

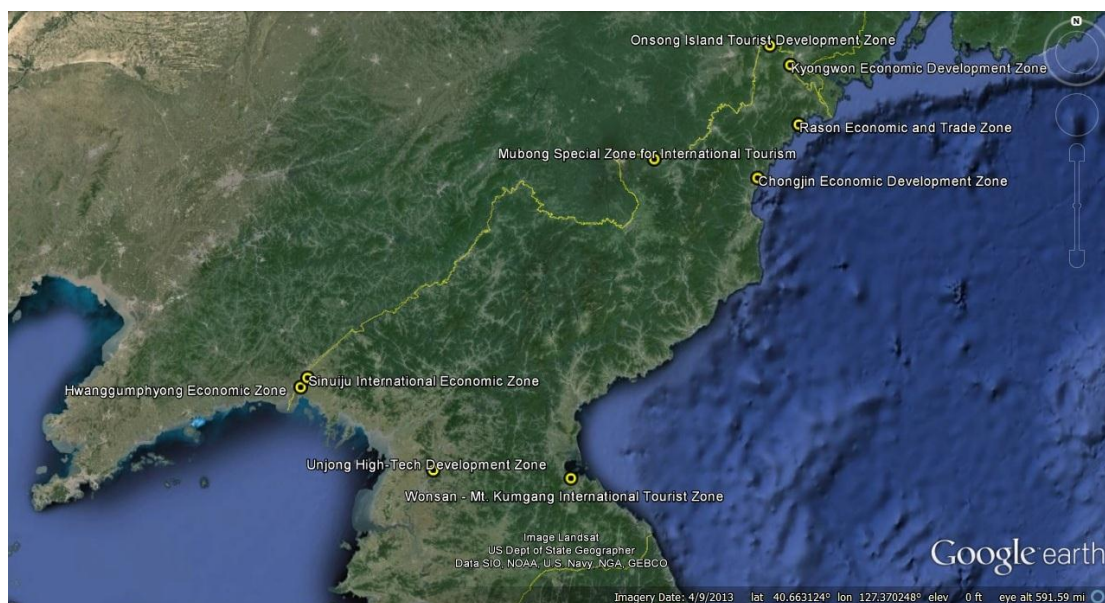
North Korea's Special Economic Zones: Plans vs. Progress

By Andray Abrahamian and Curtis Melvin

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Since Kim Jong Un assumed power, he has prioritized economic development in a way his father never did. Indeed, much of his domestic brand is now linked to economic growth and quality of life issues. He has tinkered with the *modus operandi* of both farms and state owned enterprises, and set forth a very visible economic experiment: the creation of a dozen Special Economic Zones (SEZs) in 2013, followed by a second group in 2014, and two more zones in 2015. Four of these could be considered national priorities—Rason, Unjong, Wonsan and Sinuiju (with the extant Hwanggumpyong/Wiwha Islands)—while the rest are fairly minor in scope, size and potential. These zones, with a variety of intended functions and ostensibly foreign-friendly regulations, signal a willingness of the Kim regime to explore economic policy options. However, their slow progress and development also clearly illustrate the challenges North Korea faces to get these projects off the ground given the current business and investment environment.

Despite making SEZ development a policy priority, difficulties in the political arena and a general lack of clear economic goals have meant that Unjong is still in the planning stages, Wonsan awaits international investors and Rason has seen little activity since 2013. Sinuiju/Hwanggumpyong has seen some development, though the unfinished Yalu Bridge is also a reminder of unfulfilled potential. This report takes a look at where these four major zones and a few of the smaller, newer zones stand to date.



Sinuiju International Economic Zone

Sinuiju was first labeled a Special Administrative Zone in 2002, but quickly languished when Pyongyang's choice to head the project, a Chinese-Dutch businessman, was jailed in China. A rebranded Sinuiju International Economic Zone was announced in 2013 and signaled a second attempt to develop this region. The zone is focused on southern Sinuiju and the neighboring Ryongchon County where the Chinese have built a new bridge over the Yalu (Amnok) River. Although the bridge was essentially complete by late 2014, at a cost of around \$350 million, the North Koreans have yet to build any administrative or transportation infrastructure to support the new border crossing. The North has also failed to complete road improvements from Sinuiju to Anju, which would facilitate the flow of goods through North Phyongan Province along the country's most important trade artery. These factors have delayed the opening of the bridge.

