



THE ABCs OF NORTH KOREA'S SEZs

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THE ABCs OF NORTH KOREA'S SEZs

Introduction

In recent years, the priority Pyongyang has put on economic growth has increased. The resumption of economic policy experiments, such as the reorganization of collective farms, increased autonomy for State-owned Enterprises and an overhaul of investment laws, in many ways imitate earlier Chinese policies. Yet the ambivalence to the broader reforms the Chinese undertook remains.

The most visible of these experiments was the creation of over a dozen Special Economic Zones in 2013, followed by a second new group announced in 2014. These zones, with a variety of intended functions and ostensibly foreign-friendly regulations, signal a willingness to explore policy options, yet also clearly illustrate the development challenges that the DPRK continues to both face and perpetuate. While most of these zones will languish as underfunded and under-connected, a handful will be positioned to attract moderate investment should North Korea's relations with neighboring countries improve. Moreover, they will open up spaces in which further policy experiments can take place, perhaps including rules on internet access, ownership rights or immigration procedures. This paper examines the political-economic impetus behind North Korea's Special Economic Zone (SEZ) development policy, describes the geographic, economic and bureaucratic contours of the policy and attempts to assess its prospects.

Research for this paper included several rounds of discussions and consultations with Pyongyang and provincial officials, as well as North Korean businesspersons and academics from October 2013 to September 2014, both in the DPRK and abroad. This primarily occurred during workshops related to SEZ management and other economic policy issues conducted by Choson Exchange, a Singaporean non-profit specializing in training for North Koreans in business, economic policy and law. Choson Exchange staff visited five of the zones and conducted

training of SEZ managers from seven provinces. Further information was gleaned through a comprehensive review of North Korean, South Korean and other media sources.

Early Exposure to SEZs

In 1986, there were what might be called 176 “Special Economic Zones” in 47 countries; by 2003, there were over 3,000 across 116 countries.¹ As the millennium ended, it was clear that creating territorially-bound platforms in which national economic rules could be altered or avoided altogether was seen as the way to go. This was particularly true for developing economies.

North Korea’s giant neighbor, China, has perhaps the most famous of all SEZs—the Shenzhen Special Economic Zone, established in 1980. Shenzhen was the first city in China to be allowed to receive direct foreign investment and continues to be a platform for experimentation: in 2009, the central government set up ChiNext, a NASDAQ-style stock exchange, there. China’s commitment to the SEZ model of economic development led to a mishmash of conflicting and overlapping SEZs, covering much of the country. By 2003, there were 6,866 zones, created in cooperation with varying levels of government. Redundancy and conflict led to the central government investigating the zones; as a result, several were merged or removed, leaving only 1568 by 2006.²

China’s experimentation with SEZs has had a clear impact on North Korea’s decision-makers, even though Pyongyang’s commitment to economic reform has been considerably more reluctant than Beijing’s, to say the least. Nonetheless, the generation of leaders in charge of North Korea today largely came up through the ranks in the 1980s, having subsequently watched the collapse of the Soviet Union and continued controlled reform in China. This decade witnessed not only the implementation of China’s pioneering SEZs and its economic transition, but also the upswing in PRC-DPRK relations that followed the end of China’s acrimonious and destructive Cultural Revolution.

Kim Il Sung visited Deng Xiaoping in 1982 and was taken to see Sichuan Province’s economic growth. Subsequently, Kim Jong Il visited China in 1983, a delegation of some 50 North Koreans toured Shenzhen and Shanghai in 1984, and in 1985, not only did Kim Il Sung return, but a

¹ Aradhna Aggarwal, “Special Economic Zones: Revisiting the Policy Debate,” *Economic and Political Weekly* (Nov. 4, 2006): 44-53.

² Simon Adler et al., *Economic Reforms and Industrial Policy in a Panel of Chinese Cities*, UBS Center Working Paper Series, No. 5 (November 2013): 7.

delegation of 500 North Koreans also visited to tour Shenzhen.³ At that time, Beijing was eager to show off its successful economic policies and to gently advocate for the DPRK to follow a similar line.

During this same time frame, there were also several top-level Chinese visits to Pyongyang for consultations.⁴ This influence contributed to the first DPRK attempt to deal with foreign investment: the passing of the Joint Venture Law (JVL) in September 1984, which was modeled on China's 1979 JVL.⁵

The imprint can further be seen in the foundation of the Rajin-Sonbong (now commonly referred to as "Rason") Free Economic Trade Zone in 1991, which was set up following a Kim Il Sung visit to China and appears very much influenced by the Shenzhen model of creating liminal economic spaces distant from core political territories (or "put-the-thing-we're-not-sure-will-go-well-as-far-from-the-capital-city-as-possible"). The conservative voices in the leadership at that time, combined with ensuing famine, tepid international interest and other factors, meant minimal development of Rason in the 1990s. That said, laws governing foreign investment were revised in 1992 and 1999: the 1992 law opened the zone to South Korean investment and expanded the allowable sectors to include finance and services. The 1999 revisions changed "Korean nationals...outside the territory of the DPRK" to "overseas Koreans," explicitly guaranteeing their status as foreigners. It also introduced the concept of a wholly owned foreign enterprise, allowable only in Rajin-Sonbong.⁶

At the same time, the DPRK's 1992 Constitution, for the first time, stated that joint ventures would be encouraged and in 1998, an article was added to the DPRK Constitution noting that foreign investment should take place "within a special economic zone."⁷ Certainly, the 1990s were the first time that Pyongyang had a sustained interest in establishing the legal preconditions necessary to attract foreign investment and saw their lone FETZ as the best place to experiment with the application of such laws.

The bottom-up marketization of the DPRK economy sparked by the breakdown of the public distribution system during the famine years, combined with the international atmosphere shaped

³ Myung-Kyu Kang, "Industrial Management and Reforms in North Korea." in *Economic Reforms in the Socialist World*, Gomulka, Stanislaw et al. (M.E. Sharpe: New York, 2002) 202.

⁴ "Before 1990s of the 20th century," Embassy of the People's Republic of China in the Democratic People's Republic of Korea, accessed on November 11, 2014, <http://kp.china-embassy.org/eng/zcgx/sbgx/90ndzq/>.

⁵ Eric Yong-Joong Lee, "Development of North Korea's Legal Regime Governing Foreign Business Cooperation: A Revisit under the New Socialist Constitution of 1998," *Northwestern Journal of International Law & Business* 21.1 (2000): 203.

⁶ *Ibid.*, 208.

⁷ *Ibid.*, 208, 211.

by the “Sunshine Policy”— a policy of greater cooperation between the two Koreas initiated by South Korean President Kim Dae-jung in 1998—inspired North Korea to expand their SEZ experimentation again in the 2000s. This took the form of the Kaesong Industrial Complex (KIC) just north of the Demilitarized Zone (DMZ) separating North and South, the Mt. Kumgang Tourist Zone, also near the DMZ, and the Sinuiju Special Administrative Region (SAR) on the border with China, all founded in 2002. The Mt. Kumgang project had attracted over one million South Korean visitors, until a tourist was shot dead by a North Korean soldier in 2008.⁸ Tours from the South have not run since. The KIC has not lived up to its early, extremely hopeful billing, but now earns up to \$90 million a year for North Korea through fees, taxes and wages.⁹ The total output in the zone is estimated to have reached \$470 million during 2012, before the temporary 2013 shutdown.¹⁰ Sinuiju has been less of a success. Pyongyang chose a Dutch-Chinese flower magnate called Yang Bin to manage the zone. For reasons not fully clear, Chinese authorities decided to arrest him on charges of corruption within weeks of the announcement of the Sinuiju SAR, and he was subsequently sentenced to 18 years in prison.¹¹

While China’s cooperation on North Korean SEZ development has not been consistent or coherent, China’s experiences using SEZs to develop its economy seems to have had a significant impact on North Korean thinking.

