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“The Honeymoon Period Is Over”

**Short Report on Rason Special Economic Zone,
Democratic People’s Republic of Korea
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“The honeymoon period is over,” was the summary of 2012 in Rason by one investor. This wasn’t meant to reflect an end to investors’ dreaminess about Rason, but of Rason’s honeymoon with itself, so to speak. With the recent legal changes, road construction and a series of meetings between high officials over the last couple years, it was imagined that big-time investments would come flooding in.

Investment does continue into the SEZ, but from small- and medium-sized businesses that lack truly transformative power. This does not mean, however, that development is not taking place. A key piece of infrastructure is finished, while both local administrators and foreign investors eagerly anticipate other pieces.

This report, while far from comprehensive, outlines the major changes (or lack thereof) of the last year.

The Road to the Border Is Finished

Some finishing touches are being put on here and there, such as guardrails, but the road has been basically complete since March. This means that the once 3-hour journey has been cut to under 50 minutes.

The road has certainly improved connectivity between regions in the SEZ for local citizens. Biking between villages and the cities of Rajin and Sonbong has become much faster. A foreign-owned bus service has sprung up, focusing on inter-city and rural routes. A few covered bus stations have been recently built and several more impromptu bus stops can be seen along the road. The local government-owned bus service is apparently better for in-town bus services.

One drawback of the road will be personal safety, particularly of pedestrians and cyclists who clearly are not yet used to the speed with which vehicles can now travel. Walking or riding two or three abreast on a minimal shoulder will certainly lead to some deaths, if it hasn't already. Certainly, Chinese drivers won't be the ones to teach North Koreans about road safety.

Sea and Rail Links

There have been no upgrades to Rajin Port's 1st and 2nd piers, run by North Korea.

The Russian-leased 3rd pier, however, is seeing a refurbishment as well as bridge construction, which will allow Russian-gauge trains to go all the way to the port.

The long-rumored agreements with Chinese investors to build deeper 4th and 5th piers have been given up on. "That's not happening," said one official. This makes sense: a big increase in traffic will be needed to justify the expense of new piers for bigger ships.

We were also told that a Chinese company from the Northeast delivered two shipments of coal through Rason to southern China. The port moved a total of 200,000 tons of goods last year. Its peak was in 1979, at 800,000 tons.

The widening of the train tracks leading to the border with Russia to match Russian gauge standards has been completed. We were told a twice-a-week service is now running.

"There are plans" to upgrade rail links to Jilin province as well.

Power

Power supply remains an issue in the zone, with all major enterprises requiring backup systems to kick in when there are cuts.

The Sonbong Power Plant has not generated electricity since 2009, due to lack of fuel. It runs one of three turbines, which takes in electricity from the national grid and regulates the voltage for distribution. The other two turbines, Russian-made and from the early 1970s have fallen into a state of disrepair. These are not salvageable, according to foreign experts.

In 2011, there had been various reports of plans to import electricity from Hunchun. They have yet to come to fruition.

Tourism

The biggest improvement in the last year has been in the tourism sector. Self-driving Chinese tourists form long queues at the border and Jilin license plates could be seen all over the SEZ. New road signs in Korean, Chinese and English abound. Hotels over the summer have been booked to capacity, leading some visitors (for example, the Hanns Seidel Foundation and Choson Exchange delegation) to have to take rooms on the 7th floor of a hotel with no working elevator.

It was said that on any given day during the summer season, something like 900 landlocked Jiliners and Heilongjiangians were in Rason to lark around on the beaches.

The allowance of self-driving Chinese was also designed to make it more convenient for interested Chinese investors to inspect the region.

Mixed-Use Retail/Residential/Business Park

“It will become an important passageway, without compare,” says the brochure.

While there are a few construction sites around the area slowly erecting buildings, the biggest physical change coming to Rason is the construction of a 47,000 square-meter mixed-use commercial, retail and residential complex. It will be located in Sonbong, at the terminus of the highway.