Chinese side of the new Yalu (Amnok) River Bridge (Dandong).



(September 2, 2015; Google Earth)

North Korean side of the new Yalu (Amnok) River Bridge (Sinuiju).



(September 2, 2015; Google Earth)

While no significant progress of this zone is yet visible, there is reason to believe that the Sinuiju International Economic Zone may now be a policy priority for both the Chinese and

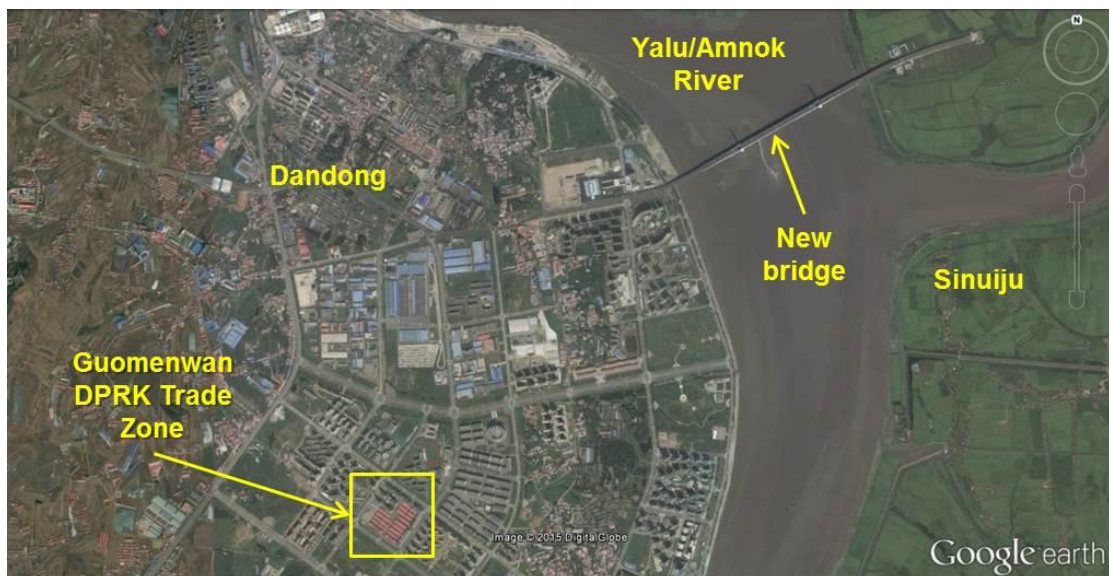
North Korean governments. For instance, in October, South Korean media reported that the Chinese and North Koreans have finalized new plans for the zone:

According to newly inked guidelines, North Korea and China plan to build at the Sinuiju special administrative region, which totals 132 square kilometers and would include new industrial areas, public areas, a distribution complex, parks and a water supply treatment plant.

This would be in addition to existing factories to manufacture textiles, shoes, chemical fiber and weaving machines. However, the originally envisioned recreational and tourism center, golf course and commercial service district were scrapped from this new master plan.¹

Earlier that month, China and North Korea had officially launched the Guomenwan DPRK Trade Zone in Dandong, a project that reportedly cost \$158 million and lies just 3.3 km from the foot of the new bridge.² The purpose of the new trade zone is to promote commodity trade between the DPRK and Chinese living within 20 km of the border by reducing tariffs on small purchases.³ The timing of this launch is interesting, as satellite imagery indicates construction of this 40,000 square meter zone was basically completed in December 2013. This delayed launch could have been due to the execution of Jang Song Thaek in December 2013, but it could have also been for bureaucratic or other economic reasons.

The Guomenwan DPRK Trade Zone is situated in Dandong, close the new Yalu River Bridge.



¹ “Pyongyang moves ahead with plans for economic zone,” *Korea JoongAng Daily*, October 26, 2015, <http://koreajoongangdaily.joins.com/news/article/article.aspx?aid=3010735>.

