” *Bloomberg*, December 28, 2005. Retrieval [here](#). Visitors to the Yanggakdo Hotel in Pyongyang can see the former Daedong Bank office in the lobby.

145 Kim Ick-soo, *RSFETZ*.

146 Martin, *Tentative Stirrings of Profit Motive*.

147 RETZ, Naenara. See “Natural resources and infrastructures”.

148 Cotton, *The Rajin-Sonbong Free Trade Zone*, 3; and “[Thai Businessmen here](#),” *KCNA*, November 24, 2015.

Given the fact that the DPRK can hardly be described as an investor's paradise and was only beginning to juggle with policies inspired by global capitalism, the early achievements of the zone are not negligible. On the other hand, Rason certainly never lived up to its potential, and never met its overenthusiastic quantitative objectives. Regarding the distribution of investment by sector, it was also a disappointment: as we have seen, most important investments were made in the tourism sector (Emperor Hotel) or in port facilities. Attracting more foreign tourism was a way for Pyongyang to bring in more foreign currency, and to a lesser extent, provide training and more efficient management techniques to the domestic workforce. Investment in port facilities and the establishment of new linkages also brought in more foreign currency which North Korea direly needed: in 1995, the pioneering group Yanbian Xiantong Jituan (延边现通集团) opened a direct line between Rajin and Busan in South Korea. That being said, one of the zone's objectives was to attract investment in the manufacturing sector, and this has been, until now, a failure: in 1998, only 5 percent of FDI targeted export-processing industries (including a seafood-processing factory)¹⁴⁹ which was, as explained by the head of the TRADP, a major disappointment: "we would have liked to have seen more contracts signed in the manufacturing sector."¹⁵⁰ As we saw earlier, the DPRK economy was unable to export its unreliable, low-quality, expensive domestically-manufactured products and had thus to rely on imports. Attracting investment in the manufacturing sector might have resulted in technology, know-how and management technique transfers that could potentially have upgraded the whole DPRK production apparatus,¹⁵¹ if, of course, authorities could diffuse these elements into the rest of the economy. Per the Fleming-Hayuth model of transportation hubs, Rason was unable to add *centrality* to *intermediacy*: it met with relative success in *mediating* goods produced or raw materials extracted in China or Russia, but was not able to *generate* any traffic on its own.¹⁵²

Rason's winter

The initial project of the TRADP was to increase economic integration on the TRA, and to create a new "golden triangle", or three closely linked economic corridors, with Rason at its southern tip. In the early years of the project, Russia stayed in the background, due to the severe economic recession in the post-USSR context and tense ties with Pyongyang. In addition, Russia was reluctant to open its economically-depressed Far-east (see, for example, the *de facto* closure of the Nakhodka SEZ in 1992) fearing China's expanding export capacity.¹⁵³ Geopolitical concerns in the wake of the Sino-Soviet split turned into (geo)economic ones, and Russia did not agree to allow Chinese ships in the mouth of the Tumen River until 1991.¹⁵⁴ In the 1990s context, the Russian federation was not necessarily a better window than Rason for Chinese *Dongbei*-manufactured products: Zarubino port was

149 UNDP, *Rason Investment Guide*.

150 Jin, Ducruet, *Rajin-Seonbong*

151 Cotton, *The Rajin-Sonbong Free Trade Zone*: 4.

152 Douglas K. Fleming and Yahouda Hayuth, "Spatial characteristics of transportation hubs: centrality and intermediacy," *Journal of Transport Geography* 2 (1994): 3-18. The Fleming-Hayuth model was already applied to Rason. See Jin and Ducruet, *Rajin-Seonbong*.

153 Abrahamian, Andray, "[Tumen Triangle Tribulations, The Unfulfilled Promise of Chinese, Russian and North Korean Cooperation](#)," *US-Korea Institute at SAIS Report* (2015).

154 Burns, *Sub-regional Power*, 5.

privatized, several SEZ projects were cancelled, and several voices in Russian economic and government circles pointed out that the Primorsky Krai already had huge ports with excessive handling capacities and thus there was no need for an additional port to be used by China that would furthermore threaten the domestic economy. As early as 1992, Russia and the PRC inked an agreement for the renovation and lease of the Zarubino port, but construction work was not finished until the beginning of the 21st century, and handling of small volumes of Chinese cargo started only in 2003.¹⁵⁵ Khasan, which border both China and the DPRK, is a very small, remote village with poor access to the bigger cities of the region, while Zarubino and Pozyet are also sparsely populated port cities. China thus focused on investment in the southern economic corridor towards Rason: as part of the Changjitu plan, China invested twice as much in its transportation linkages facing the DPRK than those going towards Russia.¹⁵⁶

Whereas Russian involvement in the project was minimal from the beginning, Chinese enthusiasm also quickly dropped, due to several factors. Political developments might have played their part: three years after Kim Il-sung passed away, Kim Jong-il officially took power in 1997. At that time, the new leader had only been once to China (in his politically active years), and that had been fifteen years before. The Dear Leader did not speak any Chinese, and several times expressed his disappointment at China's ideological and economic *volte-face*.¹⁵⁷ Mistrust towards economic experimentations in Rajin-Sonbong might have been a genuine feeling or a way to secure the support of conservatives during the political transition. Either way, in 1998, the "free" in "Rason Free Economic and Trade Zone" was dropped¹⁵⁸ and the border market in Wonjong closed.¹⁵⁹ Investors were also repelled by what they interpreted as a lack of commitment from Pyongyang, if not politically, at least financially. Infrastructures in the zone existed, but most of them were old and needed to be renovated, including the most basic ones (roads, power plants, etc.). The DPRK government was well-aware of this problem and offered to pitch in about one million dollars in the zone infrastructure, a sum that is only a very tiny portion of the total investment needed to create the "Singapore of Northeast Asia."¹⁶⁰ As a matter of fact, local authorities almost entirely rely on foreign investment to develop the zone: literally anything that needs to be refurbished, rebuild or renovated is left to foreign investors. During Kim Jong-u's pre-1996 investment briefing tour of Japan, local businessmen were intrigued by the optimistic statement of one DPRK delegation official, who believed that "foreign investors will pay for

155 Tsuji, *The Tumen River Area Development Programme*.

156 Lee Yeon-ho and Kang Jeong-shim, "The Changjitu Project and China-North Korea Economic Cooperation: Beijing's and Pyongyang's intentions," paper presented at BISA Annual Conference, (2005).

157 One of Kim Jong-il's most well-known text, *Socialism is Science*, conveys a transparent message to the Chinese comrades: "Today, traitors to socialism harbor illusions about capitalism and raise their hopes high for economic assistance from imperialists." Kim Jong-il, *Socialism Is Science* (Pyongyang: Foreign Languages Publishing House, 1994).

158 For the anecdote, the same phenomenon happened in China after the pioneering SEZs were opened: originally named "Special Zones" (*tequ*; 特区), conservatives inside the CPC, led by Chen Yun, lobbied for the addition of the adjective "economic" so that reformist ideas would not spread to politics. See: Ezra Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge: Harvard University Press, 2011): 85

159 Tsuji, *The Tumen River Area Development Programme*. Wonjong market was however replaced by the current market in Rajin.

160 Tsuji, *The Tumen River Area Development Programme*. As a matter of fact, the exact amount is 200 million won, which, per Tsuji, equals \$1 million based on the exchange rate in Rason at that time. But exchange rates of the KPW in Rason are known to be much closer to the "black market" rate than the official one: in 1998, for example, one US dollar in Rason was worth 220 won (UNDP, 1998).

infrastructure development.”¹⁶¹

Several reasons can explain this unusual overreliance on FDI for the development of the Rason FETZ. Numerous scholars have insisted on the lack of political commitment from Pyongyang, especially since the Jang Song-taek purge in December 2013 (see later). Others have emphasized the lack of resources or technology for the DPRK to create a fully functioning economic corridor to/from China. Our understanding of this very particular but, in my opinion, crucial issue, mixes both views. While paradoxical to most observers, in the DPRK’s traditional economic perspective, as well as in Amin’s words, the fact that Pyongyang refuses to sacrifice national resources to create a Special Economic Zone makes sense: since external exchanges have to be aimed at national accumulation, the use of domestic resources to create a “business-friendly” environment for investors would be taking things in the reverse order. To say it more bluntly, North Korea resources are invested in the DPRK economy, but not offered to foreign businessmen on a silver platter. On the other hand, recent actuality showed that if resources are needed to solve issues that arise in the DPRK citizen’s lives, Pyongyang is not reluctant to pitch in: when Rajin-Sonbong suffered major flooding in September 2015, official press releases lauded the North Korean state’s fast and efficient action to rebuild (“as a socialist fairyland”) about 1000 houses and facilities damaged by the floods.¹⁶² We do not consider it to be a lack of political commitment: DPRK authorities are committed in developing Rason based on FDI and “market principles,” but they will not simply give away their scarce resources to foreigners. The political will to develop Rajin-Sonbong and other SEZs is undoubtedly there, with DPRK managers touring foreign countries to attract investment, DPRK laws being constantly revised to allow more flexibility to potential investors, but, on the other hand, the traditional economic policies of the DPRK still apply at the central level: submission of external relations to the logic of internal decisions. There are many central-level policies that can be considered antagonistic to attracting foreign investment in Rason or everywhere in the DPRK, and the North Korean State clearly controls SEZs activities and developments as well as the economy in general.

