

LAW OF THE DEMOCRATIC PEOPL'S REPUBLIC OF KOREA ON THE RASON ECONOMIC AND TRADE ZONE

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Chapter 1: Fundamentals

Article 1 (Objective)

This Law is enacted to provide strict guidelines for the development and management of the Rason Economic and Trade Zone, thereby contributing to developing it into an area of international transit transport, trade, investment, financing, tourism and service.

Article 2 (Status of the Economic and Trade Zone)

The Rason Economic and Trade Zone (the Zone) is a special economic zone of the Democratic People's Republic of Korea (the DPRK), where preferential policy is pursued in the economic sector.

Article 3 (Establishment of industrial parks)

The State shall ensure that industrial parks mainly of high-tech industry, international logistics business, equipment manufacturing, primary processing industry, light i, service business and modern agriculture and established in the Zone in accordance with the plan.

Article 4 (Investors)

The Zone is open for investment by corporate bodies, individual persons and economic organizations of different countries.

Koreans residing outside the territory of the DPRK may also invest in the Zone in accordance with this Law.

Article 5 (Principle of provision of conditions for economic activities)

Investors may freely conduct economic activities in the Zone through the establishment of companies, branches, representative offices and the like.

The State shall ensure that investors are preferentially provided with conditions for their economic activities in such areas as land use, labour employment, payment of tax and access to markets.

Article 6 (Sectors of priority, prohibition, limitation)

The State particularly encourages investment in the Zone for infrastructure construction, state-of-the-art science and technology and production of internationally competitive goods.

Investments shall be prohibited or restricted in those projects that are detrimental to national security, public health, healthy social and moral life, protection of environment and growth of animals and plants, and projects that are economically and technically outdated.

Article 7 (Principle of protecting investors' property, interests and rights)

The property, legitimate income and invested rights of investors in the Zone shall be protected by the law.

The State shall not nationalize or expropriate the property of the investors.

Where an investor's property is, for unavoidable reasons, to be expropriated or used temporarily for public interest, notification thereof shall be made before going through prescribed legal procedures, and sufficient and effective compensation for its value shall be made without any discrimination.

Article 8 (Manager and operator of the Zone, principle of non-involvement in the work of management committee)

Management and operation of the industrial parks and designated areas of the Zone shall be undertaken by the management committee under the guidance and assistance of the central guidance authority of special economic zones and the Rason municipal people's committee.

Other institutions shall not get involved in the work of the management committee except in such cases as are prescribed by this Law.

Article 9 (Protection of personal safety and human rights, prohibition of illegal detention and arrest)

Personal safety and human rights of citizens in the Zone shall be protected by the law.

No one shall be detained or arrested, nor his/her place of residence be searched without a legal warrant. Any treaty concluded between the DPRK and a foreign country in respect of personal safety and criminal matters shall prevail.

Article 10 (Applicable laws and regulations)

Applicable to the development and management of the Zone, business operation and other economic activities therein are this Law, and its implementing regulations, rules and general standards.

Where the laws and regulations governing the Zone contain provisions different from treaties like conventions, memorandum of understanding and agreements concluded between the DPRK and a

foreign country, the latter shall take precedence. Where the laws and regulations for the Zone differ from those in effect outside it, the former shall prevail.

Chapter 2: Development of the Zone

Article 11 (Principle of development)

The Zone shall be developed on the principle of:

- ensuring comparative advantage of the Zone over the surrounding areas in natural and geographical conditions, natural resources and requisites for production;
- making economic and rational use of land and resources;
- protecting the ecological environment of the Zone and the surrounding areas;
- raising international competitiveness of production and service;
- providing facilities for economic activities like trade and investment;
- guaranteeing public interest; and
- ensuring sustained and balanced economic development

Article 12 (Development plan, modification)

The Zone shall be developed in accordance with the approved development plan.

The development plan shall include master plan, regional plan and detailed plan.

Approval for modification of the development plan shall be granted by the authority that approved the plan concerned.

Article 13 (Mode of development of the Zone)

Development of the Zone may be conducted in various modes: an enterprise may comprehensively develop a certain area of land and operate it, an enterprise may be granted a special license to construct, manage and operate an infrastructure and public establishments and parties to development may agree upon a certain mode of development.