² “China-DPRK border trade zone opens,” *Xinhua*, October 15, 2015, http://news.xinhuanet.com/english/2015-10/15/c_134717510.htm.

³ Ibid.

A close up of the Guomenwan DPRK Trade Zone.



Moreover, recent satellite imagery of Sinuiju reveals efforts underway in 2015 to attract more Chinese tourists.

Construction of a new complex in Sinuiju from March to September 2015.



Close up of the new complex (before and after).



(March 12, 2015; Google Earth)



(September 2, 2015; Google Earth)

While it is unclear if this complex is actually part of the Sinuiju International Economic Zone, it is approximately 925 square meters in area and is constructed on reclaimed land under the China-North Korea Friendship Bridge, the busiest DPRK-China border crossing which links Dandong and Sinuiju. It lies between the North Korean customs office in Sinuiju and the Yalu River. The buildings face outward towards the Yalu River and the Dandong city skyline. A pier is visible for riverboats to dock, and media reports suggest that accommodation,

restaurants and shopping facilities are also being constructed to facilitate short-stay tourism (the majority of cross-border tourists are day-trippers).⁴

Assuming the strained relations between Pyongyang and Beijing gradually mend, Sinuiju may be able to attract other small or medium sized investments if North Korean policy makers can build an economic environment that is seen as safe and stable for investors. However at this time, aside from the natural resource sector, potential Chinese investors appear to prefer importing North Korean labor or making small consignment orders from North Korean firms, rather than exporting their capital to the DPRK.⁵

Wonsan-Mt. Kumgang International Tourist Zone

The Wonsan-Mt. Kumgang International Tourist Zone, in the southeast of the DPRK, was announced in 2014 and is the only SEZ project to be both publicly referenced and visited by Kim Jong Un.⁶ Perhaps not surprisingly, it also appears to have received the most state-directed investment of any of the SEZs that have been announced since 2013.

Unlike other SEZ's, which are discrete and often isolated geographical areas, this project encompasses cultural, tourist and leisure destinations scattered throughout Kangwon Province. This zone encompasses the former Mt. Kumgang Tourist Region, which operated from 1998-2008, accommodating mostly South Korean visitors.⁷ Rather than drafting all new laws for the new International Tourist Zone, North Korean officials reportedly just extended and updated the regulations that existed under the Mt. Kumgang arrangement. And while, in general, the tax rates, incentives and regulations are largely the same as before, it is worth noting these laws were drawn up in 2002 to facilitate South Korean investment and travel in the zone.

In Wonsan, big projects such as a new civilian airport and the Masikryong Ski Resort have been widely publicized, building up the region's tourist appeal. Some lesser known developments have also been underway including upgrades to the sewage system, refurbishment of hotel facilities and the development of a beach area (that is currently still used for live artillery drills). However, problems with transportation infrastructure and electricity supply remain.

⁴ “초라한 신의주, 화려한 단둥... 새 다리 연결에도 '불통의 그늘,’” *Hankook Ilbo*, November 13, 2015, <http://www.hankookilbo.com/v/4ffe62adfa6347c0816a4c9e00e5a29e>.

⁵ “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>.

⁶ “Wonsan Kalma Airport imagery (UPDATED),” North Korean Economy Watch, August 17, 2015, <http://www.nkeconwatch.com/2015/08/17/construction-of-new-wonsan-airport-continued-through-winter/>.

⁷ The resort was closed in 2008 after the shooting of a South Korean tourist by a North Korean soldier. Blaine Harden, “S. Korean Tourist Is Shot Dead in North,” *Washington Post*, July 12, 2008, <http://www.washingtonpost.com/wp-dyn/content/article/2008/07/11/AR2008071100314.html>.

The new Kalma Airport at Wonsan.



(September 19, 2015; Google Earth)

In private conversations with potential foreign investors, officials at the tourism zone have acknowledged the significant role that South Korean and/or Japanese tourists and companies will need to play in the zone's development in order for it to be successful. Although this may seem plausible in the long-term, the short-term prospects seem bleak.