At the same time, Special Economic Zones in the DPRK also constitute an admission that previous economic policies failed to develop the North Korean economy by keeping external economic actors at bay, and that there was the need for adaptation of former economic schemes. This “adaptation” is admittedly not a “structural adjustment” or a “reform and opening” process, but it nonetheless differs from traditional economic policies, even if it stems from the same matrix. As shown in outstanding scholarly accounts, DPRK was never opposed to foreign exchange, quite the contrary, and gradually opened its borders to investment from foreign countries.¹⁶³ With the opening of Rason, this was another step further, the DPRK was expecting much more investment and the North Korean workforce would be used to benefit both the national economy *and* foreign companies. While not a “colonial scheme” like during the Japanese occupation of the Korean peninsula, this clearly contradicts former policies

161 Hwan Jong Nam, Director of the External Economic Cooperation Promotion Committee, at the Rajin-Sonbong Zone Business Promotion Seminar held in Japan in July 1996. Quoted in Tsuji, *The Tumen River Area Development Programme*.

162 “[40 people killed, 11,000 affected in N. Korean floods](#),” *Yonhap*, August 26, 2015; “[Kim Jong Un Visits Village Newly Built as Socialist Fairyland](#),” *KCNA*, October 2015.

163 See, among many others: Avram Agov, *North Korea in the Socialist World: Integration and Divergence, 1945-1970, The Crossroads of Economics and Politics* (Ph.D Dissertation, 2010).

of refusing economic specialization and international division of labor, as some insightful scholars pointed out.¹⁶⁴

South Korean involvement in the project was also quite limited, mostly over political concerns but also because the strategic importance of Rason for the ROK decreased after the opening of a Zarubino-Sokcho direct maritime route in 2000, cutting Rason out. Japanese interest in the zone was also quite limited, first because of tensed political ties, second because Japanese Koreans (at least the pro-Pyongyang ones) can probably benefit from officious friendly policies in different parts of the country and not only Rajin-Sonbong. Strongly supporting the view that Japanese investment in the zone was mostly driven by ideological/nationalist considerations (basically Chongryon-affiliated companies), the Japanese-funded companies lasted longer than other projects in the zone: while in 1998, twenty of the 113 ventures active in the zone were Japanese and small scale, by 2000, when business activity in Rajin-Sonbong had already seriously slowed, only 67 deals were still in play, but none of the Japanese-supported projects had closed their doors.¹⁶⁵

To sum it up, Rason began to blossom in a fragile internal and external context: inside the DPRK, the political transition between Kim Il-sung and Kim Jong-il was not a well-suited time for economic experimentations, especially not during the *Arduous March*. On the other hand, foreign powers that were thought –maybe prematurely– to take an important role in the TRADP sat on the sidelines and MIT researcher Katherine Burns’ typologies of actors in the zone turned out to be correct: Japan, Russia and South Korea initially showed little interest in the zone.¹⁶⁶ As a result, Rason was “trapped” in an almost exclusive dialogue with China, but both sides had divergent interests in the development of Rason: the DPRK was looking first and foremost for foreign “advanced” technologies, or, in the context of the economic crisis, foreign currencies that could be used to alleviate the food shortages. With South Korea and Japan out of the picture, the infusion of modern technology in the zone’s manufacturing sector was less likely to happen. Beijing had no interest in investing in the manufacturing sector of the zone since wages in China were not sufficiently high to make it worth the risk of throwing capital into Rajin-Sonbong. China was interested in Rason’s port facilities, and could have been an important provider of capital and technology to the zone, if, and only if, there were sufficient reliable infrastructure to take benefit of the Rason ideal geographic location. Already hard to conciliate with the DPRK idiosyncratic political economic thinking, infrastructure investment in Rason was even more unlikely during the food crisis.¹⁶⁷ Trapped in this situation, Rason entered the “winter” of its discontent, which lasted throughout the 2000s. As we are about to see, there has since been important progress in infrastructure development in the region, especially on the Chinese and Russian sides, but also in Rason itself.

164 Cotton, *The Rajin-Sonbong Free Trade Zone*.

165 UNDP, *Rason Investment Guide*.

166 Burns, *Sub-regional Power*: 5.

167 It could be argued that the use of domestic labor and materials by the DPRK government to build infrastructure makes it cheap, but, as we will see, several of the key items for infrastructure renovation must be imported from abroad.

4. INFRASTRUCTURE NEEDS AND DEVELOPMENTS IN RAJIN-SONBONG

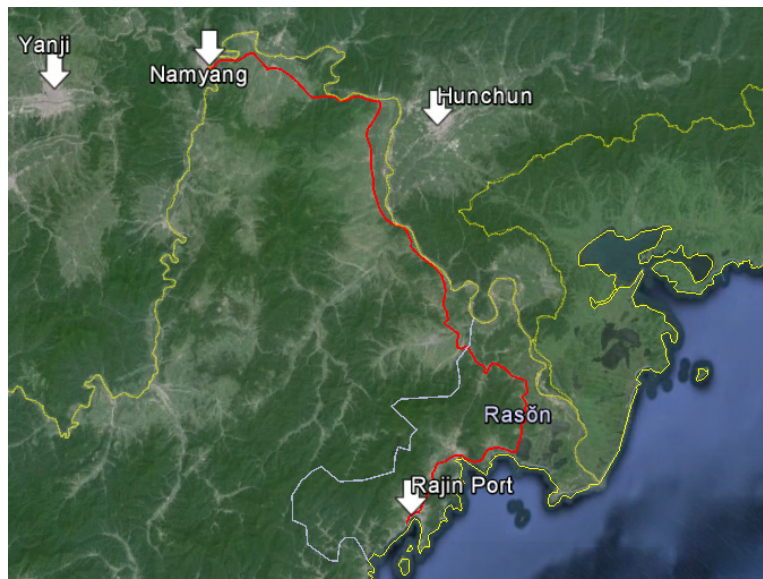
Infrastructure in Rason exists, and is used daily by locals and foreign companies in the zone. However, most of it dates to either the Japanese colonial period or the early days of the DPRK; since there has been quite limited infrastructure investment in the zone since 1991 (either from foreign partners or local authorities) the least that can be said is that everything is in a quite bad shape, obsolete or barely usable. As infrastructure is quite broadly-defined and encompasses lots and lots of very different things, we can hardly be comprehensive on the zone's infrastructure needs and developments. We will thus only review the most crucial matters; to assess their actual status and further needs.

Local authorities (the economic cooperation bureau of the RPC), on several occasions, have published comparatively detailed calls for investments in the zone infrastructure. Revealingly, until very recently, we were able to find many more calls for investments in zone infrastructures than for industrial ventures: not only are foreign partners (especially China) more interested in Rason as an economic corridor than as an export-processing zone, the development of a fully-functioning economic corridor is a vital condition for the “take-off” of other sectors in the zone. As explained by scholars and UNDP officials in the early years of the project, roads and railroads linkages were called to play an extremely important part in the success of Rason.

Railroad linkages

Rajin-Sonbong can be accessed by railroad from other parts of the DPRK as well as China and Russia. From Pyongyang, the railroad heads to Hamhung and follows the coastline up to Rason and beyond, and split in the different branches in the town of Hongui near Ungsang. The eastern branch of the railroad goes through the town of Tumangang (bordering the Chinese city of Fangchuan) and crosses a cross border bridge to Khasan, Primorsky Krai, Russia, 51 km away from Rajin port. The north branch of the railroad leaves Hongui to follow the Tumen river¹⁶⁸, crossing Kyongwon (which is since 2015 a SEZ) and then turns west after Hunyung (facing Shuaiwanzi in China) to reach Namyang via Onsong (which also a SEZ since 2013). Namyang city in the DPRK faces the Chinese town of Tumen in the Yanbian Korean Autonomous Region, and is located 158 km away from Rajin.