SEZs Under Kim Jong Un

From 2009, as the transition from Kim Jong Il to Kim Jong Un began in earnest, the elder Kim’s on-the-spot guidance tours demonstrated a renewed emphasis on economic issues, as if to deliberately associate the younger Kim with the economy. Following North Korea’s nuclear test in 2006, Kim Jong Il’s visits to military sites relative to economic ones began to drop. The year Kim Jong Un was officially introduced, 2010, Kim performed the fewest visits to military sites since he succeeded his father, Kim Il Sung. In fact, visits that year to economic sites outstripped military ones 58 to 33. In 2011, similar consideration was paid to economic sites.

⁸ “South Korean tourist shot dead in North Korea” *The Guardian*, July 11, 2008, <http://www.theguardian.com/world/2008/jul/11/korea>.

⁹ “Two Koreas agree to reopen shuttered factory park” *Reuters*, August 14, 2013, <http://www.reuters.com/article/2013/08/07/us-korea-north-idUSBRE9760BO20130807>.

¹⁰ “Output from Kaesong complex jumps 17.5 pct on-year in 2012” *Yonhap*, January 10, 2012, <http://english.yonhapnews.co.kr/northkorea/2013/01/10/71/0401000000AEN20130110006700315F.HTML>.

¹¹ “Tycoon jailed for 18 years” *The Guardian*, July 15, 2012, <http://www.theguardian.com/world/2003/jul/15/china.jonathanwatts>.

Kim Jong Il's death in December 2011 dampened the celebration plans for the 100th anniversary of Kim Il Sung's birth just a few months later, but also allowed Kim Jong Un to step forward more fully and quickly than perhaps originally envisioned. He continued to associate himself with economic performance, as he pledged in his April 15, 2012, address—his first major public speech, which he delivered on his grandfather's centenary birthday—that the North Korean people “will never have to tighten their belts again.”¹²

This is not to say that Kim meant to introduce a huge shift away from his father's *Songun* (military first) politics, as his speech also emphasized military might. However, a year later, following a March 2013 Plenary Meeting of the Workers' Party of Korea (WPK) Central Committee, Kim re-emphasized commitment to the *Byungjin* policy, or parallel development policy, under which nuclear weapons and economic growth would be equally weighted.¹³ This effectively elevated the importance of economic growth to parity with military might, rhetorically at least. Cynics will note that *Byungjin* enshrines the DPRK as a nuclear power and attempts to “have it both ways”—perhaps an impossibility, given the other stakeholders contributing to the equation. A more positive observer might conclude this is the most pro-economy policy guideline since the end of the Cold War. After all, a military-first state cannot be expected to transition suddenly or absolutely towards an economy-first state, especially when embedded in a culture founded on resistance to the outside world.

Regardless, what has transpired since then is a series of economic policy experiments. One policy—announced globally but promoted cautiously on the domestic front—was the “June 28 New Economic Management Measures” of 2013, also known as the “6.28 Policy,” which reduced the size of agricultural production units to less than six people and would allow farmers to keep more of their yields. North Korean officials suggest that pilots of this policy have expanded.

Another part of the New Economic Management Measures was greater autonomy in decision-making for companies. As *Choson Sinbo*, a Japan-based, pro-North newspaper explained: “Whereas in the past enterprises had just to carry out the production plans handed down from the state, the new measure has allowed enterprises to make production contracts with various clients based on their own decisions while implementing state plans as well.”¹⁴ Under this arrangement, the Party would still govern appointments to state-owned enterprises, but the central authorities

¹² “North Korean Leader Stresses Need for Strong Military,” *The New York Times*, April 15, 2012, <http://www.nytimes.com/2012/04/16/world/asia/kim-jong-un-north-korean-leader-talks-of-military-superiority-in-first-public-speech.html>.

¹³ “Report on Plenary Meeting of WPK Central Committee,” *KCNA*, March 31, 2013.

¹⁴ “우리 식의 경제관리 방법”의 완성을/내각 관계자 인터뷰,” *Choson Sinbo*, May 10, 2013, <http://chosonsinbo.com/2013/05/0510th-4/>.

would abrogate responsibility for distributing food and other provisions for workers and for setting quotas, targets or restrictions on production.

An observation of domestic propaganda reveals that quality of life has become a more central theme. In fact, Pyongyang rolled out a key slogan, “Elevating the People’s Lives,” which was popular in other periods during which the economy was a focus, including the early 1980s: conceptually, it stands in opposition to slogans based on military might or resistance. This slogan ties into Kim Jong Un’s sports promotion policy, which serves to provide an outlet for nationalism as well as to convey and encourage a sense that North Koreans have the right to leisure, recreational activities and a pleasant life.¹⁵ It is in this context that the economic policy experimentation surrounding SEZs has taken place.

Expansion of SEZ Legal Provisions and Incentives

As noted, some form of foreign investment law has been in place in North Korea since the 1980s, though significant revisions took place in 2006 and 2010. Expert opinion is that North Korea’s investment laws bear a strong resemblance to those in China, reminiscent of earlier stages of Chinese development, when the legal code had less detail and more untested areas.¹⁶

The law unifies SEZ control under a single ministry—the Ministry of External Economy (MoEE)—to manage the zones (article 4). However, the 2013 law does not apply to the Rason SEZ, Hwanggumpyong and Wihwa Islands SEZ or the Mt. Kumgang Tourist Zone: these zones are governed by separate sets of regulations. The Kaesong Industrial Complex has separate regulations altogether, and is not connected to the MoEE.

Importantly, the law also provides for foreign companies and local authorities to petition the MoEE to create new zones (articles 11, 12, 14), though it does not specify details of the review process. It grants the central authority considerable control over the management of SEZs (chapter 4). However, foreign companies, local institutions or a mix of each are allowed to apply for, plan and develop an SEZ.

The 2013 Law of the Democratic People’s Republic of Korea on Economic Development Zones attempts to incentivize investment into SEZs over other areas. As with previous iterations of

¹⁵ Andray Abrahamian, “Sports!” *38 North* (US-Korea Institute at SAIS, Johns Hopkins University), May 1, 2013, <http://38north.org/2013/09/aabrahamian091813/>.

¹⁶ See Peter Morley, “Legal Framework for Foreign Direct Investment in the Democratic People’s Republic of Korea,” Choson Exchange blog, July 2011, <http://choson-exchange.squarespace.com/config#/our-blog/938>.

the DPRK investment law, it allows foreigners a 50-year land lease period (article 24) as well as “the right to buy, sell re-lease, donate or inherit the land use right and building ownership” (article 29). It also specifies a 14 percent net profit tax of companies in an SEZ (rather than 25 percent elsewhere) or 10 percent if the investment is in a priority sector (article 45); and preferential tariffs for investors who build or reinvest profits into the SEZ (articles 56, 54). It also states that “legitimate profits” can be remitted and currency moved in and out of zones freely (article 47). This is troublesome language as the definition of legitimate is left unclear. The law also ambiguously promises that immigration and customs conditions will be such that “economic activities of the investors may progress smoothly” (article 50).