In early 2015, the Wonsan Area Development Corporation was formed, merging previously separate administration teams from Wonsan and Mt. Kungang. It was given the remit to both attract and execute investments in the tourism zone. Since then, the corporation has organized at least two investor seminars, one in China in 2014 with about 200 participants and one in May 2015 at the zone itself.⁸⁹

Foreign participants in the latter seminar raised a number of concerns, including the need for minders during visits to the region. Currently, the vast majority of foreign visitors to the DPRK have to be accompanied by two Koreans for most of their sojourn. This issue of freedom of movement for tourists poses a particularly sensitive challenge for this region's growth potential, pitting old ways of doing business against more aggressive business goals. For instance, in 2014, Pyongyang stated that its goal was 1 million tourists per year.¹⁰ This year, Kim Sang Hak, a senior economist at the influential Academy of Social Sciences, told the Associated Press that the goal was 2 million visitors per year by 2020.¹¹ These lofty targets are impossible to achieve under the North's current guide/minder system requirements, given the sheer manpower that would be required. It is no surprise that the North Korean

⁸ "Outline for Development of Wonsan-Kumgangsan Tourist Region Revealed," *IFES Briefs*, http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM150326_0001.

⁹ "중 기업인 호등, 남포 수출가공지대 등 투자 의향," *Tongil News*, January 6, 2015 <http://www.tongilnews.com/news/articleView.html?idxno=112207>.

¹⁰ "A Tourist in North Korea," *The Atlantic*, October 30, 2014, <http://www.theatlantic.com/international/archive/2014/10/north-korea-travel-tourism/382101/>.

¹¹ "North Korea Woos Tourists, Hopes For 2 Million Visitors By 2020," *Huffington Post*, May 31, 2015, http://www.huffingtonpost.com/2015/06/03/north-korea-tourism_n_7477800.html.

officials at the meeting did not seem to have any easy answers to this challenge, but for the zone to succeed, it will eventually have to grapple with this clash of values.

Unjong High-Tech Development Zone

The Unjong High-Tech Development Zone, designated in July 2014, is located in the outskirts of Pyongyang, bordering Phyongsong city. The zone is affiliated with the State Academy of Sciences (SAS), rather than the Ministry of External Economy, which oversees most other SEZs. The affiliation with SAS should be an advantage, as it is the only zone to date with a dedicated and important institutional base that is both focused on its development and vested in its success. The disadvantage is that the managers come from the science and research community and by and large do not have management or investment promotion training.

The State Academy of Science and the Satellite Scientist Street in the Unjong District of Pyongyang.



(September 21, 2015; Google Earth)

Officials at the zone describe the goal of bringing together “research, development, production and export” as a “national priority,” and this broad remit should promote creative approaches available to zone managers since they will not be limited by a particular industrial focus or numerical goal.¹² Unfortunately, as of summer 2015, they have not secured any significant investment.

At this point, domestic investment is the most likely option for any truly high-tech products, given the numerous sanctions in currently in place. That said, the definition of “high-tech” at SAS seems to be broad enough to cover a variety of non-sanctioned products, such as certain household goods or healthcare products.

¹² “High-Tech Development Zones: The Core of Building a Powerful Knowledge Economy Nation,” *IFES Brief*, May 20, 2014, http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM140605_0001.

The struggles to find either domestic or international investment may improve once a management committee is established, which, as of late 2015, is said to be “nearly formed.” Currently, Unjong is reported to “officially open” at some point in 2016, and will feature an international center with communications and accommodation. There are also plans for a business incubator, from which small teams should be able to develop ideas into commercial products. In preparation for this, Unjong managers have been busy working on a variety of mundane but important issues including taxation, auditing standards and various other rules of governance.

The Rason Economic and Trade Zone

The Rason Economic and Trade Zone, the DPRK’s oldest SEZ, has seen a relatively quiet two years compared to the period between 2010 and 2013.¹³ During that time, two major construction projects were underway: 1) a Chinese-led road transportation project to link Rason with the Chinese city of Hunchun; and 2) a Russian-led project to refurbish the Rajin port and link it to the Russian railway network. Currently, the most significant DPRK-China cooperation project in Rason is the renovation of the Quanhe-Wonjong Bridge that links Rason with Hunchun. A Chinese construction firm has been contracted to build a four-lane bridge, to replace the current two-lane bridge some time in 2016.