The Chinese company building this multi-million dollar complex will be offering up to 50-year leases on both the commercial and housing areas, though a representative said the apartments might actually be fully for sale.

Approximately 40,000 square-meters will be for logistics and wholesale space. The rest will be for retail, leisure and housing. The “one stop shopping” promised

in the literature will “provide all needs for consumers”, including shops selling imported and domestic machinery, hardware, electrical, clothing, home, fashion and more. Without a sizeable upper-middle class, as in Pyongyang, one has to imagine most of these consumers will be Chinese. The shops will accept both Chinese and Korean currencies.

According to one picture imagining the shopping area, there will be a Pottery Barn.

Legal Changes

The Presidium of the Supreme People’s Assembly amended Rason’s laws in December of 2011, having done so in January 2010. One legal scholar noted that while the 2010 revisions were important for dividing Rason from provincial governance, the new changes take more steps towards harmonizing Rason’s rules with the capitalist economy of China.

Choson Exchange plans a separate article analyzing the changes in the near future.

Big Things on the Horizon?

Lest the title seem too negative, the “honeymoon being over” means that perhaps a greater sense of realism is beginning to prevail in the local administration. Rather than hoping for a *deus ex machina* to descend and improve everything, there is the growing realization that practical achievable planning is the way forward for Rason.

That economic *deus* will someday be China, but the major state-owned enterprises appear to be biding their time. The Changjitu development plan continues to move forward and its logical end includes connecting Jilin and Heilongjiang with Rajin Port.

Korean-Chinese and other smaller investors are seeing the Changjitu development project really rolling and want to take advantage of being in Rason early. Nevertheless, they’re too small to grow rapidly without the kind of outside capital investment that doesn’t seem to be forthcoming for projects in the DPRK. These small companies are feeling the pressure to establish before they’re pushed out by bigger Chinese enterprises, which are widely seen as “coming soon”.

Other Public Reports by Choson Exchange

(see <http://chosonexchange.org/?cat=11>)

February 2012 – A Convergence of Interests: Prospects for the Rason Special Economic Zone

Rason, North Korea's Special Economic Zone located in the far Northeast of the country, is undergoing change at a pace unseen in its twenty-year existence. Its history has been one of insufficient support, both from leadership in Pyongyang and from external actors. Now, however, amid political transition in North Korea, reform and reorganization have taken place in the SEZ, while at the same time China has included Rason in its ambitious plans to develop its Northeastern province of Jilin... Despite the myriad challenges facing both the SEZ and North Korea's economy, these factors give Rason better prospects for development than we have seen before. (<http://www.keia.org/publication/convergence-interests-prospects-rason-special-economic-zone>)

February 2012 – Choson Exchange Annual Report

After reviewing previous and current programs, we decided that we will continue to focus on a rigorous selection process to pick exceptional young North Koreans for exceptional learning opportunities. In addition, we intend to identify areas of potential policy changes in partnership with North Koreans and focus on training in those areas. This will allow us to bring training closer to actual implementation of knowledge. We also decided that a major long-term emphasis should be to build cross-institutional linkages and in developing institutions that can facilitate these linkages.

September 2011 - Report on Rason Special Economic Zone, Democratic People's Republic of Korea

Andray Abrahamian, accompanying Hanns Seidel Foundation, traveled to Rason in August 2011 to attend the 1st Rason Trade Fair and explore training needs for company managers and SEZ administrators. While there is a lot of information about Rason out there, there seems to be a lack of current, centralized easily findable and citeable facts. This brief report intends to provide some basics on the infrastructure of the zone.

July 2011 - Legal Framework for Foreign Direct Investment in the Democratic People's Republic of Korea

In June, Choson Exchange took a fact-finding and training needs-mapping trip to Pyongyang. The main impetus for the trip was to get a better understanding of the legal structure that the DPRK has in place to govern inbound foreign investment. We found a legal structure that draws heavily on China's experiences.