As with previous laws regarding investment in the DPRK, there are troubling ambiguities. Perhaps the most striking is Article 7:

The State shall not nationalize or expropriate the property of the investors. Where an investor’s property is, under unavoidable circumstances, to be expropriated or used temporarily for public interest, notification thereof shall be made in advance and sufficient compensation commensurate with its value shall be made in good time.

Or to put it another way: we won’t take your property, unless we say we have to, and then we will decide to perhaps pay you something for it, sometime. This is, frankly speaking, unappealing to investors. However, it should be noted that legal codes in countries all over the world—even in Europe and North America—contain grey areas and allowances for eminent domain. What matters is if actors feel the country in question will use or abuse those grey areas.

In the case of North Korea, perception of the DPRK investment environment remains extremely poor. North Korea will need to demonstrate a willingness to apply and enforce its laws consistently and fairly in order to gain investor confidence. This will take time and sustained commitment. Despite this, the significance of the legal code is twofold. First, it creates incentives that once were only available in Rason, such as the 14 percent corporate tax or 50-year land lease. But also, because foreigners can work with local partners to apply for SEZs, it means that any official investment of any size could end up a declared SEZ. Conceivably, ‘spot SEZs,’ as small as a city block or factory could come into existence.

2013 and 2014 New Special Economic Zones¹⁷

In October 2013, North Korea announced plans for 13 new Provincial Level Economic Development Zones. Most are quite small, between 2 and 4 square kilometers and are dotted around the country. (See Appendix I for a comprehensive list of the SEZ and corresponding satellite imagery.)

The planned new zones fall into five categories: Export Processing/Trade Zones; Industrial Development Zones; Agricultural Development Zones; Tourism Development Zones; and Economic Development Zones.

Export Processing/Trade Zones

- **Songrim Export Processing Zone** (*Manufacturing, Tourism, Trade*) Songrim is a city in South Hwanghae Province, on the Taedong River between Pyongyang and Nampo. It has a population of 128,831 and is a steelworks/heavy industrial site.
- **Nampo City Waudu Export Processing Zone** (*Manufacturing*) is situated in an area of urban and agricultural land in the far west of Nampo City at the mouth of the Taedong River. Within it are the DPRK's main west coast shipyard, various factories and three institutes of higher education.

Industrial Development Zones

- **Wiwon Industrial Development Zone** (*Machine Tool Manufacturing, Mining*) Wiwon is a small town/county of 60,000 people, situated roughly 300 kilometers inland from Sinuiju. It is home to the Wiwon Plant, a 400,000 kilowatt power plant completed in 1990, built in cooperation with China.¹⁸ It is located at a border crossing with the PRC.
- **Hungnam Industrial Development Zone** (*Machine Tool Manufacturing, Bonded Goods, Building Materials, Chemical Products*) Hungnam is a district of Hamhung, an industrial city on the east coast that has a population of over 700,000, making it the DPRK's second largest city. It is home to much of North Korea's chemical manufacturers. The idea of Hungnam being made a special business district extends to at least the early

¹⁷ The author would like to thank Curtis Melvin, Visiting Scholar of the US-Korea Institute at SAIS and author of *North Korea Economy Watch*, for his consultation on the descriptions of the special economic zones and for compiling the corresponding satellite imagery.

¹⁸ Heung-kook Park, *North Korea Handbook* (Seoul: Yonhap News Agency, 2003), 75.

2000s: it was made a separate “industrial city” in 2001, but reabsorbed into Hamhung in 2005.¹⁹

- **Hyondong Industrial Development Zone** (*Non-Polluting Light Industry, Information Technology Industries*) Hyondong is a district of Wonsan City, on the east coast. Due to Wonsan’s extant status as a resort town and plans to expand the broader region into a special tourist zone, Hyondong has been restricted to non-polluting industries only. “Full internet access” will be allowed in the zone.

Agricultural Development Zones

- **Pukchong Agricultural Development Zone** (*Fruit Cultivation*) Pukchong is located south of Chongjin in South Hamgyong Province. Pukchong has a reputation for cultivation of fruit trees, particularly pears and apples. There is a small shoe factory located there. It has a population of 160,000. Hyundai founder Chung Ju Yung’s ancestral home is there.
- **Orang Agricultural Development Zone** (*Fertilizer, Agricultural Research Center*) Orang is a county of 90,000 people in the west of North Hamgyong Province. Its main distinguishing feature is that it is home to the northernmost airfield in the DPRK—flights with passengers traveling to Chongjin, Mt. Paektu, Mt. Chilbo and occasionally Rason land here. Otherwise, rice and pine mushrooms are cultivated in the county.

Tourism Development Zones

- **Onsong Island Tourism Development Zone** (*Foreign Tourism*) Onsong, a town with a population of 127,000, sits just across from Tumen City in Jilin, China. It signed a co-development agreement with Tumen in December, 2013.
- **Sinphyong Tourism Development Zone** (*Foreign Tourism, Hiking, Nature Appreciation*) Sinphyong is a scenic site off the highway between Pyongyang and Wonsan across from Tumen City in Jilin, China. Originally a rest stop, it is being expanded to include neighboring mountains and valleys as recreation areas. It is the biggest of the new zones, at around 8 square kilometers.

¹⁹ “North Korea: South Hamgyong Province’s Hungnam City Reverts to Hungnam District,” *NK Chosun*, April 5, 2006, (in Korean) <http://nk.chosun.com/news/articleView.html?idxno=78150>.

Economic Development Zones

- **Chongjin Economic Development Zone** (*Machine Tool Manufacturing, Building Materials, Metal Products*) Chongjin is the DPRK's third largest city (population: 660,000) and is home to the Kim Chaek Iron and Steel Complex, North Korea's largest steel mill, a power plant and the only consular services outside of Pyongyang (Russian and Chinese). The EDZ covers parts of Songpyong District, which also houses a steel complex, a power plant and one of the port's piers.
- **Hyesan Economic Development Zone** (*Export Processing, Modern Agriculture, Tourism*) Hyesan sits on the border with China in the Mt. Paektu region of the DPRK. It was home to North Korea's copper production, which has been rehabilitated somewhat following damage sustained in the mid-1990s through investment by the Wanxiang Group. It is Ryanggang Province's largest city, with a population of nearly 200,000 people.
- **Manpo Economic Development Zone** (*Agriculture, Trade, Tourism*) Manpo is a city in northwestern Chagang Province, with a population of 115,000. It is across the Yalu River from the city of Jian, China. The two countries signed an agreement in 2012 to jointly develop a Korean island for tourism and to rebuild the bridge crossing the river.²⁰
- **Amrok (Yalu) River Economic Development Zone** (*Agriculture, Trade, Tourism*) This EDZ comprises of two districts of Sinuiju, North Korea's key border-trading city. Not only is Sinuiju the main overland trading city with China, it is also home to the Ponghwa Chemical Complex—likely North Korea's only operating refinery—and model heavy and light industries: Rakwon Machine Factory and Sinuiju Cosmetics Factory, respectively. Kim Jong Il visited the city 20 times in his last decade, underscoring the city's importance.²¹

In June 2014, Wonsan was designated a Special Tourist Zone, though in conversation, North Korean officials had been calling it a special zone for at least a year prior. In July, a new batch of SEZs was announced by the Presidium of the Supreme People's Assembly. In that pronouncement, Sinuiju was also rebranded the Sinuiju International Economic Zone.²²

²⁰ “北中, 만포·지안 교량 공동건설...관광사업 일환,” *DailyNK*, May 11, 2012, <http://www.dailynk.com/korean/read.php?catald=nk00100&num=95266>.

