

# The Rajin-Sonbong Free Economic and Trade Zone, and the Policy of the Government of the Democratic People's Republic of Korea

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In previous sessions of the Northeast Asia Economic Forum, development of the Tumen River area has been a priority issue in the promotion of regional economic cooperation and exchange. This project also contributes to and supports the establishment of the DPRK's Rajin-Sonbong Free Economic and Trade Zone (FETZ) which is an important part of the Tumen River Area Development Programme. At a time when there is a strengthening of regional economic cooperation and exchange in Northeast Asia, and the focus on the Tumen River area, the Government of the DPRK, following the far-sighted initiatives of the Great Leader Comrade Kim Il Sung, declared Rajin-Sonbong City a FETZ in December 1991 and began its development. This decision was part of the DPRK's policy to actively contribute to the expansion and development of economic cooperation and exchanges in Northeast Asia by making maximum use of its geopolitical advantages.

There is a great difference in the level of economic development in countries in Northeast Asia due to the special sociopolitical situation and natural geographical conditions. Regional economic cooperation and exchange can ameliorate these differences and improve infrastructure such as ports and rail so as to ensure free movement of raw materials, capital and persons between the countries in the region.

The Rajin-Sonbong Zone is adjacent to Hunchun, China, and Khassan in the Russian Federation, and faces Japan across the East Sea of Korea. It is only 130 km by land and 485 miles by sea from Hunchun to Niigata through the port of Rajin. The distances via Dalian are 1,300 km and 1,070 miles respectively, 10 times further by land and two times further by sea. For these reasons the Zone is a gateway for multi-modal transportation by sea and land and a transit center for the facilitation of movement of capital, technology, materials and people between the countries in the region. If 100 million tons of cargo were transported per year on a 10,000-ton ship, companies utilizing this route would save approximately \$500 million due

to reduction of transportation distance and time. The full utilization of the port will also increase Northeast Asia's transportation capacity and the volume of exports and imports between Northeast Asia and other regions will grow accordingly. Given that the total volume of exports and imports by Northeast China, Russian Far East and Mongolia is expected to be more than 300 million tons in the near future, the geopolitical importance of the Rajin-Sonbong FETZ will increase. Thus the DPRK Government took into full consideration the role to be played by the zone in the overall development of Northeast Asia.

The DPRK Government has approved the masterplan for the zone which foresees it becoming an international cargo transit center, an international center of finance and tourism, and a manufacturing zone focusing on export processing by making maximum use of the natural, geographical and geopolitical advantages of the area. Under this masterplan, development will be undertaken in 2 phases: phase I up to the year 2000, and phase II from 2001 to 2010. During the first phase, existing infrastructure including the seaport, railways, roads and telecommunications will be utilized to the maximum and improved and upgraded to enhance the role of the zone as an international cargo transit center. At the same time, efforts will be made to create and improve the investment climate. During the second phase, efforts will focus on continued improvement and completion of the infrastructure network and development of the zone as an export processing base, a financial center and an international tourist resort. The ultimate goal for the zone is to make it a comprehensive, international center of economic exchange and trade for the 21st century.

To make the zone a first-class transit cargo center, the ports of Rajin and Sonbong inside the zone, and the port of Chongjin, a free trade port near the zone, will be modernized to handle a total annual capacity of 100 million tons. As the capacities of the ports increase, the capacities of the railway and road networks connected to the ports will be increased to 50-60 million tons and 30-40 million tons respectively.

The zone will also be developed as a comprehensive export processing zone. Over 50 existing factories and enterprises will be rebuilt and modernized through joint ventures to convert them into export processing factories. At the same time, the construction of industrial areas specializing in different sectors will be initiated and, in the long term, ten or more modern industrial areas will be established in the zone including light industry, and electronics, automation and automobile industries.

To make the zone an international center of financial services for the region, the DPRK Government will also allow joint ventures in banking, including offshore banking and wholly foreign-owned enterprises. Further, since the zone and its surrounding areas are well-known for their beautiful

coasts and are adjacent to China and Russia, the DPRK Government is also planning to construct modern hotels, recreational facilities, shopping areas and other service facilities and promote international tourism inside or through the zone. Tourists will be able to enter the zone without visas, facilitating their passage through the territory of the DPRK to China or Russia.

