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## The Significance of Recent Changes in Rajin-Sonbong

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The DPRK has advertised the Rajin-Sonbong Free Economic and Trade Zone widely, with well publicised investment seminars in Beijing, Japan and Hongkong, as well as last year's investment forum in Rajin itself. To some outside observers, it has not been an unqualified success. However, in this piece I would like to suggest a more constructive approach, by discussing the significance of recent changes in Rajin-Sonbong on the development of the DPRK, with a view to what hopes and intentions these changes might signify for the future on the part of the DPRK authorities.

The Rajin-Sonbong Zone came into being at a time when the amiable world around the DPRK was collapsing; countries who had been ideological allies and provided large-scale economic, technical and military support to the country for decades seemed almost to vanish overnight, or at least started demanding hard

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cash for their exports. Whatever the reason for this, it left the DPRK with few surviving trade partners with whom they could do business on traditional barter terms. They were therefore obliged to start dealing on a larger scale than ever before with capitalist countries on a serious commercial basis. It has sometimes been suggested in meetings with DPRK officials that they did not want to deal with capitalist countries, but given the circumstances which arose due to outside events they had no other option.

The Rajin-Sonbong Zone represents an opportunity to experiment with elements of capitalism without in any way posing a threat to the rest of the system, in an area which, by coincidence, is at the furthest distance from the country's capital. In this context, it is important to appreciate just how significant a step it was even to establish such an area as a future enclave of capitalism. It meant, even for a very small portion of the country (747 km<sup>2</sup>), amending the established wisdom which still very much applies to the rest of the country; namely that the only way forward is by redoubling efforts to establish socialism at all levels and opposing capitalist influences. For such a concept to have any chance of implementation, it could only come from the highest levels. It was said that the late President Kim Il Sung's dying wish was that Rajin-Sonbong be made a success.

The first laws governing the Zone were promulgated by the Supreme People's Assembly in 1993, and the first foreign invested joint ventures were established in 1995 and 1996. These consisted mainly of small-scale trading, seafood processing, transport, wood processing and stock breeding companies, as well as two banks, Peregrine Daesong Development Bank and ING-North East Asia Bank, both of whom were allowed to be established only in

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Pyongyang until the banking requirements in the Zone were sufficient to justify opening offices there. After some delay, the Peregrine Daesong Development Bank is scheduled to open its office around the end of this year.

Critics of the Zone argue that since its establishment little has happened. They claim that the reason for this is that there are too many basic drawbacks - apart from the risky national

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environment, the population is too small (2-300,000), the minimum wage (US\$80 per month) is too high, there is no infrastructure or transportation, and the legislation is inadequate in terms of protecting the foreign investor. These points are already well known and are completely legitimate, and some, such as the infrastructure issue, are not easily solved without huge investments.

Still, the pace of investment in the Zone has started to pick up. According to figures provided by the CPEEC, out of a total of US\$37 million invested in the five years from 1992, US\$31 million was invested in 1996. The original plans for the Zone anticipated large-scale industrial development. However, for the reasons previously stated this has yet to happen (of the above total, only US\$1.2 million was in the manufacturing and processing sectors), the immediate future seems to lie in transport and tourism, which accounts for \$19 million. Restrictions concerning contact with foreigners are now more lenient in the Zone. Busloads of tourists from Yanbian Province in China were arriving daily during the summer season. A new seven-story Chinese-invested Rajin International Club hotel and entertainment complex is currently under construction. It is located next to the heliport, which will provide a much-needed high-speed link between Rajin and Yanji, and Pyongyang and Vladivostock when it starts operating.

In the future, South Korean citizens are expected to be allowed

to transit through Rajin without visas, putting the long-planned Sokcho-Rajin ferry service into operation, in addition to the planned service from Niigata. When this happens the Emperor Group hotel will be open, along with the existing Rajin International Hotel. This will create a steady stream of visitors who will be spending cash there, generating income in the Zone which can help improve urgently needed tourist facilities. For example, there is a large untapped market of people in Yanbian province, to whom the closest access to the sea is in Rajin, but this cannot be exploited on a large scale until adequate water and sewerage facilities are built to support the building of more hotels.

The Zone is also developing into a centre for trade with China, and a free market has been established on the border at the Wonjong Bridge. Privately run stalls selling small consumer goods have sprung up everywhere and appear busy, the money changing hands apparently being renminbi. Even some of the major infrastructural problems are gradually being addressed, with a new road under construction from Rajin to Wonjong Bridge on the border with China, and an agreement recently signed with Russia covering the renovation of the idle Seungri Chemicals Complex. The recent approval by the Ministry of National Unification of Korea Land Development Corporation's plan to develop a 3.3 million square metre industrial estate near the port of Rajin is also a promising development.

The CPEEC is continuing its efforts to develop the port of Rajin into a transshipment port for containers from Japan and South Korea into China and is still talking to a number of developers. The strategic location of this most northerly natural ice-free port

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on the east coast of Asia is undeniable. The completion of the road project will greatly enhance the possibilities offered by this project, as will continuing efforts to simplify the customs inspection procedure on the Chinese border.

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replaced solely by the people's currency or brown Won used in the rest of the country at a rate which reflected the unofficial rate of 200 Won to US\$1. Although that rate is still fixed, the intention is to change it periodically according to the real rate, and eventually to allow it to float freely. In the rest of the country, foreign exchange must be converted to FECs at the official rate of about 2.1 Won to the dollar, and foreigners are not allowed to hold brown Won. To control the black market, a customs inspection is now carried out for anyone entering or leaving the Zone through the rest of the DPRK.

Also, management of enterprises in the Zone has been made independent of the state planning system. What this entails is that these enterprises have to pay their workers a salary they themselves determine, rather than receiving all their benefits including food and clothing, but virtually no actual cash, from their workplace. Although it applies only to the small population of Rajin-Sonbong, this still represents a significant change in attitude. Travelling to Rajin since that time, I was often told that "there are no restrictions, you can do anything you want" in Rajin. I find that it is true, the atmosphere over the last six months has changed dramatically compared to preceding years.

One less obvious development is that under a system which is opposed to capitalism, the existing knowledge of capitalistic ways was limited. Therefore, in order to prepare the subsequent laws

which have been enacted governing tax, property, foreign exchange, insurance, banks, customs and banks, the Committee for the Promotion of External Economic Co-operation (the CPEEC, who is responsible for the development of the Zone) had to send its people on extensive fact-finding missions to a wide variety of capitalist countries. Some students are even being taught, in some cases by foreign instructors, western-style economics at Kim Il Sung University and other institutions in Pyongyang.

In summary, while the development of Rajin-Sonbong has not followed its original plan, it is decidedly not the failure that some critics claim it to be. In fact, the region has important implications for the country's future development. Presumably the decision to initiate the changes, implement training programmes, contact countries normally viewed as hostile, and enact other reforms involved may not have received total support. This being the case, it is all the more important that the Zone is successful. It can serve as a means for convincing those who see these changes as undermining genuine socialism, which is the ultimate success. CPEEC Chairman Kim Jong U stated publicly that if Rajin-Sonbong is a success, the idea can be replicated in other parts of the country such as Nampo and Wonsan. However, if it is not successful then it will not be replicated anywhere. In other words, those who oppose the whole idea of change in any form will need convincing that certain changes can be beneficial. And internal change is likely to be much more successful than change imposed externally. EKP

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