²¹ “Spotlight on Sinuiju,” *38 North* (US-Korea Institute at SAIS, Johns Hopkins University), July 23, 2010, <http://38north.org/2010/07/sinuiju-2/>.

²² “Economic Development Zones to Be Set up in Provinces of DPRK,” *KCNA*, July 23, 2014, <http://www.kcna.co.jp/item/2014/201407/news23/20140723-24ee.html>.

The additional zones included:

- **Jindo Export Processing Zone** (*Light Manufacturing*) Jindo is a neighborhood located in the Waudo District of Nampo City. It shares a direct border and port access with the Waudo EPZ. The shipyards are located in Jindo.
- **Kangryong International Green Demonstration Zone** (*Organic Agriculture, Tourism, Aquaculture, Light Industry*) Gangryong County is in South Hwanghae Province, across a channel of water from the provincial capital, Haeju. It has a reputation for unspoiled coastline and high quality tea. The SEZ covers the coastal areas of Kangryong County.
- **Chongnam Industrial Development Zone** (*Coal, Chemical Manufacturing*) Chongnam is a city-level administrative area of South Pyongan Province. It is home to coal production and a chemical complex. It is located in Anju, home to perhaps 900 million tons of mineable coal.²³
- **Sukchon Agricultural Development Zone** (*Rice, Other Agricultural Goods*) Sukchon, a county located just over 50 kilometers north of Pyongyang, is famed for its high quality rice and is located in the heart of North Korea's rice basket in South Pyongan Province.
- **Chongsu Tourist Development Zone** (*Cross-border Tourism*) Chongsu Tourist Development Zone will cover areas of the Chongsong Workers' District and Pangsang, Sakju County in North Pyongan Province. It intends to draw Chinese day tourism, but there are no hotels there as of yet. It is home to a half-destroyed bridge from the Korean War and scenic views of the Yalu River.
- **Unjong High-Tech Development Zone** (*Biotechnology, software, engineering*) Unjong is located in the outskirts of Pyongyang city, bordering Pyongsong City. This "national priority project" is being developed in concert with the Academy of Sciences to act as a hub for both research and commercial tech ventures.

²³ Park, *North Korea Handbook*, 1088.

Bureaucratic Governance: Competition Resolved?

When it comes to economic oversight, the bureaucratic landscape has undergone shifts in the past few years, perhaps as different groups vie for control over access to foreign investment.

In 2009, the Taepung International Investment Group emerged as a holding company model to be a vehicle for attracting foreign direct investment. At roughly the same time, the Joint Venture and Investment Committee (JVIC) was established as a one-stop shop for investors. These two organizations appeared to have a competitive relationship, creating unhealthy ambiguity for potential investors and local actors alike.²⁴ Ultimately, JVIC won out and became the primary avenue for foreign investment, while also taking on responsibility for managing the Rason SEZ.

However, with the news of the first round of new SEZs in 2013, a new governing organization was concurrently announced: the State Economic Development Commission (SEDC). Its purview was similar to that of JVIC, except that it would control investment into the SEZs while JVIC was to control investment in other areas. This set the scene for confusion for both foreigners and local actors, as it wasn't clear even amongst officials involved in the two organizations who would control what, especially given that any significant foreign investor would expect SEZ rates at whatever investment site they chose.

Provincial officials also described the two as “basically the same,” while JVIC staff described the SEDC as their “same colleagues, just in a different building.”²⁵ By March 2014, officials were hinting to Choson Exchange staff that this confusion about overlapping jurisdictions would not last.²⁶ Then in June 2014, both the JVIC and SEDC were folded into the Ministry of Foreign Trade, with the “JVIC” name disappearing. That ministry was also renamed the “Ministry of External Economy.” As 2014 comes to an end, the reshuffle continues to have an effect as departments and individuals look to find their place in the ministry. If the DPRK seeks to convey a seriousness of purpose in investment attraction, a degree of stability needs to be achieved in governing organizations.

²⁴ Geoffrey K. See, “Economic Performance and Legitimacy in North Korea,” *Harvard International Review*, August 23, 2011, <http://hir.harvard.edu/archives/2845>.

²⁵ Conversation with JVIC officials, March 2014.

²⁶ “Will North Korea’s latest investment agency last to 2015?” *Choson Exchange blog*, March 15, 2014, <http://www.chosonexchange.org/our-blog/2014/3/15/y97w39lthuolmnn8uszppyfck0ucj6>.

Establishing New Zones and Overlap

There are now clearly two main routes for establishing Special Economic Zones. One road is to have a top down designation, through the MoEE, but often under instruction or guidance from other central organs. Wonsan and Sinuiju are the best examples of this. Some choices are driven by national priorities. In other cases, the leadership seems to have a personal affection for an area or region: Kim Il Sung, Kim Jong Il and Kim Jong Un have all used Wonsan as a base for recreation and retreat. In still others, spaces are carved out as part of broader trade, investment or political strategies, such as in Sinuiju.

The SEZ law also makes provisions for bottom-up development of an SEZ by a local People's Committee or a State Owned Enterprise or Joint Venture, in concert with a local People's Committee. These SEZs will be driven either by local interests—such as Onsong wishing to draw more cross border tourists—or by foreign companies demanding SEZ status for whatever investment location they choose.

This provision helps create regional competition, forcing cities and regions to think of and exploit comparative advantages over their neighbors. However, it can also lead to overlap, redundancy and confusion, which will require harmonization down the road. This appears to be the case in Nampo, for example, where the Jindo EPZ, designated by the central government, borders the Wando EPZ, which was initiated by local actors.²⁷ Ultimately, responsibility for the governance of these EPZs lies with the MoEE and this situation suggests that confusion and competition remains even after the functions of JVIC and SEDC have supposedly been harmonized under the MoEE.

In other cases, positive bottom-up development appears at risk of being lost in a larger project. For example, the Sinphyong Tourism Development Zone was already developed as a location, with local officials looking for some years for ways to exploit Pyongyang-Wonsan traffic.²⁸ Investment into infrastructure—a new road, inn and hiking area—had already taken place by the time it was designated an SEZ. The benefits of this designation are unclear, however, as officials guess that Sinphyong will be swallowed up by the Wonsan Tourism Region, which extends further west. It should be noted that Sinphyong really only makes sense as part of a broader area. While situated in a lovely valley, it is not unique enough to be an attraction on its own.

²⁷ Noted in personal communication, October 2014.

²⁸ Noted in personal communication, March 2014.

Wonsan's managers may also find themselves in conflict with the Mt. Kumgang Tourist Zone. New plans for Wonsan, released in October 2014, show Wonsan-Mt. Kumgang as a unified tourism development region.²⁹ Officials, however, note that the two zones are currently run separately.