With regard to the creation of a favorable investment climate, the DPRK government has reviewed experiences gained and lessons learned by various countries in establishing and operating their free economic zones and, on this basis, is intent on providing conditions for investment and economic activities which are more favorable than those in other free economic zones, while at the same time seeking to establish an economic order which has become customary practice throughout the world. Since the declaration of the Rajin-Sonbong FETZ, the DPRK Government has drafted and promulgated over 30 laws and regulations relating to foreign investment with a view to creating a legal framework for investors from any country to come and carry out economic activities without limitations. The DPRK Government has promulgated the Law on Foreign Investment, which is the basic law stipulating the policy of the DPRK Government with regard to attraction of foreign investors, and, on this basis, has developed laws governing contractual and equity joint ventures and wholly foreign-owned enterprises. The Law on Free Economic and Trade Zones contains general and comprehensive provisions covering promotion and facilitation of economic activities in a Free Economic and Trade Zone. This law provides the legal status of the zone, the powers of the zone authorities, and the special system governing investment, and economic and trade activities by foreign investors, including use of land and labor, circulation of products, immigration, customs duties, the financial system, and a variety of incentives. To specify the system governing economic and trade activities of investors, the DPRK Government has drafted and promulgated other relevant laws and regulations such as the Law on Land Leasing, the Law on Foreign Exchange, the Law on Foreign-invested Banks, the Law on Customs, the Regulations on Foreigners' Immigration and the Regulations on Labor for Foreign-Invested Businesses.

Favorable conditions for business and trade activities have been provided by law, including a preferential tariff system. Goods and commodities may be brought into the zone for the purposes of storage, processing, assembly, break down, sorting, packing or repairing. No customs duty is imposed on goods which are brought into the zone for the purpose of re-export, transit trade, or operation of a business. Joint ventures and wholly foreign-owned enterprises may be established to invest in industry, agriculture, construction, transport, telecommunications,

science and technology, tourism, finance, and services. In particular, special incentives and preferential treatment are granted to enterprises which operate on the basis of high technologies or which produce highly competitive export goods.

Investors are protected by law from administrative interference or restrictions by the state. They may obtain the right to use land for a maximum of 50 years and to transfer or pass on this right by inheritance at any time before the expiry of the lease. They may determine prices of commodities through free negotiation with the buyer, employ and discharge labor under a contract with the labor service agency, and remit money abroad free from tax, or reinvest their business profit and other legal incomes. They also enjoy a free visa system.

In particular, the tax schedule for foreign-invested businesses has been simplified and various fees and rates have been set at a relatively low level. For instance, the rate of enterprise income tax in the zone is 14% and can be lowered to 10% for enterprises engaged in a priority sector. In addition, enterprises will be exempted from payment of the tax for three years from the first profitable year and have to pay only half the tax for the following two years. Enterprises engaged in a priority sector will be granted additional benefits in determining the duration of tax holiday and the proportion of exemption or reduction. As for other taxes, in general the number of items to which they apply is smaller and the rates of the taxes lower than in other countries. The land lease rental, land development fee and labor remuneration rate are also lower than other countries.

To create an international investment climate favorable for the development of the zone, the DPRK Government has actively pursued its development in close cooperation and in good harmony with China and Russia, which are the major parties to the development of the Tumen River area. Recently, under the auspices of UNDP, governmental agreements were signed at the TRADP PMC 6 including the Agreement on the Establishment of the Tumen River Area Development Coordination Committee and the Agreement on the Establishment of the Consultative Commission for the Tumen River Economic Development Area and Northeast Asia, which are great contributions to the acceleration of zone development.

The development of the Rajin-Sonbong FETZ is arousing the interest of businesspersons and investors throughout the world. Now that the DPRK Government has taken a variety of legal and institutional measures aimed at creating a favorable investment climate in the zone, and agreements in principle have been reached between the member states on TRADP, thanks to the efforts of UNDP and UNIDO, an increasing number of investors are visiting the Rajin-Sonbong area with the intention of investing there. This

includes companies from Asia such as Hong Kong, China, Japan and Thailand, and also from the United States and Europe, such as the United Kingdom, the Netherlands, Germany and Finland. Since the declaration of the zone, over 200 delegations from different foreign companies and firms comprising about 1,000 people from 23 countries have visited the zone including General Motors of the United States, British-Dutch Shell, Peregrine of Hong Kong, Invesco of Great Britain, and the ING Bank of the Netherlands. About 100 memoranda of understanding and other documents of a similar nature have been signed. Some contracts have been concluded and actual investment has been made in the transport of transit cargoes through the port of Rajin, construction of the Rajin-Wonjong Highway, airport construction and operation, operation of liner services, and construction of hotels.

Although the development of the zone is just beginning, the DPRK Government is convinced that the Rajin-Sonbong FETZ will be successful like everything else directed and guided by the Great Leader General Kim Jong Il. The DPRK will thus make a great contribution to the overall development of Northeast Asia by speeding up the development of the zone in close cooperation with businesspersons and investors throughout the world, the member states of the Tumen River Area Development Programme and various economic organizations.