The developer enterprise may invite other enterprise to participate in the construction of infrastructure and public establishments.

Article 14 (Approval for developer enterprise)

Approval for the developer enterprise of the Zone shall be granted by the central guidance authority of special economic zones by issuing to him/her a development license via the management committee of the Rason municipal people's committee.

Authorization of the developer enterprise and application for development license shall be the undertaken by the management committee of the Rason municipal people's committee.

Article 15 (Land lease contract for comprehensive development and operation of land)

The developer enterprise that wishes to conduct comprehensive development and management of land shall enter into a land lease contract with the land management institution.

The land lease contract shall specify the term of lease, area, compartment, purpose of use, term and method of payment of rental charge and other necessary particulars.

The land management institution shall issue a land use certificate to the developer enterprise upon receipt of the rental charge.

Article 16 (Terms of land lease)

The term of land lease in the Zone shall be 50 years from the date of issuance of the land use certificate to the enterprise concerned.

Upon the expiry of the term of lease, the enterprise in the Zone shall re-enter into a contact for the continued use of the leased land.

Article 17 (Acquisition of real property, issuance of certificates)

An enterprise in the Zone may, according to the regulations, acquire the rights to use land and ownership of building. In this case the institution concerned shall issue a certificate of land use of registration certificate of building ownership.

Article 18 (Assignment of rights to use land and building, rental charge)

A developer enterprise shall have the rights to assign or lease the developed land and buildings as the infrastructure construction progresses in accordance with the development plan. In this case the value of assignments or lease shall be determined by the developer enterprise.

Article 19 (Modification of rights to use land and building ownership, registration thereof)

An enterprise in the Zone may, within the term of validity, assign, lease or mortgage the rights to use land and building ownership through sale, exchange, donation or succession. In this case particulars of modification of the rights to use land and building ownership shall be registered, and the certificate of land use and registration certificate of building ownership shall be re-issued.

Article 20 (Removal and relocation of buildings and attachments)

An institution or enterprise that is in charge of removal or relocation of public buildings, dwelling houses and attachments shall remove or relocate them and have the inhabitants moved to a different location so that the development process may not be interrupted.

Article 21 (Time for commencement of development process, development in a planned manner)

The developer enterprise shall commence development upon completion of removal and relocation of buildings and attachments within the development area.

Article 22 (Development and use of farmland, forest land and hydric land)

The developer enterprise may, under contract system, develop and use the farmland, forest land and hydric land in the Zone. In this case a contract shall be concluded with the institution concerned.

Chapter 3: Management of the Zone

Article 23 (Principle of management)

The Zone shall be managed on the principle of:

- strictly observing and enforcing laws and regulations;
- ensuring autonomy of the management committee and enterprises;
- offering preferential treatment to trade and investment activities;
- complying with objective laws of the economy and principles of market; and
- referring to international practices

Article 24 (Establishment of management committee, status)

A management committee shall be set up for the management and operation of the Zone.

The committee is a local management authority that is in charge of the management and operation of the industrial parks and other designated areas.

Article 25 (Composition of management committee)

The management committee shall be composed of the chairperson, vice-chairperson, secretary and other members as may be required.

The management committee shall have such departments as are necessary for the development and management of the Zone.

Article 26 (Chief of management committee)

The chief of the management committee shall be its chairperson.

The chairperson shall represent the management committee and be in charge of its work.

Article 27 (Functions of management committee)

The management committee shall, within its competence, perform the following functions:

- preparing rules required for the development and management of the Zone;
- fostering investment climate and attracting investments;
- approving establishment of enterprises, registering and licensing;
- making a list of sectors of priority, limitation and prohibition and announcing it;
- granting permission of specially-ordered construction projects and conducting inspection of completion of construction work;
- taking custody of design for ordered projects;
- establishing independent financial management system;
- registering rights to use land and building ownership;
- managing property under its custody;
- rendering cooperation in the management of enterprises;
- undertaking supervision of and cooperation in construction and management of infrastructure and public establishments;
- taking measures for environmental protection and fire-fighting in the area under control;
- rendering cooperation in the work concerning entry and exit of personnel, vehicles and goods;
- preparing articles of association of the management committee; and
- carrying out other assignments of the central guidance authority of special economic zones and the Rason municipal people's committee with regard to the development and management of the Zone.