168 Visitors coming to Rason from China via Wonjong cross the railroad near the Chohak train station about 15 km past Wonjong.



The Rajin-Namyang railway | Image: Google Earth, 2013

The Namyang-Rajin railway was built by the Japanese in 1930 and has been seen since the very beginning of the SEZ as a crucial piece of infrastructure for the development of the zone. In 1998, the renovation of the railway was the basis for the UNDP's extremely optimistic prospects on the output of Rajin port: while only three thousand containers were shipped from Rajin in 1997, the number was predicted to nearly double in 1998 (7,000) and finally skyrocket to no less than 100,000 containers per year in 2005.¹⁶⁹ As the UNDP report explains, in 1997 only 20 percent of containers were delivered to Rason by rail, a figure that was supposed to surge to 80 percent after the Namyang-Rajin railway was renovated. As a matter of fact, the railway was never refurbished, and cargo transit through Rajin port stayed dormant. The Yanji-based HyuntongGroup, which made substantial investments in the Rajin port facilities and market, pledged to invest 43 million dollars in the railway, but it failed to do so for unknown reasons. Thus, the only way to Rason from China today is the Wonjong-Sonbong road, which is a four-hour trip from Yanji. If renovated and reliable, the Rajin-Namyang railway would have tremendous advantages over the Wonjong-Namyang railway, not only because it is much faster, but also because it is much cheaper to use rail rather than road: as the UNDP explained in 1998, sending cargo to Rajin port by road can cost between \$23 and \$85 per kilometer, per ton (depending on the nature of the cargo) as against \$11 by rail. With the railway option, cargo transit capacity would definitely be enhanced and port terminals in Rason would definitely be more attractive (as a windows on the Pacific Ocean) to foreign partners.

Unsurprisingly, the renovation of the Rajin-Namyang railroad seems to be high on the agenda of the local authorities of the zone. According to representatives of Rason based in Yanji, Jilin Province is planning to do the job within three years,¹⁷⁰ but this plan might have changed given the early 2016 nuclear test. The Economic Cooperation Bureau of the RPC published calls for investment in both Chinese and English for the renovation of the whole railway. Besides internal political and financial issues, there might also be a technological hurdle behind

169 UNDP, *Rason Investment Guide*.

170 Interview with Rason representatives in Yanji, February 2016.

the delayed renovation. Construction workforce does not cost much for the DPRK authorities, which spends little for labor, but construction materials are more expensive, especially if they come from abroad. To build a reliable railway that could be used safely by foreign partners (to transport heavy freight cargo) would also require quite advanced technology, given the topography of the zone: along 158 kilometers of railroad there are no fewer than 11 tunnels and 70 bridges (only three of which are more than 100 meters in length). Among these, two needed to be entirely repaired (the ones in Ungsang¹⁷¹ and Seson, both about 300m in length) and the call for investment describes the bridges as generally “fine,” even though it mentions, somehow ironically, that the “steel [...] is rusted,” “there are small cracks in some bridges,” “rail sleepers are decayed and the rail fixing is not stable enough [sic].”¹⁷² What’s more, there are 24 stations on this section of the railway, and telecommunication and signals systems have to be “renovated generally.”¹⁷³ In the early days of the DPRK, important extensions and developments of the local railway network were made. However, while most of them are perfectly fine, they require constant repairs especially in cold regions like North Hamgyeong province.¹⁷⁴ To avoid these issues, which can slow down or even interrupt the flow of goods to/from Sonbong, there is a need not merely to *repair* but also to *upgrade* the Rajin-Namyang railway. For example, the call for investment explains that some of the steel beams supporting the railway are damaged due to the traffic of heavy cargo; they must be replaced with steel concrete beams and sleepers replaced with stronger ones. This obviously comes at a cost, with the DPRK estimate being about \$55 million.¹⁷⁵ While this is already a considerable sum of money, it is likely to be an underestimate, especially given the estimated cost of the renovation of the much shorter Khasan-Rajin route. From the DPRK point of view, the railway renovation is a pressing economic issue: since China and Russia have made great efforts since 2010 to improve their transport linkages (opening, for instance, a new Hunchun-Makhalino railway in 2014), it seems that Beijing is having second thoughts about its favorite potential window to the Pacific Ocean.¹⁷⁶ As developments in Rason are extremely slow and often necessitate lengthy negotiations, China is more than tempted to increase cooperation with Primorsky Krai: authorities of Jilin Province recently inked an agreement with the Russian company Summa Group, aiming at improving port facilities of Zarubino, 18 kilometers away from Hunchun.¹⁷⁷ What’s more, it seems that the Chinese side is preparing for the possibility of extending the Changchun-Hunchun high-speed train route all the way to Vladivostok in the context of the Chinese “one belt one road” initiative.¹⁷⁸

171 The Ungsang tunnel was most likely repaired by Russia in 2008-2012. See the next section for more.

172 Economic Corporation Bureau of Rason People’s Committee of the D.P.R of Korea, *Invest Feasibility Report for Railway Renovation between Rajin-Namyang* (2010) (Hereafter: ECBRPC, *Railway Report*).

173 The report budget encompasses twenty-five “station telecommunication” sets.

174 Humanitarian and UN agencies workers in Pyongyang explained to the author that the railways of the DPRK are very sensitive to changes of temperature: they dilate in summer and the concrete cracks in winter.

175 ECBRPC, *Railway Report*. The Hyuntong group initially planned to invest \$43 million: UNDP, 1998.

176 “[珲马铁路成为中俄合作运输新动脉](#)” [*Hunchun-Makhalino Railway becomes the new transport artery of Chinese-Russian Cooperation*], *Yanbian Ribao*, December 29, 2014.

177 Abrahamian, *Tumen Triangle*.

178 “[吉林省发改委调研珲春至俄海参崴高铁项目](#)” [Jilin Provinces sends official to study Hunchun-Vladivostok High-speed Railway project], *Yanbian Ribao*, November 25, 2015.

The other branch of the Rason railway, heading to Russia, is in a much better shape and has been used regularly by Russian trains since it was fully renovated in 2013. The project to enhance the Russia-DPRK railway linkage is to be considered in the regional and global framework of the well-worn “Iron Silk Road” project. While primary contact was made in 2006, construction began in 2008 and regular services were implemented in October 2012.¹⁷⁹ The renovation of the Rajin-Khasan railway was done by a JV company, RasonKonTrans, created by the Russian Company RZD (*Rossiyskie zheleznye dorogi*, or Russian Railways) and the North Korean Donghae company (closely associated with the DPRK railways ministry). Total investment is said to be about \$250 million dollars, which means that the renovation works for the 51-kilometer railroad to Russia was five times more expensive than the expected total cost of the renovation of the 158-kilometer railroad to China. These figures obviously strongly suggest that the expected cost of the Rajin-Namyang refurbishment is an underestimate. It should however be noted that since Russia uses a broader gauge (1,520 millimeters) than China or the DPRK (1,435 millimeters), there was the need to build a railway that could bear both Korean and Russian wagons, raising the cost. What’s more, the derelict Ungsang tunnel is located before the Hongui split, meaning that Russia had to repair the whole tunnel as well.

The RasonKonTrans project also encompasses the creation of a container shipment terminal on Pier 3 of Rajin port (opened in July 2014¹⁸⁰), which alone caused an increase of more than one third of the initial budget.¹⁸¹ Even if the budget of the Rajin-Namyang railroad is very likely to have been underestimated, since about one third of the total railway has already been renovated by Russia, it should be a much less expensive project than it would have been a few years ago. There has been much-publicized test-runs of Russian coal and timber being sent to Rason to be exported toward South Korea or southern China (Shanghai). As of 2016, the project is not profitable, with the cumulative value of Russian coal exports to southern China being only about 1.4 million tons in 2015,¹⁸² while the now already defunct Russia-Rason-South Korea project did not even go through its test phase, interrupted by Seoul after the forth nuclear test. Revealing the state of infrastructure in the zone, the third test-run, which was supposed to deliver 120,000 tons of coal to the ROK (following a previous shipment of 40,500 tons in December 2014),¹⁸³ was delayed because of heavy snow in Rason: due to the bad shape of the roads leading from China to Rajin harbor, shipments of Chinese goods were delayed, resulting in bottlenecks in the port.¹⁸⁴

For this critical piece of infrastructure, the future seems blurry. The recent sanctions imposed by the UN on the DPRK may jeopardize the entire project, as explained by RZH.¹⁸⁵ It could also provide an incentive for Russia to mitigate economic sanctions against the DPRK, as they would indirectly hurt Moscow economic interests.

