SPECIAL ECONOMIC ZONES, TRADE AND ECONOMIC REFORM: THE CASE OF RASON SPECIAL CITY

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ABSTRACT

The recent rebound of Rason (Rasŏn) after two decades of an uncertain existence has been largely unobserved. This is astonishing, since of the North Korean special economic zones, Gaeseong (Kaesŏng) Industrial Complex, Hwanggumphyong (Hwanggŭmp’yŏng) Whihwa, the defunct Geumgangsan (Kŭmgangsan) Tourism Zone, and Rason, the latter is the only one driven by economic forces, not political ones. This makes Rason an interesting object of study for the question of whether the SEZ policy has a greater meaning for North Korea’s overall economic reform. This article looks at this issue by tracing back the origins of Rason, its economic meaning, in particular for China, and the ‘trickle down’ effect of investments. While Rason is far from being comparable to the market economy experiments China undertook in the early 1980s with an SEZ like Shenzhen, nevertheless the economic forces driving the development of Rason as well as its geographic position will make it more viable and less inherently unstable than the other North Korean SEZ and thereby might allow a longer-term experiment with new, institutionalised and state-sanctioned forms of market development.

Key words: Rason Special City, North Korea, foreign investment, Special Economic Zones, China, Greater Tumen Initiative

1 INTRODUCTION

The special economic zones (SEZ) of North Korea have been keenly observed in the past decades. The opening of Gaeseong Industrial Complex (GIC), the most successful and today the only surviving project among the many economic co-operation projects from the Sun-
shine policy era, has been heralded as a potential first step to a market economy. The development of Geumgangsan Tourism Zone and the aborted attempt at a special zone in Sinuiju were equally seen as steps towards the market (see Seliger 2003, 2006). However, the two inter-Korean projects in particular were essentially political in nature. Investment was only possible through a mixture of large-scale state investment in infrastructure and state guarantees against debts of private firms by the government of South Korea. And political trouble brought both projects to the brink of closure, and one, Geumgangsan, beyond. This does not mean that the zones have had no economic effect. The impact of the GIC on the North Korean economy is tremendous, and on the South Korean economy is at least sizable. Moreover, the fact that around 50,000 North Korean workers now work according to the rules of the market, in modern factories enjoying a more or less stable supply of raw materials, energy and other utilities, is of the utmost importance. It might be true that North Korea’s ever-increasing dependence on earnings from the zone explains why this zone has been exempted from the general decline in inter-Korean relations since 2008. But equally, it might well be true that North Korea cannot afford to let 50,000 of its workers go idle, return to their hometowns (since by now, many of the workers no longer come from Gaeseong itself) and report on the labour conditions in the complex as being incomparably better than in most North Korean factories.

Rason, which acquired the status of a special city in January 2010, lying at the border of North Korea, China and Russia, at the delta of the Tumen river, an area euphemistically called a ‘golden triangle’, has received much less attention in scholarly circles and among policy-makers alike. This can be traced back to two views on Rason, which are not per se wrong, but which need an urgent updating. The first, that of Rason as a policy failure, dates back to its early existence up to the mid-2000s. Indeed, the original vision of Kim Il Sung to make Rajin-Sonbong (Sŏnbong) the ‘Singapore of the East’ seemed doomed from the outset, and Rason was not able to attract any significant amount of investment. It was good only for occasional exotic or bizarre notes, as when the casino run by a Hong Kong tycoon and immodestly called the ‘Emperor hotel’ (see Figure 1) opened and, later, had to close again due to Chinese pressure, after several Chinese officials gambled away money which did not belong to them in this casino. The second idea about Rason often encountered is that since