However, the positive effects of devolved decision making can be seen with regards to Onsong. Tumen City, in China, and Onsong announced a cooperative development agreement the day after Kim Jong Un's uncle Jang Song Thaek was executed. Jang was a very significant player in DPRK-China commerce, with influence in a variety of sectors and regions. Interviews with businesspeople in Rason, Yanji and Dandong have indicated that the Jang affair has impacted trade in those regions, as some contact points and networks connected to Jang were disrupted. Despite those disruptions, Onsong's relative autonomy enabled it to push ahead with its development plans regardless.

Prospects for Success

Ultimately, the new SEZs are still a part of the DPRK, which since the end of the Cold War, has had fraught or indifferent geopolitical relations with most countries where would-be investors are most likely to reside.

A Kim Jong Il-Junichiro Koizumi summit in 2002 was supposed to resolve the hitherto unacknowledged issue of North Korean abductions of Japanese citizens. The admission combined with unsatisfactory evidence of the abductees' fates triggered outrage in Japan, leading to a unilateral sanctions regime that banned trade with the DPRK since 2006. Inter-Korean relations were strained under Lee Myung-bak's presidency, and South Korea banned all non-KIC investment in the wake of the sinking of the South Korean naval vessel, *Cheonan*, in 2010.

China, which is the DPRK's economic lifeline, has in the past sought neither to squeeze North Korea too hard, nor guarantee major investments. Beijing has taken some steps since the third nuclear test aimed at punishing Pyongyang economically, however.

²⁹ "North Korea Reveals Wonsan-Mt. Kumgang International Tourism Zone Development," *NK Brief*, October 10, 2014, http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM141002_0001.

In response to Pyongyang's nuclear program, targeted sanctions have been imposed under a series of UN Security Council resolutions since 2006. In particular, both UN and US financial sanctions provide an additional disincentive to potential investors.

On the ground, the DPRK's restrictions on international communication and visa-free entry have also proved to be strong deterrents to investment: potential investors dislike having to apply for a visa for every visit, having personal effects inspected at borders and not being able to contact individuals directly, while in-country or from abroad.³⁰ Rason has pioneered locally issued travel permits to foreigners since 2010, issuable within 48 hours. Yet even there, painful immigration procedures, restrictions on international calls and a sporadic email system have served to create consistent difficulties for potential investors.

Indeed, an underlying problem is that DPRK officials generally have misunderstandings of what investors expect in terms of not only treatment and communication, but also hiring and firing rights, access to data, remittances in practice and a host of other issues. Disputes often arise when there are gaps in laws and contracts. A recent example was the confusion about when the 50-year land lease begins: upon completion of infrastructure or completion of an agreement? Indeed, such issues should be made clearer in the legal code, but investor perceptions are also hampered by a lack of available information: it is very hard to find out about precedents or other investor experiences in the DPRK.

Many officials still do not grasp that these SEZs are competing with other investment opportunities abroad, leading to less than compelling cases for why investors should choose Nampo or Wonsan over, say, Dalian or Ha Long Bay. In China and Vietnam, after all, investment is considerably easier: there exists data, communications networks, precedents and a proven history of commitment to market principles.

These gaps in understanding will only be solved by greater exposure to the outside world, more education and more hands-on experiences with investors, including more failures to attract investment followed by honest assessments of what went wrong. An unfortunate side-effect of sanctions is that both investors and Koreans tend to use them as an excuse when an investment does not take place.

Despite these impediments, there is currently a palpable energy and excitement among economic governance officials both in Pyongyang and the provinces. This provides an opportunity, but also

³⁰ Some (particularly Chinese) businesspeople do have multiple-entry visas. Virtually no Koreans have individual email addresses or personal phone lines at which they can be reached by foreigners calling from abroad or even when they are in-country.

a danger: if no development or investment takes place in most of these places, there is a risk that cynicism will come to replace optimism. Currently, most SEZs lack strong central support and are expected to run a development zone without the tools necessary to succeed.

Finally, the myriad geopolitical problems of which North Korea is a part tie into issues of trust, as with the legal code: foreign perceptions of a place matter. Currently, the biggest hindrance to the development of these SEZs and of the DPRK more broadly is that the authorities have yet to demonstrate commitment to a policy line in which investors can trust. This is partly domestic as investors ask if Pyongyang is really interested in improving things like communications, access and ownership rights. But it is also regional and global. Military incidents with South Korea, peninsular crises (even if largely rhetorical) and nuclear tests have all happened in the last several years. Such events give the impression that Pyongyang is not yet ready to prioritize stability and cooperation with neighboring states and is also a disincentivizing force.

Four Zones with Growth Potential

Again, noting that these zones are all dependent on the DPRK's foreign relations and broader economic governance, there are four zones that have the best prospects for growth in the short to medium-term: Wonsan, Rason, Unjong and Sinuiju Area.

1. Wonsan

Wonsan was not in either the list of SEZs released in 2013 or 2014, but was nonetheless designated a Special Tourist Zone in June 2014 by the Supreme People's Assembly, the DPRK's highest legislative body. Current plans link Wonsan to the Mt. Kumgang Tourism Region to create a large tourism belt. Mt. Kumgang was originally a zone that was developed with South Korea's Hyundai Asan in the early 2000s for primarily South Korean visitors: it was closed following the shooting of a tourist by North Korean soldiers. The laws that were developed for Mt. Kumgang are apparently being extended to cover Wonsan. Indeed, in conversation, officials generally recognize that for Wonsan's grand development plans to have any chance of success, South Koreans and/or Japanese companies and tourists have to be involved. Some of these grand plans include building hotels with thousands of beds, a zoo, a golf course, restaurants, an aquarium and (of course) a dolphinarium. They also have plans to upgrade motorways, railways, the electrical system, the port and the airport. More mundane plans include installing more industrial furnaces, increasing local public transportation, building new apartments and a large solid waste disposal plant while expanding the total green space of the city.

As with all the SEZs, grand plans suffer from a lack of prioritization: officials are generally unable to articulate sequencing or benchmarks. They also suffer from a high degree of vagueness: who will build what or how will foreigners, local administrators and state-owned enterprises work together?

There is also currently some ambiguity in Wonsan's governance—Mt. Kumgang is run by a separate team and while both are now officially linked to the MoEE, they “have a lot of autonomy” and are overseen by an inter-ministry committee. Whether they will cooperate or compete with each other is yet to be seen.

As a start towards lofty goals, however, Wonsan's two main hotels are being refurbished (the Tongmyong and Songdowon Hotels) and have opened a third on the Kalma Peninsula. They are reconstructing the sewage system and building an airport, which will be complete enough to receive domestic and international flights by mid-2015. The Pyongyang Tourism College was also founded in 2014 to support Wonsan's development.³¹

During discussions in Singapore, officials have articulated a recognition that all administrative processes need to be simplified for both investors and tourists. If given the authority, they envision implementing some kind of visa free or special tourist visa entry to the region, perhaps similar to what has been pioneered in Rason or Mt. Kumgang.

2. Rason

Rason, as the DPRK's original SEZ, *should* have had a significant head start on the other more recently established zones. However, real progress has become visible only in the last four years, with a 2010 revision of the laws that govern the zone opening up space for a number of experiments with regulations.

For instance, under the revised laws, Rason officials were able to streamline the processing of locally issued travel permits (not centrally issued visas) to two days, making Rason the first region in the DPRK to be able to autonomously (i.e., not through Pyongyang's MFA) grant entry to foreigners.³² Self-driving tours where Chinese tourists can drive their own cars to road trip around the zone began in 2011 and more Chinese vehicles have been allowed across the border in the years since.