179 The history of the project has been compiled by Curtis Melvin at North Korea Economy Watch. See [here](#).

180 Hong Won-choi, [N.Korea opens New Russia-back Wharf in Rajin](#), *NK News*, July 24, 2014.

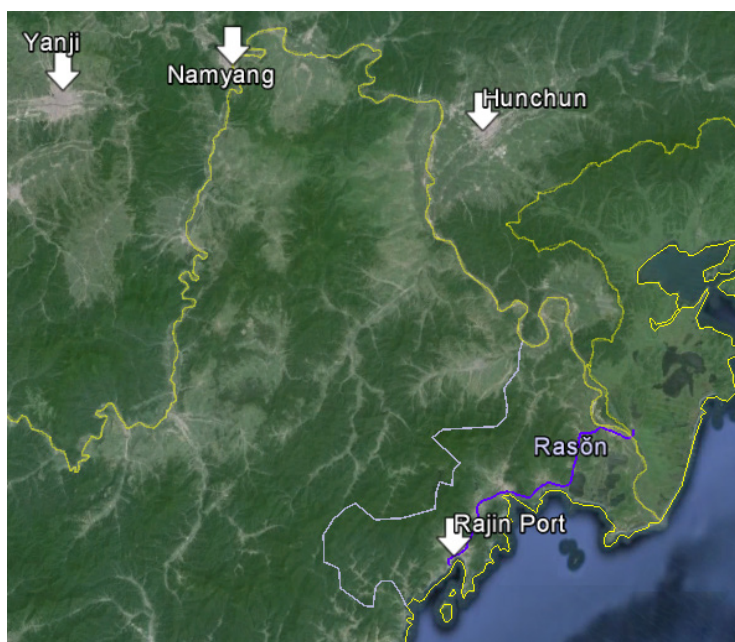
181 [“Rail Freight Networks Intend to Speed Eurasian Cargo Carriage.”](#) *Handy Shipping Guide*, September 28, 2013.

182 It was estimated that a cumulative output of at least 3 million tons per year is necessary to make it profitable. Abrahamian, *Tumen Triangle*: 13.

183 [“Moscow-Seoul-Pyongyang Coal Project to Spur ‘Eurasia Initiative.’ S. Korea,”](#) *Sputnik News*, December 1, 2015.

184 [“Koreas see partial delay for test-run in 3-way logistic projects,”](#) *Yonhap*, November 24, 2015.

185 [“RZD says new U.N. sanctions might halt joint project with N. Korea,”](#) *Yonhap*, February 25, 2016.



The Rajin-Khasan railway. | Image: Google Earth, 2013

Road linkages

In 1993, as already explained, Rason was declared the first visa-free zone of the DPRK (an invitation letter is needed though). To turn this bold move into practical reality, large areas of Wonjong village were added to the zone, allowing visitors coming from China to directly enter the DPRK in Rason. As of 2016, the Wonjong Bridge still is the only direct road linkage of the Rason Special Economic Zone with China and Russia. Of course, there are other roads leading to Rajin-Sonbong from China¹⁸⁶ (a new bridge in Tumen/Namyang was announced by the Chinese Embassy in Pyongyang),¹⁸⁷ but since they cross North Hamgyeong province, visitors must apply for a visa first. The bridge remained in a very poor shape until it was renovated in 2010 (with Chinese money), following a visit to the zone by Kim Jong-il that sparked renewed interest in the zone. However, likely due to an increase in traffic, the existing bridge was recently doubled by a new four lanes bridge, the total cost (approximately 20 million dollars or 140 million RMB) being once again shouldered by China.¹⁸⁸

186 Among the 15 cross-border bridges in the DPRK (plus additional cross-border roads on mount Paektu/Changbai), the ones in Musan, Hoeryong, Sanbong, Tumen, Hunyung, Kyongwon (Ryudasom) and Wonjong are strategically located to access Rason.

187 “中朝签署《中朝图们—南阳口岸新界河公路桥建桥协定》” [China and the DPRK ink the Agreement on the Construction of the New Cross-border Bridge in Tumen Namyang], Chinese Embassy in Pyongyang website, October 15, 2015. The shipment made its way to South Korea anyway and this trial was hailed as promising by the Chinese press: “[韩国对朝鲜制裁5年来首批商货经朝抵韩](#)” [After 5 years of South Korean Sanctions against North Korean, First Batch of Goods from North Korea Reach the South], *CankanXiaoxi*, December 7, 2015.

188 “[新图们江大桥有望明年竣工将成中朝贸易新通道](#)” [New Tumen River Bridge Expected to be Finished Next Year ; Will Become New Way for China-Korean Trade], *Yanbian Ribao*, December 11, 2014.



The Wonjong-Quanhe bridge | Image: Google Earth, 2015

Beyond the Wonjong bridge is a 50-kilometer road leading to Rajin via Sonbong. This road was hardly usable during most of the 2000s, but it was also fully renovated in 2011-2012.¹⁸⁹ As for the Rajin-Namyang railway, the RPC published call for offers for the Wonjong-Rajin road, seemingly with more success this time.¹⁹⁰ The call for offer is highly interesting because it tries to justify, with economic arguments, the need for a new road to be build: based on statistics on transport in the Chinese Northeast, it tries to show that at least in two sectors (coal and grain) the “export” routes from the Northeast to Southern China (through Dalian port) are ill-suited and that the renovation of Rajin port would be a much better option. It also provides data gathered during a field research study at the border bridge, and draws from analytical conclusions to convince potential investors that there is not only a need, but also an interest in the renovation of the road. Even if the methodology and the results of the report are highly debatable, it reached its target and the Wonjong-Rajin road was finally renovated by China.¹⁹¹ It seems that the local partners showed “pragmatism” in the negotiations, since the initial plan encompassed a 670-meter tunnel that never saw the light of day.

This call for offer is quite interesting to consider since, contrary to the Rajin-Namyang railway, there are no technical difficulties in building a 50km road. It exemplifies the fact that while self-reliance is the norm in every part of the country (including Rason), it bears a different meaning in the SEZ as basic infrastructure needs are expected to be filled by foreign partners.

189 “Rajin-Wonjong Road opened to traffic,” *KCNA*, October 26, 2012. Retrievable [here](#).

190 Economic Corporation Bureau of the Rason People’s Committee of the DPR of Korea, *Investment feasibility Report of Rajin-Wonjong Road Renovation* (2010). Hereafter: ECBRPC Road Report.

191 The data was gathered on a single day, five years before the publication of the report. What’s more, based on “in-crease (sic.) of neighboring region and countries of concerned partner and location,” the report plans that the number of vehicle taking the road will soar from 341,100 in 2005 to 2,394,000 in 2027.



Hunchung to Rajin Port route; stop-over in Wongjong | Image: Google Earth, 2015

A Changjitu-Rason Economic Corridor?

Admittedly, this attitude from the DPRK is quite surprising for investors that are not used to the business environment of North Korea. It is however consistent with previous economic policies of the DPRK and even though it makes things harder, it does not prevent them from happening. Paying for infrastructure used by foreigners simply does not make sense from the DPRK's point of view. The implementation of Special Economic Zones was completely new to the North Korean economy, but interestingly, older patterns of development have survived, even in the context of bold economic experimentation like Rason. The Northeastern SEZ's infrastructure build-up strategy is a fascinating case study as the local situation mirrors the larger development pattern of the Cold War: a PRC-DPRK-Russia triangle.

Rason's "strategic patience" has positive and negative sides. China, especially in the context of the "One Belt, One Road" initiative, has striven to develop its infrastructure network to Hunchun to "unlock" its landlocked territories of Northeast China, which is basically the issue the *Changjitu* project is dealing with. Since it might have only limited returns to develop infrastructures on the Chinese side of the border without having reliable access to the ocean, the Rason authorities might be tempted to believe that China, at some point, will go the extra mile and make massive investments in the infrastructure of the zone. To some extent, this is understandable, especially since the *Changjitu* project initially planned to first enhance infrastructure (especially roads) in China and then, during a second phase, in Rason.¹⁹² This optimistic scenario, however, might have been delayed by the nuclear

192 Lin and Hao, *Economic Cooperation*, 17

crisis and Beijing's growing discontent vis-à-vis the DPRK: investing in zone infrastructure, even if it would certainly partially relieve the economy of *Dongbei*, would be sending the "wrong" signal to the DPRK. Indeed, the infrastructural build-up that the DPRK is expecting from China might never come, and Beijing could plan to cut out the DPRK by targeting a Russian window on the Pacific Ocean (Pozyet, Zarubino, etc). On the other hand, the Russian Federation, especially after the onset of the crisis in Crimea and the east of Ukraine in 2014, has shown acute interest in the DPRK, and especially in Rason, which is the only land-based route into North Korea (and the ROK) for Russia. On infrastructure development in the zone, the DPRK might be tempted to play Russia and China against each other like it did during the Cold War; only this time Rason has real cards to play.