Although there were persistent rumors of plans to import electricity from Hunchun to Rason, to be sold at Jilin Province rates, the project was put on hold after the 2013 nuclear test and ouster of Jang Song Thaek. It will take a significant improvement in Sino-North Korea relations for this project to be revived.

Reliable electricity supply is only one of a number of conditions necessary to attract larger Chinese companies to join the already-registered 129 foreign companies in Rason. Other conditions include being able to demonstrate a track record of improvement in the general business environment and a perception that Beijing-Pyongyang relations are stable enough for companies to manage the political risk.

¹³ “Rason,” comprised of the two towns of Rajin and Sonbong, as well as their hinterlands, has been some form of economic zone since 1991.

New bridge construction that will improve transportation between Rason and China.



(September 15, 2013; Google Earth)



(September 6, 2015; Google Earth)

Some of the autonomy won with reforms in 2010 and 2011 has been curtailed, and over the summer of 2014, Yanji-based businesspeople who work in Rason began describing a greater degree of “negativity” towards Rason. For instance, the border immigration and registration procedures were tightened. Permissions became generally more difficult to obtain. Fundamental business inputs became scarcer. Restrictions were placed on the sale of fuel to foreign-registered vehicles, and less electricity was provided to foreign-invested companies. Unofficial payments to carry out normal tasks also increased, adding to the transaction costs of doing business in Rason. Moreover, new business licenses (or licenses for existing businesses to move into new products or fields) reportedly became more difficult to obtain for the zone as well.

To help mitigate these problems, local officials are now looking to agglomerate foreign businesses. However, forced mergers or conglomerations are often an unappealing solution as they can create inefficient pairings of industries, expertise and individuals.

While these general frustrations were brewing in 2014, they were aggravated by the Ebola quarantine, which ground many businesses to a near halt over the winter.¹⁴ Some Chinese businesses that couldn't bridge cash-flow shortfalls and did not have fixed capital on the ground appear to have decided against returning to the DPRK, essentially giving up on Rason.

The tightening of controls in Rason is likely connected to personnel reshufflings that took place after Jang Song Thaek's ouster as well as bureaucratic reorganizations that have taken place in various organs of economic governance since Kim Jong Un assumed power. There is a risk of overstating the former, however. For instance, Hwang Chol Nam, the charming, English-speaking former Vice Mayor of Rason, is no longer involved in the SEZ, having been very much in the public eye for high-profile cruise trial-runs and the first trade fairs.¹⁵ Yet further down the chain of command, most of the staff in Rason's Economic Cooperation Bureau seems to be the same as in previous years and the bureau still cooperates with officials from Jilin Province on a Rason Joint Management Committee.

Developments in the Smaller SEZs

Aside from these developments in "the big four," there have been interesting changes in some of the DPRK's smaller SEZs, and this year two more SEZs were announced.

Hwanggumpyong and Wiwha Islands Economic Zones: Since 2014, Hwanggumpyong has seen the construction of a single large building. While the purpose of this building is yet unclear—some believe it will be a joint Sino-DPRK SEZ administration office while others believe it might be a hotel being constructed by a Chinese firm—construction seems nearing completion.

¹⁴ In late October, 2014, the DPRK phased in a quarantine to prevent the spread of Ebola. This eventually saw all tourism banned and all other visitors required to spend 21 days in quarantine. It was quietly lifted in March 2015.

¹⁵ "N. Korea trying to attract foreign tourists," *Asahi Shimbun*, August 15, 2011, http://ajw.asahi.com/article/asia/korean_peninsula/AJ201108157527.

Building on Hwanggumpyong nears completion.