Article 28 (Setting up of office of management committee)

The management committee may set up an office and the like in case of need.

The office shall conduct work within the extent of its functions assigned by the management committee.

Article 29 (Submission of work program and statistics)

The Management committee shall annually submit its work program and the statistics of the industrial parks and other designated areas to the central guidance authority of special economic zones and the Rason municipal people's committee.

Article 30 (Functions of Rason municipal people's committee)

The Rason municipal people's committee shall perform following functions for the development and management of the Zone:

- preparing implementing rules for the law and regulations of the Zone;
- providing workforce required for the development and business activities of the Zone; and
- carrying out other work assigned by the central guidance authority of special economic zones with regard to the development and management of the Zone

Article 31 (Functions of central guidance authority of special economic zones)

The central guidance authority of special economic zones shall:

prepare development strategy for the Zone;

- contact local institutions for the development and construction of the Zone;
- cooperate and contact with foreign governments;
- approve screening criteria for establishment of enterprises;
- select local enterprises to make investment in the Zone; and
- render cooperation in the sale of the products of the Zone in local areas outside it

Article 32 (Compilation and execution of budget)

The management committee shall compile and execute a budget.

Documents concerning the compilation and execution of budget shall be submitted to the central guidance authority of special economic zones and the Rason municipal people's committee.

Article 33 (Cooperation in work of management committee)

The central guidance authority of special economic zones and the Rason municipal people's committee shall render active cooperation in the work of the management committee.

Article 34 (Operation of advisory committee)

An advisory committee may be formed in the Zone for the purpose of consulting and coordinating problems arising in the development and management of the Zone and business operation.

The advisory committee shall be composed of the members concerned of the Rason municipal people's committee and the management committee, and the representatives of major enterprises.

Article 35 (Control of work concerning place of origin)

Work concerning the place of origin in the Zone shall be undertaken by the institution in charge of the control thereof.

The institution in charge of the work concerning the place of origin shall conduct its work in compliance with the law and regulations of the Zone and the international practice.

Chapter 4: Establishment of Enterprises, Economic and Trade Activities

Article 36 (Streamlining of screening and approval procedures)

All forms of screening and approval procedures concerning economic and trade activities in the Zone shall be streamlined through the unified and concentrated method of handling.

Article 37 (Application for business establishment)

An investor shall submit to the management committee an application for the establishment of an enterprise inside the industrial park, or to the Rason municipal people's committee if the enterprise is to be set up outside the industrial park.

The management committee or the Rason municipal people's committee shall either approve or reject the application within 10 days of its receipt, and notify the applicant of the result.

Article 38 (Registration of enterprise, incorporation)

An enterprise shall, upon obtaining approval for its establishment, register its establishment, register with the customs office and taxation office within the prescribed period of time.

The enterprise so registered shall be a corporate body of the DPRK.

Article 39 (Establishment and registration of branches and offices)

Where a branch or an office is to be set up in the Zone, approval shall be obtained according to the prescribed procedures from the Rason municipal people's committee or the management committee, and relevant registration shall be made.

Article 40 (Rights of enterprises)

Enterprises in the Zone shall, at their discretion, have the rights to lay down rules for operation and management, to work out plans for production, sale and financial management and to determine the forms of employment, wage standard and form of its payment, price of products and plan for profit distribution.

Illegal interference in the operation of business shall be prohibited, and expenses and obligations that are not prescribed in the laws and regulations shall not be imposed.

Article 41 (Business category, approval for modification)

An enterprise shall conduct its operational activities within the range of approved business category. Where business category is to be extended or modified, approval shall be obtained again.

Article 42 (Fulfillment in good faith of contracts)

Enterprises shall give priority to implementing contracts, abide by the terms of credit and fulfill the contracts in good faith.

Parties to the contracts shall adhere to the principle of equality and mutual benefit in concluding and implementing contracts.