Power and electricity generation

As any visitor to the DPRK, including Rason, knows, one of the most important challenge that the DPRK economy is facing is insufficient power generation. Increasing power capacity is a priority of the DPRK government and the local press often praises workers who participate in the construction of new power stations.¹⁹³ Rason is not an exception to the rule, quite the contrary: if the zone wants to attract more investment and especially investment in more "advanced" technologies, frequent power shortages must be resolved. Regarding transit trade and logistics, power shortages obviously also drastically limit the reliability of port facilities and could prevent goods coming to and from Rason, as the railways in the zone are all electrified.¹⁹⁴ For sure, it is likely that the resolution of power shortages in the zone (as in anywhere in the country) is a *sine qua non* condition for the further development of economic and trade activities.

There is currently only one important power source in the zone,¹⁹⁵ the 200,000 kilowatt-capable Sonbong thermal power plant,¹⁹⁶ which also distributes power to the neighboring North Hamgyeong province.¹⁹⁷ As will seen, this power plant is struggling with limited available resources (especially oil) and aging equipment. There are several ways to deal with the issue of power shortages. The first one would be to connect the DPRK power grid with the ones in Jilin or Russia and buy electricity from abroad (like in the Kaeseong complex, which is powered by the South). Several projects were said to be under review, either with China companies or with Russia's RAO Energy Systems, but until today none of them has been turned into reality.¹⁹⁸ While the details on these projects were not published, the most likely hurdle would be the pricing of electricity in the DPRK, which is extremely low: whereas in SEZs in China the kilowatt hour price is about 68 RMB (about one Euro), almost twice as much as

193 During a visit to Pyongyang in October 2015, the author had the chance to meet workers and managers from Ryanggang province on Mansu Hill who were offered three weeks off in Pyongyang as a reward for their role in building a new power plant in their home province.

194 Tsuji, *The Tumen River Area Development Programme*, 12.

195 Several DPRK publications refer to smaller hydroelectric power plants, which indeed appear on satellite imagery. However, it is hard to know if they significantly contribute to power generation in the zone. ECBRPC, 2010, *Invest feasibility report of water-supply and sewerage system in Rajin area*. See: p. 2.

196 Ferries, *An Introduction*.

197 UNDP, *Rason Investment Guide*.

198 Abrahamian, *Report on Rason*, 4; and "[Wired up : North Korea looks to Russia for Electricity](#)," *NK News*, February 2, 2015.

in Rason.¹⁹⁹ This is of course quite attractive for potential businessmen, but deters investment in Rason's power plant: small prices mean delayed returns, and long-term investment is particularly risky in the DPRK. Since the very beginning of the SEZ, scholars have pointed out the problem that low prices could prevent long-term investment, especially in the transport sector,²⁰⁰ where infrastructure is expensive and built to last.

The second way to deal with power shortages is to boost local electricity production. In parallel to negotiations with neighboring countries, the government of the DPRK has also tried to attract investment in existing infrastructure, namely Sonbong thermal power plant. Built in 1972, this coal and oil-fired plant had a capacity of about 200,000 kwh, but is obsolete today. As explained in a call for investment by the RPC, crucial equipment like the boiler largely exceeded its normal lifespan (built for an operation standard of 100,000 hours, it had already been used for 178,000 hours in 2010);²⁰¹ hence, steam pressure has largely decreased (from 140 kilograms per square centimeter to 92 kilograms per square centimeter) and oil consumption dramatically increased (250 grams per kilowatt to 340 grams per kilowatt), which is particularly problematic in an oil-dependent country like the DPRK. Most of the equipment was made in former socialist countries (USSR, East Germany, Czechoslovakia; only the chimney is of North Korean manufacture), and the cost to replace them is estimated at about 19 million dollars²⁰², a figure that is most likely far below reality: an alternative estimate by the UNDP adds up to \$67 million.²⁰³ There are also plans to expand the power plant by building a new heavy oil power plant (by importing equipment from the Netherlands), but since the – optimistic – calculations published by the RPC estimate the investment return period to be slightly less than 33 years, there might not be takers anytime soon. The need for a heavy oil-fired plant might be explained by the fact that countries like Venezuela and Iran²⁰⁴, both on good terms with the DPRK, are known to export this kind of oil. The call for investment also interestingly, but quite naively, offers to make a joint investment in both the power plant and the nearby Gyongheung coal mine, so that low caloric coal can be used to fuel the power plant and high caloric coal can be extracted by foreign partners as an investment return.

199 Economic Corporation Bureau of Rason People's Committee of the DPR of Korea, *Invest Feasibility Report for Reconstruction and Modernization of Sonbong Thermal Power Plant* (2010). Hereafter ECBRPCPower Plant Report (2010).

200 Kim Ick-soo, RSFETZ.

201 ECBRPC, Power Plant Report (2010).

202 Ibid.

203 UNDP, *Rason Investment Guide*.

204 The UNDP report states that at the beginning of the 1990s, the Seungri Refinery neighboring Rason made some toll-refining deals with companies "from the Persian Gulf." Dormels mentions Oman and Yemen. Dormels, *Profile of Rason*, 296.



The Sonbong Power Plant, 2013

Image: HBOil, "[The Last Frontier, a Review of Our Recent Site Tour in the DPRK](#)," BDsec website (2013).

Even if power-generating facilities seem to be in a quite bad shape, there seem to be important potential synergies between the oil-focused port of Sonbong, the Seungri Refinery nearby (there are two pipes directly connecting the port to the refinery) surrounding coal mines and the power plant.²⁰⁵ But as with so many pieces of infrastructures in the area, there is the urgent need to make kick-off investments before reaping the potential benefits of these synergies. The transit of Russian natural gas and oil to Japan and South Korea through Rajin also seems promising, but would once again necessitate infrastructure work: to berth, an oil tanker needs at least 13 meters of clearance, while the Sonbong port is only 8 meters deep.²⁰⁶ Mongolian companies have already shown an interest in the refinery and the port, as it could lessen their dependency on Russia and China. In 2013, the Mongolian group HBOil bought 20 percent of the Seungri refinery, with a total investment amounting to about \$10 million dollars.²⁰⁷ Currently still in a trial phase (Mongolian crude oil from Russia or China is exported to Sonbong, refined and then re-exported to Ulanbator), Sonbong port would allow Mongolia to lessen its energy dependency on Moscow or Beijing by importing oil from other countries through Rason. Besides, outside of Rason, HBOil has taken the lead in the exploration of the "most promising" potential oil deposit in the DPRK, near Chaeryong

205 Ferries, *An Introduction*.

206 Lin and Hao, *Economic Cooperation*: 16.

207 "[Mongolia Taps North Korea Oil Potential to Ease Russian Grip](#)," *Bloomberg*, June 18, 2013; "[美媒：朝鲜会成为下一个能源超级大国吗？](#)" [*US media: Is the DPRK going to be the next energy power?*] *Cankan Xiaoxi*, December 6, 2015; and Dormels, *Profile of Rason*, 296

(south of Pyongyang).²⁰⁸

There are also plans to develop wind and solar power in the zone. As a matter of fact, at the national level, there is clearly a strong interest in renewable energies, both solar and wind, as they have the tremendous advantage of replacing the DPRK dependence on coal and especially oil, which the DPRK lacks. Recently, local authorities in Rason have emitted mixed signals regarding the development of wind energy in the SEZ. Efforts have been focused on wind energy given the few sunshine hours per year and the strong northwestern wind blowing in the area. According to local government documents, measurements were made at the top of the 260-meter high Uam Mountain on the eastern part of Rason (north of the Uam peninsula)²⁰⁹, and total investment needed for the generation of a 10,000 kilowatt hour-capable power plant was thus estimated at 20 million dollars.²¹⁰ To the author's knowledge, there are still no takers, and interviews conducted with DPRK diplomats familiar with developments in Rason revealed that the hopes were not too high on the Korean side.²¹¹ However, in 2015, the official DPRK website Naenara mentioned the "Uam Wind Power Plant" as an already existing facility, perpetuating the confusion.



The Seungri Chemical Complex, 2013 | Image: HBOil, "The Last Frontier."

208 ["Our Joint Venture Operations in DPRK,"](#) HBOil website (undated).