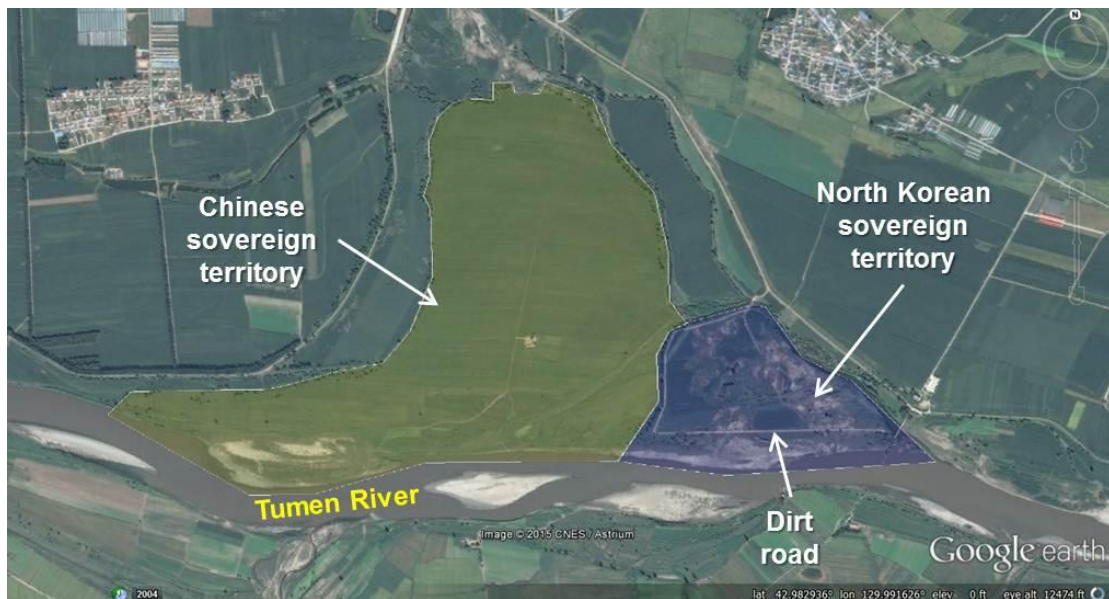
In December 2013, Chinese media reported that a contract had been finalized for the **Onsong Island Tourist Development Zone**. According to Chinese media:

North Korea planned to develop the zone into a tourism resort that includes a golf course, swimming pool, horse racing, and restaurants to attract foreigners, said Jin Hualin, an expert on North Korea economy at Yanbian University.

“But the exact development agenda hasn’t been set as Tumen will invite investors to make their decisions,” he said.¹⁶

To date, little work has been conducted in the zone.

The Onsong Island Tourist Development Zone.



Like Hwanggumpyong on the west coast, the Onsong SEZ is on a patch of land on the Chinese side of the Tumen River. It is not connected to the DPRK mainland either via geography or infrastructure. However, this zone may be unique among the SEZs because part of it lies on Chinese sovereign territory (in yellow) and part of it lies on North Korean sovereign territory (in blue, on the North side of the river). Little work has been done here, although a dirt road was built on the North Korean land between October 6, 2014 and August 5, 2015.