Article 43 (Economic transactions with the DPRK enterprises outside the Zone)

Enterprises may, under contracts, purchase in the DPRK territory outside the Zone raw and other materials and supplies required for their business operation or see their products therein.

Processing of raw and other materials and components may be consigned to the institutions, enterprises and organizations of the DPRK.

Article 44 (Prices of commodities and services)

Prices of commodities and services sold and bought between the enterprises in the Zone, and the prices of the commodities between enterprises in the Zone and the DPRK institutions, enterprises and organizations outside it shall be determined by the parties concerned by reference to the prevailing international market price.

Prices of basic consumer goods such as food and essential foodstuff and charges for public services shall be fixed by the Rason municipal people's committee. In this case monetary compensation shall be made for the damage caused to the enterprise concerned.

Article 45 (Trade)

Enterprises in the Zone may conduct various forms of trade such as processing, transit trade and barter trade.

Article 46 (Special license for operation)

Infrastructures and public establishments in the Zone may be given special license for operation. Where an enterprise that has a special operation license wishes to assign or distribute it to other enterprises, a contract shall be concluded and approval thereof shall be obtained from the relevant institution.

Article 47 (Permission for exploitation of natural resources)

An enterprise in the Zone may, subject to the approval of the relevant institution, exploit the natural resources in the Zone for the provision of raw materials and fuel for production.

Exploitation of natural resources outside the Zone shall be conducted via the central guidance authority of special economic zones.

Article 48 (Purchase of products of the Zone)

The DPRK institutions, enterprises and organizations outside the Zone may, under contract, purchase the goods produced or sold by the enterprises in the Zone.

Article 49 (Employment of labour)

Enterprise in the Zone shall primarily employ the labour of the DPRK.

Where foreign labour is to be employed as circumstances require, notification thereof shall be made to the Rason municipal people's committee or management committee.

Article 50 (Minimum monthly wage)

Minimum monthly wages of employees of the enterprises in the Zone shall be determined by the Rason municipal people's committee through consultation with the management committee.

Article 51 (Advertising, approval for installation of outdoor advertisements)

Advertising business may be conducted and advertisements may be put in the Zone in accordance with the regulations.

Where advertisements are to be put outdoors, approval shall be obtained from the relevant institution.

Article 52 (Accounting of enterprises)

Enterprises in the Zone may apply internationally accepted accounting standards to their accounting and settlement of accounts.

Chapter 5: Customs Duties

Article 53 (Introduction of preferential tariff system)

Preferential tariff system shall be introduced in the Zone.

Article 54 (Duty-free articles)

The following articles shall be duty-free:

- materials needed for the development of the Zone;
- imports needed for the production and operation of enterprises, and goods produced to be exported;
- materials brought into the Zone for processing, transit trade and barter trade;
- office articles and daily necessities for the investors;
- transit cargoes of other countries;
- donations of foreign governments, institutions, enterprises or organizations, or international organizations; and
- other designated articles

Article 55 (Levying of customs duties on duty-free articles)

Where duty-free articles, except for the goods of the duty-free shops, are sold in the Zone, customs duties shall be payable.

Article 56 (Levying of customs duties on imported raw and other materials and components)

Where goods produced in the Zone are not exported but sold to the DPRK institutions, enterprises or organizations in or outside the Zone, customs duties may be levied on the imported raw and other materials, supplies and components used for production of the goods.

Article 57 (Declaration of inward or outward materials)

Duty-free articles shall be brought into or taken out of the Zone subject to declaration.

Where duty-free articles are to be brought in or taken out, declaration form shall be filled truthfully for submission to the customs concerned.

Article 58 (Retention of customs documents)

Enterprises shall retain for a period of 5 years documents of customs duties payment, customs inspection, goods invoice and the like.

Chapter 6: Currency and Financial Matters

Article 59 (Circulating money, settlement currency)

Circulating money and settlement currency in the Zone shall be Korean Won or designated currency. Exchange rate of foreign currency for Korean Won shall be determined by the foreign exchange control institution of the Zone

Article 60 (Establishment of banks)

Investors in the Zone may, in accordance with the regulations, set up banks or branches and conduct banking operations.