209 Given the information provided in the call for investment, it is possible that the 50meter high measurement station still can be seen in satellite imagery using the following coordinates: 42°18'21.10; 130°37'23.44.

210 ECBRPC, *Invest Feasibility Report for Wind Power Plant Investment* (2010).

211 Interview with DPRK diplomat in Switzerland, January 2013.

Additional infrastructures needs

Given Rason's remote location in the DPRK as well as in East Asia, transportation infrastructure is considered a key issue. Besides maritime and terrestrial access, but plans to build an international airport near Rason (Chongjin) have emerged. Since Rason already has a helicopter landing pad and that landing in Chongjin (but not inside the Rason Economic and Trade Zone) would necessitate visitors applying for DPRK visas, it is far from necessary in the current context. Given that Chongjin has an Economic Development Park of its own since 2013 and that other types of SEZ are spreading across North Hamgyong province at a faster pace than anywhere else in the DPRK, the question of improved access might however arise later.

Rason lacks efficient sewage and water treatment system. Once again, calls for offers were published to solve this important issue.²¹² As revealed in another call for investment, the current sewage system, dating back to the early 1940s, consist of direct deposit of waste water into local watercourses. The total cost of the rather ambitious project (a complete makeover of the existing system) is estimated to be around \$43 million, and the investment return period no less than 28 years. As even the author of the call for offers considers this investment return period to be "rather long," it is explained that potential investors will benefit "from "preferential conditions of operation," unfortunately without any additional details as to how.

Although the communication network was updated in the 1990s, businessmen and visitors to the zone often express their frustration when it comes to international communication, which is not very convenient and extremely pricy. For example, monthly worldwide web (not the DPRK *Kwangmyong* intranet system) access fee has been reported at over \$1,000.²¹³ Special IP-cards that allow international calls can be bought in China, but are quite expensive, too (\$0.75 a minute). There are plans to extend the communication network of the zone, maybe with the help of Loxley Pacific, which has a monopoly on communications infrastructure in the zone until the mid-2020s.²¹⁴

212 ECBRPC, *Invest feasibility report of water-supply and sewerage system in Rajin area* (2010).

213 "[N. Korean, Chinese scholars at odds over investment in N. Korea](#)," *Yonhap*, October 23, 2015.

214 [Rason Economic and Trade Zone](#), *Naenara* (accessed in 2015).

5. IN SEARCH OF RELIABLE PARTNERS

Regarding infrastructure development, the contrast with the Chinese side could not be stronger. Since 2003, with the “Northeast Old Industrial Bases Revitalization Plan” (振兴东北老工业基地; *zhenxingdong-beilaogongyejidi*) and especially with the *Changjitu* plan in 2009, central and provincial governments of China have been pushing for the construction of infrastructure towards the Northeast in order to “unlock” territories that can “see seagulls but not the sea” (只见海鸥不见海; *zhijianhaious bu jianhai*). The *Dongbei* provinces have quite important comparative advantages but suffer from lack of economic integration with the DPRK. Rason could provide important opportunities for Chinese companies from Jilin or Heilongjiang as a market, a resource supplier or an export window on the ocean. But the relative passivity of the DPRK authorities regarding infrastructure development in the zone (with roads and railways in Rason being the crucial but missing last piece of the China-DPRK economic corridor) gets interpreted as a lack of commitment from the Korean side.

The railway that used to end in Tumen was extended to Hunchun in 1994, and then to Kraskino on the Russian border between 1998 and 2003.²¹⁵ As of today, the Jilin-Yanji section of the railway was upgraded into a high-speed line (the 350km journey between now takes 1 hour and 43 minutes²¹⁶) same as the Yanji-Hunchun section.²¹⁷ In a more long-term perspective, the idea would be to join Russian railroad networks (and eventually ports like Vladivostok).²¹⁸ As noticed earlier, in a quite tensed regional context, several hurdles remain before this project can be turned into reality.

Regarding road infrastructures, progress on the Chinese side has been even more spectacular. Since the late 1990s and especially the 2000s, efforts made by Jilin province have been quite impressive, even if they stop at the border (with the notable exception of the refurbishment of the Wonjong-Rajin road mentioned earlier). With the help of the United Nations Development Program (UNDP), the Quanhe-Wonjong Bridge was renovated in 1997, and another one is currently being built to allow more important traffic. The UN development-focused organization also funded the construction of two tunnels between Hunchun and Quanhe in 1998. Highways leaving Changchun to Yanji and then Tumen were renovated in 2002, as well as the road from Hunchun to Quanhe later in 2005.

Until the Wonjong-Rajin road was rehabilitated, these massive investments from the Chinese side only benefited Yanbian cities as they shortened journey times from the prefecture to the rest of *Dongbei*. Because they stopped at the border, they did not facilitate access to the Sea of Japan (East Sea), which is very likely to be extremely frustrating for Jilin province and the Chinese authorities in general, especially given the export-oriented nature of the Chinese economy. The fact that local authorities in Rason are doing little to improve infrastructures on their side is very likely to be interpreted as a lack of commitment and reliability from the Koreans, as well as an over-

215 Zhu, *The Tumen River Delta*; and Tsuji, *The Tumen River Area Development Programme*.

216 “记者首次体验“高铁”延吉—吉林段用时1时43分” (Journalist for the first time experiences high speed railway from Yanji to Jilin city, takes one hour and 43 minutes), *Yanbian Ribao*, August 31, 2015.

217 Going from Yanji to Hunchun by train takes approximately 40 minutes.

218 “吉林省发改委调研珲春至俄海参崴高铁项目” (Jilin Provinces sends official to study Hunchun-Vladivostok High-speed Railway project), *Yanbian Ribao*, November 25, 2015.

reliance on Chinese fraternal assistance, which Beijing clearly decided to limit when the Cold War ended.

The economy of Northeast China has suffered several blows and the remotely located Yanbian prefecture has been especially challenged by the regional economic slowdown.²¹⁹ South Korean investment provided Yanbian with new opportunities, and local authorities decided to benefit from this trend, in addition to increased cooperation with Russia. In 2012, Yanbian decided to create an Economic Development Park of its own, located in Hunchun, in order to bolster potential synergies between China, Russia, South and North Korea. Officially established under the name of “China Tumen River Area (Hunchun) International Model Cooperation District” (“中国图们江区域（珲春）国际合作示范区,” *zhongguotumenjiangquyu (hunchun) guojihezuoshifanqu*),²²⁰ this economic development park was born from the ashes of the TRADP and in the wake of the 2009 *Changjitu* project²²¹ but with a more “local” and “low-key” approach as it technically only involves the DPRK, Russia and China, with Japan, South Korea and Mongolia playing only a background, indirect role in the project.²²² The basic idea is to create a “Golden Triangle in the Northeast” (东北亚金三角; *dongbeiya jinsan jiao*), with a local, business-focused approach. The success of this multi-faceted initiative, involving different sectors (agriculture, industry, tourism, applied R&D and innovation, etc.) is quite hard to assess today given the relatively young age of the project. For sure, the economic situation of the Hunchun “cooperation district,” if measured by commonly accepted indicators, is getting better, as reflected by official statistics: in 2014, for example, the total value of the production in the zone reached 8,4 million RMB up 13.8 percent on-year, with 35 new projects starting operations in the zone.²²³ The Yanbian prefecture also increasingly attracts tourists. Yanji’s small airport, for example, saw about 16 percent more passengers in 2014 than in 2013, and bi- or trilateral tourism-related projects are currently being designed. At the very end of 2015, Beijing greenlighted a trilateral trans-border tourism project in Fangchuan, where the three riparian countries meet.

However, the current Chinese attitude regarding the development of a fully functioning and integrated economic corridor linking the DPRK and Yanbian tend to be extremely self-interested and do not pay great attention to the DPRK’s economic interests. At the very beginning of the TRADP project, Beijing already tried to “free-ride” by insisting on creating river port facilities in Fangchuan (the closest Chinese city to the East Sea/Sea of Japan), which would have required constant dredging of the remaining 15 kilometers of the Tumen river to be used by Chinese ships, but could have offered the PRC direct access to the sea, bypassing both the Russian Federation and the DPRK. While such an uncooperative attitude is off the table nowadays, one should however be aware that the region’s development plans designed by the Chinese side offer only a background role for Rason, based on a quite unfair division of labor (a concept with which the DPRK is already ill-at-ease).

219 Collin, *La préfecture de Yanbian*.

220 “中国在中俄朝边境设立图们江区域(珲春)国际合作示范区” (*China opens China Tumen River Area (Hunchun) International Model Cooperation District in China-Russia-Korea borderlands*), *Guojizaixian*, May 21, 2012.