³¹ For discussion of the Tourism College, see Ramon Pacheco Pardo, “North Korea: Northeast Asia's New Tourism Hub?” *38 North* (US-Korea Institute at SAIS, Johns Hopkins University), September 4, 2014, <http://38north.org/2014/09/ramonpp090414/>.

³² “Visa Free Rason Tourism for Chinese Citizens,” *Choson Exchange blog*, May 29, 2012, <http://www.chosonexchange.org/our-blog/1586>.

In 2011, a consortium of Chinese companies under the guidance of Jilin Province, began paving the road linking the Rajin Port to the Chinese border. This road was completed two years later and provided key infrastructure for Chinese businesses to have access to the sea. Chinese companies were rumored to have leased two of Rajin's three piers with the promise to upgrade them, although "misunderstandings" have led to ownership apparently reverting to the DPRK; indeed, a lease may never have been signed.³³ Meanwhile, Russia has invested up to \$250 million to renovate the railroad from the Rajin port to the Russian town of Khasan. The project was completed by Russian Railways logistics subsidiary, RZhD Logistika.³⁴ The port terminal launched in July 2014.

Meanwhile, Russia's interest in the year-round, ice-free port is matched by South Korea's. A Putin-Park summit in November 2013 led to an agreement whereby a South Korean consortium of companies could purchase up to 50 percent of the Russian majority of RasonKonTrans, the Russia-DPRK joint venture that oversees the railway link. (The DPRK owns 30 percent, Russia 70 percent.) And in October 2014, POSCO and Hyundai Merchant Marine began to evaluate the feasibility of shipping Russian coal to Pohang: POSCO depends on some 2 million tons of coal from Russia every year for its production operations.³⁵ Posco and other arms of Hyundai have large investments both in Hunchun, China, and in the Vladivostok area in Russia—Rason would link them nicely.

Following a 2010 China-DPRK agreement to jointly manage Rason, Jilin and Rason opened cooperation offices on both sides of the border.³⁶ That said, locals have said that in the wake of the third nuclear test in February 2013, Beijing put the brakes on plans to link Rason with the abundantly supplied Jilin electric grid. This is a huge blow to Rason: with ports, roads and railroads refurbished, power supply remains the last piece of the region's infrastructure puzzle.

Finally, another important policy experiment that one hopes to see replicated in other SEZs is the right to own property: according to local sources, Rason residents can now legitimately purchase

³³ "Who uses Rason's ports? Lease confusion explored," *North Korean Economy Watch*, July 5, 2014, <http://www.nkeconwatch.com/2014/05/07/rason-port-lease-confusion/>.

³⁴ "North Korea Opens Russian Financed Wharf," *Open Source IMINT blog*, July 26, 2014, <http://osimint.com/2014/07/26/north-korea-opens-russian-financed-wharf/>.

³⁵ "POSCO Hyundai Merchant Marine Evaluate Rajin-Khasan Project Feasibility," *Yonhap*, October 14, 2014, <http://english.yonhapnews.co.kr/business/2014/10/15/25/0501000000AEN20141015002500320F.html>.

³⁶ "China-North Korea Rason Economic and Trade Zone Yuanting-Rajin highway opened to traffic," *Jilin Province Website*, October 30, 2012, http://english.jl.gov.cn/News/GeneralNews/201210/t20121030_1304312.html.

newly constructed apartments, something not allowed anywhere else in the DPRK—a development local officials note with pride. Though getting a hold of them for said discussions remains frustrating: communications are still a problem, as elsewhere in the DPRK.

Despite Beijing's obvious coolness towards Pyongyang and Rason since 2013, it does maintain a *laissez-faire* approach towards Chinese investment, both broadly and into Rason. This, combined with Russian and South Korean interest, plus its status as a long-established SEZ, continues to put Rason at the forefront of North Korea's limited and cautious economic policy experiments and thus is one of the best zones for attracting foreign investment.

3. Unjong

Unjong is the only SEZ located within Pyongyang city limits, sitting on the border of Pyongsong City. Unjong's prominence in state media stretches back to 2002, when the Academy of Sciences Unjong Branch signed an agreement with Russia's Academy of Sciences Far Eastern Branch.³⁷ Little coverage was available until 2011, when discussion about infrastructure began, followed by the establishment of the Unjong Hi-Tech Company, the corporate entity entrusted with developing this park affiliated with the State Academy of Sciences (SAS). In July 2014, Unjong was designated a Special Economic Zone.

Despite being clustered with other zones, Unjong has been placed under the purview of SAS, not MoEE. This could be a boon to Unjong, as it has an influential sponsor tasked solely with its development, rather than having to exist as one of many SEZs competing for MoEE's attention.

The Unjong High-Tech Company has the stated purpose of "commercializing technology." Or as North Korean economic journal *Economic Research* explains, such a technology zone is meant to bring "research, development, production and export" together.³⁸ However, zone managers do not appear to have defined the technological subfields they wish to focus on. Preliminary discussions suggest that IT outsourcing, new product development and manufacturing are of interest. On the investment front, there is no indication of investors being ready to move in any time soon, although a Taiwanese magazine has hinted at possible collaboration with Taiwanese companies.³⁹

³⁷ "Agreement signed between DPRK and Russia," *KCNA*, December 2, 2002, <http://www.kcna.co.jp/item/2002/200212/news12/03.htm>.

³⁸ "High-Tech Development Zones: The Core of Building a Powerful Knowledge Economy Nation," *IFES Brief*, June 5, 2014, http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM140605_0001.

³⁹ "DPRK to Establish SEZ Industrial Park in Unjong?" *Paperblog*, January 13, 2013, <http://en.paperblog.com/dprk-to-establish-sez-industrial-park-in-unjong-400999/>.

Three-hundred hectares have been zoned for the Unjong Tech Zone, and this area will sit 30 minutes away from Pyongyang's city center once the road, supposedly funded by the Kuwait Fund for Arab Development, is completed.⁴⁰ The Sunan International Airport—Pyongyang's main international airport—is only a 30-40 minute ride away. Based on the current pace of construction, housing and research buildings for the zone will be completed by the end of 2014. Like many other zones, Unjong is awaiting infrastructural development. Unlike other zones, however, it benefits from its proximity to two major cities, Pyongyang and Pyongsong, giving it roads and probable access to existing city electricity grids.

4. Sinuiju Area

Hwanggumpyong/Wihwa Islands and the Sinuiju International Trade Zone are neighbors, though they are governed by different groups at the MoEE. The overlap, in this case, appears to be an attempt to provide as many options as possible to potential Chinese investors. Korean officials note that various 'misunderstandings' on the Chinese side have resulted in a lack of investment into the Hwanggumpyong and Wihwa Islands. The contours of these misunderstandings remain either unknown or undisclosed, but the feeling is that the new zones will open up a different set of investor possibilities.

Plans for Hwanggumpyong have been revised since its establishment. While it is commonly believed that development of this zone has stopped, construction of a large building has been underway since early spring 2014.⁴¹ Commercial satellite imagery shows that construction began in March 2014, with steady progress throughout the year. Given the expectations of many Korea-watchers that post-Jang Song Thaek, the Hwanggumpyong project would be completely dead, this is perhaps a surprising development. It is unclear what the building will be, but the size and shape of it suggest it would be suited to either an office building or a hotel. As with other construction sites in the DPRK, the yellow crane and fairly rapid pace of construction indicate a strong likelihood that a Chinese partner is involved in the project.