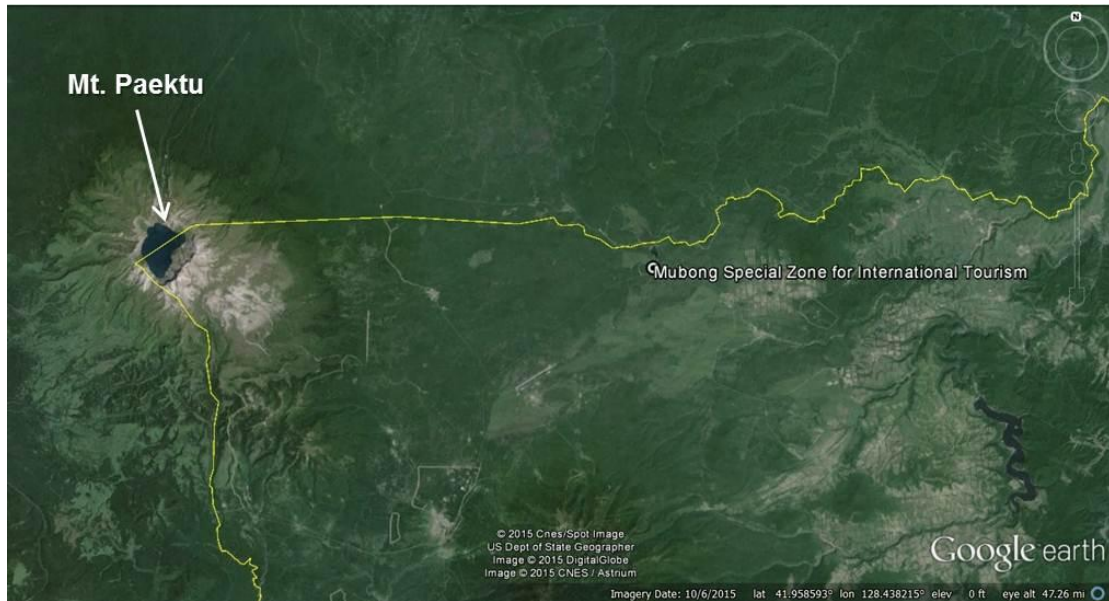
Two New SEZs Announced in 2015

In April 2015, KCNA announced the **Mubong Special Zone for International Tour** [sic] in Samjiyon.¹⁷ The tourism zone is located in the Mubong Worker’s District in Samjiyon, which is a pre-existing village that supported visits by North Koreans to Mt. Paektu and other revolutionary sites in the region.

¹⁶ “N.Korea inks border town economic deal,” *Global Times*, December 13, 2013, <http://www.globaltimes.cn/content/831869.shtml#Uq4dxPRDsV>.

¹⁷ “DPRK announces Mubong Special Zone for International Tour,” *North Korean Economy Watch*, April 23, 2015, <http://www.nkeconwatch.com/2015/04/23/dprk-announces-mubong-special-zone-for-international-tour-sic/>.

The Mubong Special Zone for International Tourism lies approximately 37 km east of Mt. Paektu.



The Mubong Worker's District, site of the Mubong Tourist Zone.



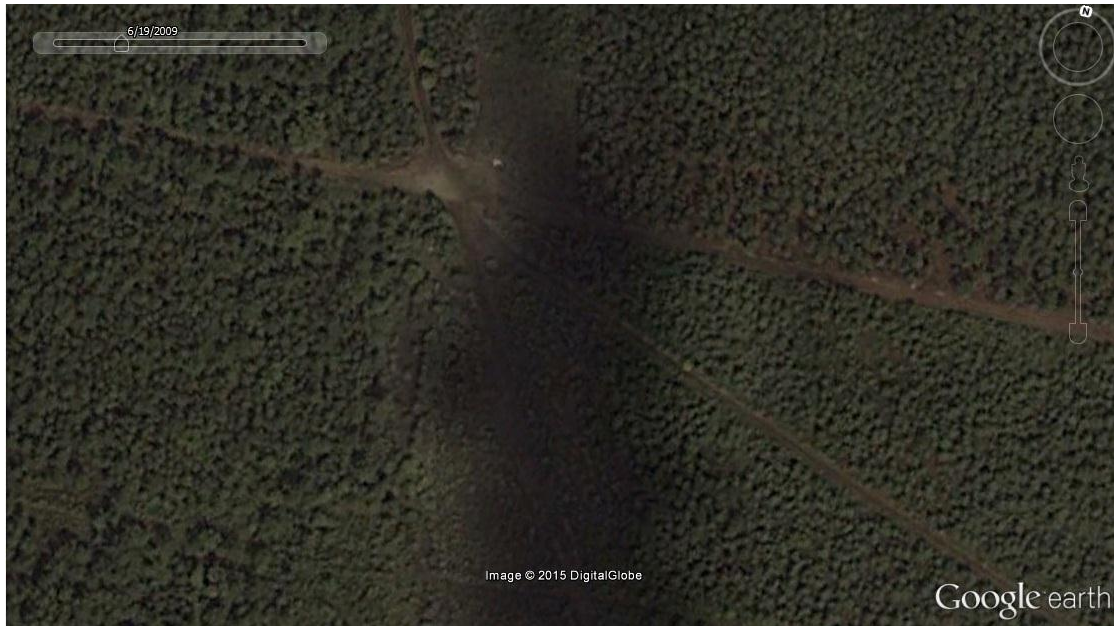
(September 29, 2007; Google Earth)

The Mubong Worker's District has existed for decades, and it is unclear if any renovations have been made since 2007 or if any are scheduled.