221 “我国将与俄朝韩蒙共建珲春国际合作示范区” (*China, Russia, Mongolia and North and South Korea will open a common international model cooperation district in Hunchun*), *Sina News*, May 21, 2012.

222 “省长吉图办支持珲春国际合作示范区的建设” (*Jilin’s Changjitu office supports the establishment of Hunchun international cooperation model district*), *Yanbian Ribao*, December 8, 2014.

223 “珲春边境经济合作区经济社会实现大发展” (*Business community of Hunchun borderland economic cooperation district realizes important breakthroughs*), *Yanbian Ribao*, February 27, 2015.

The seafood industry is a blatant example of this Sino-centric division of labor: recently, local authorities in Hunchun decided to implement a new development strategy for the local sea food industry, based on the “foreign resources, local processing, sales everywhere” (国外取材、国内加工、国内外销售; *guowaiqucai, guoneiji-agong, guoneiwaixiaoshou*) principle.²²⁴ Hunchun’s idea of becoming a seafood processing center is understandable, but it would entirely rely on resources from either the DPRK or Russia, process them, and eventually export them through Rason to either foreign (South Korea, Japan, Southeast Asia) or domestic markets, according to the principle “domestic business, foreign transport” (内贸外运; *neimaowaiyun*). In this pattern, Rason is “trapped” as a natural resources supplier, and the DPRK’s economy would thus only marginally benefit from additional capital inflows (from both the sale of seafood and export-related services). Value-added activities would thus be located on the Chinese side of the border, and the DPRK would not benefit from technology transfers or managerial know-how that could greatly benefit its economy. Establishing a 746-square kilometer Special Economic Zone with preferential policies is completely useless from this perspective: basically, buying DPRK natural resources and using a DPRK port can be done anywhere in the country. On the other hand, creating a processing center in Rason using both DPRK labor and Chinese capital and technology (a Kaeseong-like project, which was recommended by Chinese scholars²²⁵) would be much more interesting for the local economy; it would however be seen from Hunchun as a job-destroying initiative, something that Yanbian and the Northeast in general does not need. This is obviously not an issue specific to the China-DPRK relations or to Rason’s regional environment; however, given Pyongyang’s traditional attitude regarding cooperation with foreign partners and *Dongbei*’s current economic difficulties, the limited success of Rason could partly be explained by this issue, although a middle ground is certainly possible: as explained by Jilin scholars Lin Jinshu and Hao Fanglong, the basic idea of the *Changjitu* plan was to benefit from economic complementarities between both sides of the border so that *both sides* could climb up the industrial ladder and create more added-value goods;²²⁶ it seems that the initial “win-win” deal (互利共赢; *huligongying*) is in reality designed to be to the PRC’s advantage, which generates frustration on the Korean side of the border.

Russia: Partner or rival?

Since 2013, the Russian Federation has dramatically expanded ties with the DPRK, whose participation in Moscow’s plan for the economic development of the Russian Far East is needed. In 2014, Moscow cancelled 90 percent of the DPRK’s \$11 billion-dollar debt as a goodwill gesture, and started to intensify diplomatic, political and business contacts (at different levels) with the DPRK.²²⁷ Russia has expressed interest in sealing deals with the DPRK in various sectors including tourism, energy or railroads. Given the current state of the DPRK infrastructure, the Russian interest in the transport and energy sectors is especially important to follow: in 2015, an

224 “珲春市依托优势打造“东北亚海产品集散地” (Hunchun city relies on the transformation into a Northeast Asian seafood distribution center), *Yanbian Ribao*, July 2, 2015.

225 Lin and Hao, *Economic Cooperation*.

226 Ibid.

227 Toloraya, Georgy, [Russia-North Korea Economic Ties Gain Traction](#), *38 North*, November 6, 2014.

agreement on cooperation in the field of electric power was inked,²²⁸ and officials from both sides declared to be working a 20-years project to refurbish half of the railroad network of the DPRK (the Jaedong-Kangdong-Nampo railway, running through Pyongyang), with a total investment adding up to \$25 billion dollars. These announcements, however, must be considered with extreme caution, given that the provision of Russian (or Chinese) electricity to Rason and the rest of the DPRK is a well-worn topic of almost twenty years standing, but none of the many projects has seen the light of day. Given the strategic location of the DPRK, Moscow and Beijing understandably hope to reach South Korean markets by creating more transportation infrastructure running through the northern half of the Korean peninsula. China has also signed promising agreements (encompassing, among others, the construction of a Sinuiju-Pyongyang-Kaesong high-speed railway) with the DPRK, with similar success.²²⁹

On a local level, especially since the refurbishment of the Khasan-Rajin railway, Russian companies are timidly starting to benefit from the zone's facilities (Russian ships anchor in Rajinharbor two or three times a month).²³⁰ However, in the medium term, Russia could turn out to be not much of a partner but rather a rival to Rason. Chinese involvement in the Russian Far East and more especially in the ports of Posyet and Zarubino could put Rason in a very difficult position: even if the ports of the North Korean special city enjoy a better location than the Russian harbors of Primorsky Krai, the attitude of DPRK central and local authorities might push Chinese actors to by-pass Rason altogether. And, as Andray Abrahamian puts it, "One wonders if the North Koreans are planning for how to compete."²³¹ The fact that the Russian local and central governments are preoccupied by China's commercial embrace in the Far East might work in favor of Rason, but if Russian ports developed with Chinese capital, it would not only limit Yanbian/Rason cooperation, but also push Russian businesses to favor Russian ports.

The South Korean connection

In contrast to Kaesong, South Korea does not directly take part in the Rason ETZ, mostly because of the tensed ties between both countries and the "24.5 Measures" taken by the conservative administration of South Korea, which basically prevent all economic activity between the DPRK and South Korea. However, the implication – direct or not – of South Korean actors in the zone is increasing. In sharp contrast to the attitude of Seoul, the Rason law explicitly explains that "Koreans residing outside the territory of the DPRK" are welcome to invest, and the strong trade ties between Yanbian and South Korea might paradoxically be an interesting opportunity for Rason. There are currently 370 South Korean companies operating in Yanbian, and eight cities of the prefecture have established formal links with cities in South Korea ("sister cities").²³² In addition, South Korean companies,

228 ["DPRK-Russia Agreement on Cooperation in Field of Electric Power Signed," KCNA](#), 11December 2015.

229 ["High Speed Rail and Road Connecting Kaesong-Pyongyang-Sinuiju to be Built,"](#) Institute for Far Eastern Studies (NK Briefs), 20 December 2013.

230 Abrahamian, *Tumen Triangle*: 13.

231 *Ibid.*

232 ["张安顺会见韩国驻华大使金章洙](#) [Zhang Anshun meets with South Korean Ambassador Kim Jang-soo again]," *Yanbian Ribao*, September 25, 2015.

with the agreement of both Chinese and ROK governments want to build a South Korean Economic Park in the Korean prefecture, which could provide economic opportunities not only for China, South Korea but also the DPRK and Rason.²³³ The North Korean Special City is after all located on the shortest route from Yanbian to South Korea and has important comparative advantages that made Kaesong extremely lucrative. While South Korean companies are forbidden to engage in economic activity with North Korea, Chinese companies are not, and they could act as an “active interface” in Yanbian between companies from the North and the South of Korea. Few examples of these kinds of cooperation already exist on the border, and creating an actual economic park would allow a better monitoring of trilateral economic cooperation, thus reducing security threats for all parties involved.²³⁴

233 [“S. Korea, China to construct joint industrial complex near N. Korea,”](#) *Yonhap*, September 26, 2015.

234 A South Korean entrepreneur met in Pyongyang in 2015 explained that it had already co-founded companies on the China-Korea border that had for primary objectives to either use DPRK labor through joint-ventures or subcontracting.

6. SPECIAL ECONOMIC ZONE PROLIFERATION IN NORTH HAMGYEONG PROVINCE

Since Rason was turned into a Special City in 2010, it is no longer part of North Hamgyeong province: there is an actual border to cross, and the rest of the zone is fenced off from the rest of the DPRK. Rajin-Sonbong is however surrounded by North Hamgyeong province, the part of the DPRK that incorporates the most SEZs. There are currently 26 SEZs in the DPRK (although they have different status), and not less than five of them are located on the Northeastern tip of the country.²³⁵



Special Economic Zones of North Hamgyong Province | Image: Google Earth, 2015

In addition to Rason, the central government of the DPRK opened other economic zones in Chongjin (Chongjin Economic Development Zone), Onsong (Onsong Tourism Zone) and Orang (Orang Agricultural Tourism Zone) in 2013, and another one again in 2015 (Gyeongwon Economic Development Zone). Contrary to the multi-purpose Rason, more recently established SEZs of the DPRK seem to be more specialized in different sectors (Industry, Tourism, Agriculture, etc.). Since Orang is remotely located from China and is focused on agricultural development, it does not seem relevant to discuss it here. Gyeongwon, Onsong and Chongjin SEZs, on the other hand, might play a key role in the local and regional economy. For the time being, given their young age, and of course the traditional opacity of DPRK policymakers, information on these zones is extremely limited.