⁴⁰ "Projects Information For North Korea Up To 23-10-2014," Kuwait Fund for Arab Economic Development, accessed on October 23, 2014, http://www.kuwait-fund.org/index.php?option=kfaedLoansTableDetails&country_code=134.

⁴¹ "Hwanggumpyong's Master Plan," *Choson Exchange blog*, July 29, 2014, <http://www.chosonexchange.org/our-blog/2014/7/29/hwanggumpyongs-master-plan>.

Figure 1. Construction on Hwanggumpyong begins early spring 2014.



Annotated by 38 North. Imagery dates: (top left) March 1, 2014; (top right) April 2, 2014; (bottom left) April 18, 2014; (bottom right) June 9, 2014.

Figure 2. Significant progress made on building construction.



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Figure 3. Building construction as of September 24, 2014.



The new Sinuiju International Trade Zone is focused on South Sinuiju and Ryongchon, a county-level area just south of Sinuiju, which is most famous for having seen a massive explosion in 2006 not long after Kim Jong Il's train passed through. The bridge crossing the Yalu River is nearly complete and goes to the South Sinuiju and Ryongchon areas. These areas are more likely than Hwanggumpyong to draw in small-scale investments, as there is already some infrastructure there. This would replicate Rason's recent development trajectory. Hwanggumpyong, by contrast, would require a large anchor tenant to justify new infrastructure, in particular, provision of electricity, likely from Liaoning Province's grid.

Ultimately, it seems that Hwanggumpyong has stagnated for the same reason Rason has not been provided with Chinese electricity: poor China-DPRK relations in the wake of the North's third nuclear test and the execution of Jang Song Thaek. Indeed, it appears that even more than Rason, Dandong trade has been affected by Jang's ouster.

Assuming relations gradually mend, Sinuiju as an SEZ may be able to attract small investments, though such efforts may have been hurt by the DPRK allowing day laborers to cross over and work in Dandong.⁴² Bigger companies, such as the Wanda development group, who have just opened a huge complex in Dandong, are rumored to be interested in the other side of the river.⁴³ However, they will be content to wait until China-DPRK relations appear far more stable before considering the kind of major investment that Sinuiju and Hwanggumpyong need.

Platforms for Experimentation

Despite the challenges ahead, a noteworthy and positive fact is that SEZs are not merely subject to suboptimal economic rules, but may help to alter them. SEZs provide a platform from which policy experimentation can take place. For example, certain orthodox policies—especially those that are legacies left by Kim Il Sung himself—are extremely difficult to contradict, such as taxation policies.

Taxes were abolished by the Fifth Supreme People's Assembly in 1974. Kim Il Sung's "On Abolishing the Tax System" is still held up as a classic work⁴⁴; "Tax Abolition Day" is a national holiday; officially, scholars still write articles approvingly quoting Kim Jong Il designating taxes "another means of exploiting and squeezing the masses."⁴⁵ Yet, at the same time, North Korean officials have studied this issue abroad and do have a tax code that applies to joint venture companies even though domestic companies are not taxed.

An extant example of this heterodox experimentation in SEZs is the issue of private ownership of property. Currently, a pilot project exists in which local ownership of housing is to be allowed in Rason. While a vibrant black market exists for apartments elsewhere, it is only in Rason

⁴² "N. Korea hails labor force to woo Chinese firms," *Yonhap*, October 20, 2014, <http://english.yonhapnews.co.kr/northkorea/2014/10/20/93/0401000000AEN20141020006100315F.html>.

⁴³ "China's Major Developer Wanda Group Gets Serious About Hwanggumpyong Development," *Donga Weekly*, March 31, 2014 (in Korean), http://weekly.donga.com/docs/magazine/weekly/2014/03/31/201403310500021/201403310500021_1.html.

⁴⁴ "Works of Kim Il Sung, Kim Jong Un Studied Abroad," *KCNA*, April 16, 2014, <http://www.kcna.co.jp/item/2014/201404/news16/20140416-06ee.html>.

⁴⁵ Du Son Kim, "Characteristics of Capitalist Tax System," *Economic Research 2* (2014): 62-63 (In Korean).

that attempts to legitimize the practice are being undertaken, with citizens allowed to purchase apartments. For market functions to be fully legitimized in the DPRK, a greater degree of private ownership and then taxation will need to take place. This is an issue that is currently being considered by policymakers.

For example, in conversations with officials who govern a new Agricultural Development Zone, we were told that they “would be able to experiment with new kinds of agriculture.” This does not necessarily mean new crops or new means of planting or harvesting. It was a phrase to express the heterodox: new ways of organizing land in terms of both management and ownership could take place.

Other examples of experimentation include the mobile phone network, which was initially pioneered in Rason in 2002. (It was also introduced to Pyongyang around the same time.) It was shut down in 2006, but paved the way for the Orascom-built network, Koryolink, which began service in late 2008. Current telecommunications debates center on internet access, as the realization increases that real economic growth cannot take place without greater connectivity.

While officials currently speak of foreign investment, the most important experiment would be for zones to allow legitimate North Korean ownership of companies. This could then lead to a more regularized system of taxation, human resource management and resource allocation. Currently, because entrepreneurship happens in a grey area of the economy, businesses remain subject to predation and other inefficiencies due to their often-ambiguous status. However, SEZs might come to provide shelter for things like private ownership and taxation. In this sense, the SEZs might help push forward reforms, rather than be merely dependent on them.

Conclusion

While there may be some opportunity for North Korea to foster economic growth through its SEZ development strategy, the sustainability of this strategy is still in question. To quote Aradhna Aggarwal at length:

In the long run the competitiveness of SEZs can be sustained only if economy-wide investment climate is improved. This is because zones cannot be insulated from the broader institutional and economic context of the country. The key to successful industrialisation in the long run thus lies in shaping the existing institutions such that they drive firms towards an outward orientation and technological upgradation; the creation of zones which offer the easy option of competing on the basis of cost minimisation should only be treated as a transitory policy arrangement. Zones should not be considered the best policy option for long-run industrial development. Thus, the establishment of EPZs should not be regarded as a substitute for pursuing institutional and infrastructural improvements.⁴⁶

While the DPRK has borrowed much of its thinking about SEZ development from early 1980s China, the PRC went on to reform much of its economy and continues to do so. In North Korea, for any of the North's SEZs to be considered successful on the level of China's Shenzhen, they will need the support of a government that is committed to reviewing economic governance nationally, not just in the zones. This means Pyongyang will also need to be prepared to engage in long-term trust building with foreign business communities and governments so that foreign investors can feel confident in the application of law and the political-economic environment more broadly.

For those SEZs positioned strategically, either by dint of geography or sector, there may be a degree of medium-term success, measured by attracting moderate foreign investment and perhaps domestic investment by Korean companies taking advantage of the rule changes in SEZs. Mass foreign investment or tourism will only realistically emerge during a period of sustained rapprochement and relationship rebuilding with the DPRK's neighbors.

As noted, of all the planned SEZs in North Korea, four stand out as being the best equipped for potential success should Pyongyang's relations with its neighbors improve. Hwanggumpyong, Sinuiju and Rason would clearly benefit from an improved relationship with the Chinese; a

⁴⁶ Aggarwal, *Special Economic Zones*, 44-53.

successful Wonsan would require an improvement in relations with Japan and South Korea. In 2014, the DPRK seems to have been reaching out to its neighbors. If there is the political will to continue trust building, these four SEZs stand to benefit the most and the most quickly.