Between June 19, 2009 and July 27, 2014, the North Koreans also constructed new border crossing facilities in Samjiyon. It is unclear if this upgraded border crossing is related to the

Mubong SEZ or if it was part of an older plan to draw more Chinese tourists to the region.¹⁸ To date, it does not appear to have gone into operation.

The new Samjiyon border crossing (before and after).



(June 19, 2009; Google Earth)



(July 27, 2014; Google Earth)

In October 2015, KCNA announced the creation of the **Kyongwon Economic Development Zone** in Ryudasom-ri.¹⁹ Like the Onsong Tourist Zone (and only 51 km downstream) Ryudasom-ri is a small piece of DPRK territory on the Chinese side of the Tumen River.

¹⁸ “DPRK announces Mubong Special Zone for International Tour,” *North Korean Economy Watch*, April 23, 2015, <http://www.nkeconwatch.com/2015/04/23/dprk-announces-mubong-special-zone-for-international-tour-sic/>.

Ryudasom-ri, site of the Kyongwon Economic Development Zone.



(August 5, 2015; Google Earth)

In terms of infrastructure, the island is a typical North Korean village that is primarily composed of farmland; however, due to its proximity to the Chinese city of Hunchun, it already has a legal border crossing and bridges over the Tumen River. To date, the North Koreans have not made their plans for the zone public.

Looking Forward: Unanswered Questions

Although the DPRK intends to continue rolling out new special economic zones, the control, purposes and locations of publicly announced zones are often changed ex-post, raising a concern that when a new zone is announced, key parameters are still subject to future alteration by the DPRK bureaucracy. For instance, when the Chongjin Economic Development Zone was first announced in 2013, it was reported that: North Hamgyong Provincial Chongjin economic development zone will be set up in areas covering part of Wolpho-ri, Susong-dong and Namsok-ri, Songphiyong District.²⁰

A map of the zone was published in 2014 which basically confirmed the inclusion of the previously specified locations.

¹⁹ "Kyongwon Economic Development Zone," *North Korean Economy Watch*, October 8, 2015, <http://www.nkeconwatch.com/2015/10/08/kyongwon-economic-development-zone/>.

²⁰ "Special Economic Zones (SEZs) and Economic Development Zones," *North Korean Economy Watch*, November 21, 2011, <http://www.nkeconwatch.com/2013/11/21/special-economic-zones-sezs-and-economic-development-zones/>.

A 2014 Map of the Chongjin Economic Development Zone.



However, in 2015, the North Koreans released a revised map to potential investors which showed that the Namsok-ri area, which is surrounded by military bases, had been removed from the list; the Wolpho-ri area had been expanded to cover other areas in Songphyeong District; and two new areas of Chongjin—Ryongam-ri in Ranam District and Kwanhae-dong in Chongnam District—had been designated part of the zone.

Revised map of the Chongjin Economic Development Zone released in 2015.



To date, none of the changes made to the makeup of the zone have been reported in the official media, so it is unclear what significance they carry, or what they mean for other “settled” development zones in the country. However, this example illustrates how North Korea’s inconsistent SEZ policies and communication can erode investor confidence.

Conclusion

Overall, although the Kim regime may be promoting special economic zones as a key piece of its economic development strategy, there is still a long way to go to make these zones successful. Certainly, the North’s strained political relations bring about serious financial and reputational challenges to attracting foreign investment; however, it is not the only impediment to success. Inconsistent and unreliable communication about plans for the zones and a lack of strategic planning for attracting either domestic or international investment reflect limitations of the North’s domestic economic policymaking capacity.

Despite these structural challenges, localized efforts are underway to try to make individual zones work. For instance, teams from Wonsan and Unjong have begun experimenting with outreach and marketing. They are also trying to create more comprehensive development plans and organizations. Around Sinuiju, there are at least two significant construction projects well underway, reflecting a desire for cross-border cooperation in that region. The unfinished new Yalu Bridge, however, stands as a reminder that the success of most of these zones depends heavily on the DPRK’s relations with its neighbors. In particular, Wonsan and Rason eagerly await better days. Until they arrive, Rason will continue to putter along; domestic capital and visitors may have only a small impact on the Wonsan area; and smaller projects, like the newly announced Kyongwon Economic Zone, will likely remain largely undeveloped for the foreseeable future.