235 Rüdiger Frank, "[Rason Special Economic Zone : North Korea as it Could Be.](#)" 38 *North* (2014).

Chongjin Economic Development Zone

When Kim Il-sung first showed interest in the creating of an economic interface in Rajin, he also mentioned Chongjin as a potential alternative. While located further away from China and Russia, Chongjin is an extremely important industrial and trade center of the DPRK: a few month after the war, Kim Il-sung put a special emphasis in rebuilding coastal ports for external trade, including Nampo, Hamhung, and Chongjin.²³⁶ Ten years later, Chongjin was selected to become the most important port on the Eastern coast,²³⁷ and the city had already become a major industrial production center, hosting most notably the Kim Chaek Iron and Steel complex. Today, with a population of about 660,000 inhabitants, Chongjin is the DPRK's third biggest city and its second biggest merchandise port (after Nampo). Given its importance and strategic location, Chongjin has a legacy of increased interaction with foreign partners, hosting a Chinese and a Russian consulate. China has also been using Chongjin's port facilities since the beginning of the 1980s, and a Chinese company headquartered in Yanbian recently announced that it would invest in Chongjin's port to use it as a window on the Sea of Japan (Eastern Sea), although the actual implementation of the deal is hard to monitor. As Chinese scholars have noticed, this port could serve as an alternative to Rajin-Sonbong ports, especially for foodstuff and agricultural products, a sector in which Jilin province excels.²³⁸

Gyeongwon Economic Development Zone and Onsong Tourist Development Zone

Since 2013 and 2015 respectively, the northernmost part of the DPRK also host two SEZs located at the border with China, the tourism-focused Onsong SEZ as well as the more generalist Gyeongwon Economic Development Zone. While their exact location is still hard to know for sure, Onsong and Kyongwon cities can be accessed respectively from Tumen and Hunchun, but also from Rason. The newly-opened SEZs happen to be located on the Tumen-Rajin railroad, and could serve as incentives to refurbish this highly strategic transportation axis. Onsong is facing the Chinese city of Liangshui in Tumen County, and has already signed an agreement with the other side of the border to develop the tourism-focused SEZ, and plans to create golf courses or horse races have sprung up in the Chinese press, but within the context of the anti-corruption campaign inside the PCC, these plans are unlikely to see the light of day anytime soon.²³⁹ The project was initially supposed to be one of

236 Kim Il-Sung, "Rapport présenté à la 6^e Session plénière du Comité Central du Parti du Travail de Corée" [Report presented at the 6th plenary session of the Central Committee of the Worker's Party of Korea], (Œuvres 8 (1981).

237 Kim Il-sung, "Donnons la priorité au travail politique et appliquons la ligne de masse dans le domaine des transports, Discours prononcé lors d'une réunion consultative des fonctionnaires du secteur des transports [Let's prioritize political work and apply the mass line in the transportation sector, speech at the consultative meeting of the transportation sector civil servant], (Œuvres 18 (1984).

238 Barry Gills, *Korea Versus Korea: a Case of Contested Legitimacy* (New York: Routledge, 1996), 209; "延边海华集团与朝鲜港湾总会社签署合同成立合营公司,图们首家跨国合营企业宣告成立" [Yanbian Group Haihua signs a joint venture contract with North Korean port authority; First cross-border joint venture company declared open in Tumen], *Yanbian Xinwen*, September 6, 2012; and "中国打通第3条南北运粮通道" [China opens a third South-North grain export corridor], *Xinhua*, January 4, 2016.

239 "N.Korea inks border town economic deal," *Global Times*, December 13, 2013; and "If They Build it, Will They Come?" *Choson Exchange*, November 22, 2015.

the “zones” of the Tumen-centered development plan called “three zones, four belts, five parks” (三区四带五园; *sanqusidaiwuyuan*),²⁴⁰ but this quite discrete initiative seems to have produced limited tangible effects in the local economy. Locals in Liangshui seem to have a quite limited knowledge of these development plans on the other side of the border, although the North Korean landscape (including a monumental statue of Kim Il-sung) attracts local tourists from the whole prefecture. As of today, some test-runs of Chinese-run tours have already taken place but the area has not, to the author’s knowledge, attracted substantial investment yet, although the Chinese city of Tumen seemed to have expressed interest in the project after the zone was opened.

The most recent SEZ of the DPRK, Gyeongwon, is located near Onsong, and face the Chinese city of Hunchun. Like Onsong, the SEZ is most likely not located in Kyongwon city itself but in a DPRK “enclave” on the “Chinese side” of the Tumen River. Contrary to Onsong, Gyeongwon already has a proper and direct border-crossing point with a customs house rebuilt in 2011, although it seems to be idle. The Shatunzi (China)/Gyeongwon Bridge however is the most direct way to DPRK from Hunchun. The zone also enjoys a potentially strategic location, as the railway running from Tumen/Namyang to Rajin passes through Gyeongwon city. Recent plans, mentioned in the Chinese press, to rebuild the cross-border bridge in Shuaiwanzi (north of Gyeongwon) would turn the Gyeongwon SEZ into the only North Hamgyong zone (besides Rason) with direct road and train access to China.²⁴¹

240 “图们打造“三区四带五园”经济增长极” [Tumen creates “three zones, four belts, five parks” economy to develop even more], *Yanbian Xinwen*, May 29, 2014.

241 “珲春成为经济发展的黄金“洼地,” *Xinwenhua*, June 16, 2015.

CONCLUSION: IS WINTER OVER IN RASON?

On January 6 and September 8, 2016, the DPRK detonated what it claims to be a hydrogen bomb. This nuclear test was followed by new unilateral and multilateral sanctions, which are, according to their tenets at least, aimed at preventing the DPRK from becoming a full-fledged nuclear power. While the pros and cons of these sanctions regarding international and security relations of Northeast Asia cannot be discussed here, it seems clear that they will take their toll on the development of Rason. The zone's most promising project, the trilateral cooperation between Russia, South Korea and the DPRK, has already been made impossible by Seoul's decision of stopping economic cooperation project with the North,²⁴² a position that Moscow seems to regret.²⁴³ Promising Russian involvement in the zone, which could have led to important developments in the DPRK and resulted in enhanced economic integration in the Korean peninsula, might also have been nipped in the bud by the new measures.²⁴⁴

In addition, the United Nations Security Council (UNSC) measures, voted on the March 2nd (resolution No. 2270), by far the harshest sanctions against the DPRK ever, place important constraints on North Korean ships, which makes it even harder for a coastal SEZ like Rason. The zone's main advantage, namely its strategic location, is almost nullified by the economic sanctions and it is very likely that the development of Rason and the TRA will be further delayed. Pro-sanctions experts and political leaders might argue that the very *raison d'être* of economic sanctions is to put economic activity under strain. However, besides ethical issues and the potentially dramatic consequences of sanctions, to the study of Rason's case, as well as of other SEZs, led the author to consider that instead of creating "the conditions in which North Korea cannot survive unless it changes" (as explained by South Korean President Park Geun-hye) punitive sanctions, will, on the contrary thwart what is actually changing in the DPRK.²⁴⁵ As the author tried to show, Pyongyang has been attempting, since 25 years at least, to open the Rason area to foreign investors, with limited but existing success. If the international community fails to encourage the DPRK to pursue in this direction, the North Korean leadership might be tempted to believe that his economic experimentations are not welcomed by foreign powers.

242 [“\(LEAD\) S. Korea informs Russia of halt to trilateral project with N. Korea,”](#) *Yonhap*, March 8, 2016.

243 [“\(LEAD\) Russian envoy meets with Seoul official amid suspension of logistics project,”](#) *Yonhap*, March 23, 2016.

244 Toloraya, Georgy, Yakovleva, Lyubov,” [The Greater Tumen Initiative: A chance to reengage the Korean Peninsula?](#)” *NK News*, January 5, 2016.

245 [“Park vows to ratchet up pressure on N. Korea,”](#) *Yonhap*, March 23, 2016.

Editors' note:

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