Ultimately, what happens (or does not happen) in the now dozens of zones will have an effect on the broader political economy of the DPRK: it is unlikely they will all remain delinked enclaves, even though Kaesong has.⁴⁷ More importantly, the wider economic environment will also affect the SEZs. If Pyongyang wishes to see sustained success in the SEZs, difficult policy experiments will have to not only continue, but will then have to move towards legitimation and regularization.

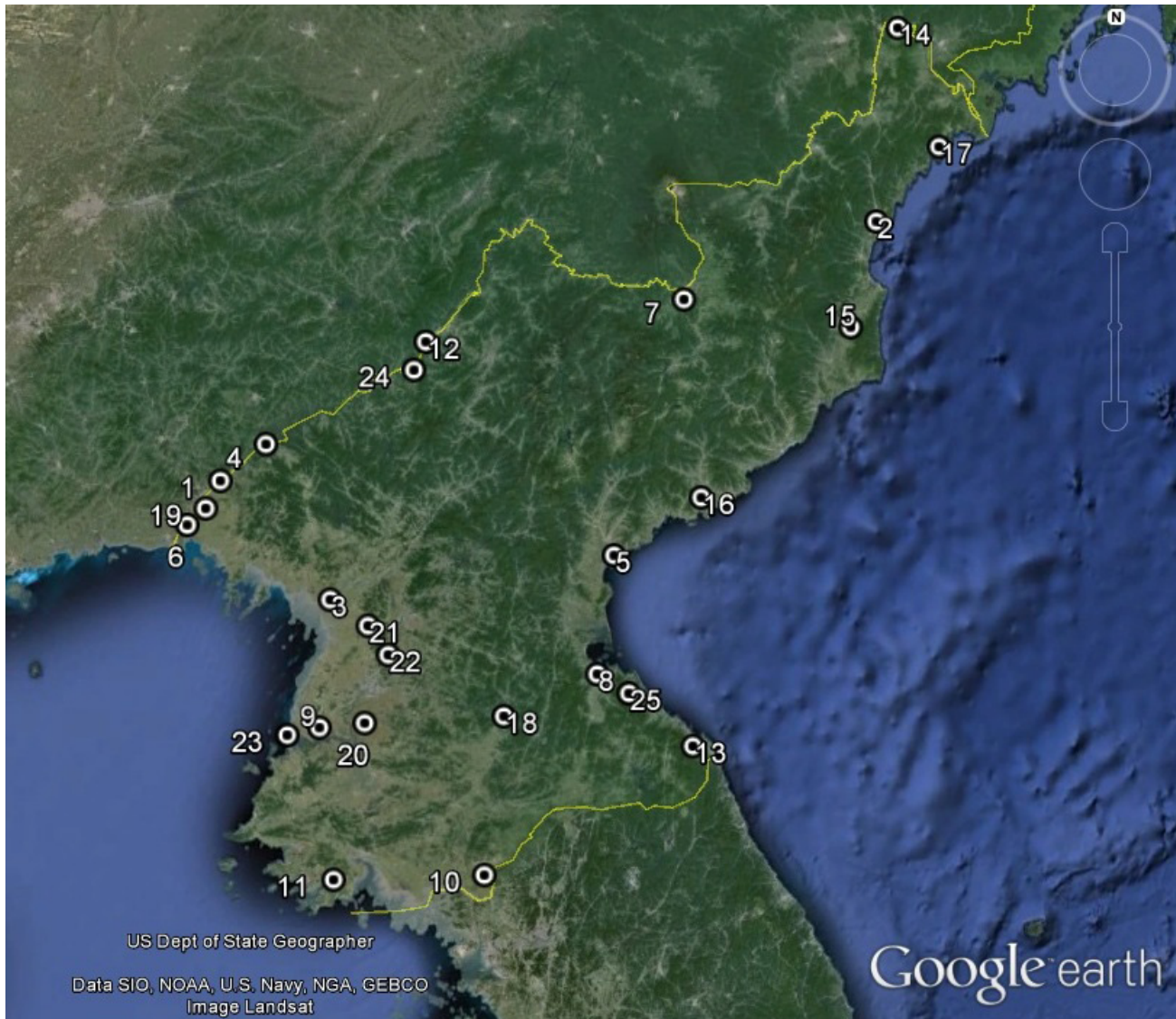
⁴⁷ “Babson: North Korean leadership encouraging foreign investment,” *NK News*, July 9, 2014, <http://www.nknews.org/2014/07/babson-north-korean-leadership-encouraging-foreign-investment/>.

Appendix. SEZ Chart and Map

Categorical Breakdown of the DPRK's Planned Special Economic Zones

Export Processing/ Trade Zones	Industrial Development Zones	Agricultural Development Zones	Tourism Development Zones	Economic Development Zones	International Economic Zone	Green Demonstration Zone	High-Tech Development Zone	Pre-existing/ Others
Songrim Export Processing Zone	Wiwon Industrial Development Zones	Pukchong Agricultural Development Zone	Onsong Island Tourist Development Zone	Chongjin Economic Development Zone	Sinuiju International Economic Zone	Gangryong International Green Demonstration Zone	Unjong High-Tech Development Zone	Hwanggumpyong and Wihwa Islands Economic Zone
Nampo City Waudo Export Processing Zone	Hangman Industrial Development Zone	Orang Agricultural Development Zone	Sinphyong Tourist Development Zone	Hyesan Economic Development Zone				Rason Special Economic Zone
Jindo Export Processing Zone	Hyondong Industrial Development Zone	Sukchon Agricultural Development Zone	Chongsu Tourist Development Zone	Manpo Economic Development Zone				Kaesong Industrial Complex/Region
	Chongnam Industrial Development Zone		Wonsan Special Tourism Zone	Amrok River Economic Development Zone				Mt. Kumgang Tourist Zone/ Region

Map of the DPRK's Planned Special Economic Zones



Map compiled by Curtis Melvin.

- | | |
|---|---|
| 1. Amrok River Economic Development Zone | 13. Mt. Kumgang Special Tourist Zone |
| 2. Chongjin Economic Development Zone | 14. Onsong Island Tourist Development Zone |
| 3. Chongnam Industrial Development Zone | 15. Orang Agricultural Development Zone |
| 4. Chongsu Tourist Development Zone | 16. Pukchong Agricultural Development Zone |
| 5. Hungnam Industrial Development Zone | 17. Rason Special Economic Zone |
| 6. Hwanggumpyong and Wihwa Islands Economic Zones | 18. Sinphyong Tourist Development Zone |
| 7. Hyesan Economic Development Zone | 19. Sinuiju International Economic Zone |
| 8. Hyondong Industrial Development Zone | 20. Songrim Export Processing Zone |
| 9. Jindo Export Processing Zone | 21. Sukchon Agricultural Development Zone |
| 10. Kaesong Industrial Complex | 22. Unjong Hi-Tech Development Zone |
| 11. Kangryong International Green Model Zone | 23. Waudu Export Processing Zone |
| 12. Manpo Economic Development Zone | 24. Wiwon Industrial Development Zone |
| | 25. Wonsan-Mt. Kumgang Special Tourist Zone |

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