Article 61 (Accounts of enterprises)

Enterprises shall open accounts with the DPRK banks or foreign-invested banks set up in the Zone.

Where accounts are to be opened with foreign banks outside the territory of the DPRK, approval shall be obtained according to prescribed procedures from the foreign currency control institution of the Zone or the management committee.

Article 62 (Loaning)

Enterprises in the Zone may, for their economic and trade activities, obtain a loan from a DPRK bank or a foreign financial institution.

Korean Won so loaned or exchanged for foreign currency shall be used while being deposited at a bank designated by the Central Bank.

Article 63 (Establishment of insurance institution, insurance)

Investors in the Zone may set up and operate insurance companies, while foreign insurance companies may set up and operate branches and representative offices.

Enterprises and individuals in the Zone shall take out the policy of the insurance companies in the territory of the DPRK, and obligatory insurance shall be insured at a designated insurance company.

Article 64 (Transaction of securities)

Foreign-invested enterprises and foreigners may, in accordance with the regulations, transact securities in the Zone.

Chapter 7: Incentives and Preferential Treatment

Article 65 (Repatriation of income, taking-out of invested property)

Such income as profits, interests, dividend, rentals, service charges and proceeds from property sale that are legitimately earned in the Zone may be repatriated outside the territory of the DPRK without any restrictions.

Investors may take out of the Zone without any restrictions the property that they had brought therein and the property that had been legitimately acquired therein.

Article 66 (Encouragement of export and import)

Enterprises of individual foreign businesspersons in the Zone may, under contracts with the enterprises in or outside the Zone, conduct transactions of commodities, services and technology, and conduct agent's business for export and import.

Article 67 (Rate of enterprise income tax)

Enterprise income tax in the Zone shall be 14 percent of the net profit.

Income tax for the enterprises in top priority sectors shall be 10 percent of the net profit.

Article 68 (Exemption or reduction of enterprise income tax)

Designated enterprises operating in the Zone for more than 10 years shall be entitled to exemption or reduction of enterprise income tax.

The period and rate of exemption or reduction of enterprise income tax and the starting point of calculation shall be as stipulated in the relevant regulations.

Article 69 (Preferential treatment concerning use of land)

Land for the use of enterprises in the Zone shall be provided in consideration of the actual demand, and depending on the sector and the purpose of land use, different preferential treatment shall be accorded in respect of term of lease, rental charge and mode of payment.

Enterprises investing in infrastructure, public establishments and top priority sectors shall be given a prior lien in selecting the location of land, with the land use rent exempted for a designated period of time.

Article 70 (Preferential treatment for developer enterprise)

The developer enterprise shall have a preferential right in obtaining the right of management of tourist business, hotel business and the like.

Tax shall not be levied on the property of the developer enterprise and the infrastructure and public establishments that he\she operates.

Article 71 (Refund of income tax on reinvested amount)

Where dividends are reinvested in the Zone to increase the registered capital or to set up a new business for more than 5 years' operation, 50 percent of the enterprise income tax paid on the reinvested amount shall be refunded.

Where reinvestment is made in infrastructure construction, the whole of the enterprise income tax that had been paid on the reinvested amount shall be refunded.

Article 72 (Protection of intellectual property rights)

Intellectual property rights of the enterprises and individuals in the Zone shall be protected by the law. The Rason municipal people's committee shall establish a work system for the registration, use and protection of intellectual property rights.

Article 73 (Services for managerial work)

Services for managerial work such as banking, insurance, accounting, legal work and measuring may be provided in the Zone in accordance with the regulations.

Article 74 (Tourist Business)

International tourism shall be extensively promoted in the Zone by developing favorable tourism resources such as seaside pine grove, sand beach, islets and other peculiar scenic beauty, and folk culture.

Investors may conduct tourist business in the Zone in accordance with the regulations.

Article 75 (Provision of facilities)

Mail, telephone, fax and other communications devices shall be freely used in the Zone.

Residents and visitors shall be provided with facilities in the area of education, culture, medical care and physical culture.

Article 76 (Free entry and exit of goods)

Goods may be freely brought into the Zone, which can be stored, processed, manufactured, sorted and packed to be taken out to other countries. Controlled goods shall not be brought in or taken out.

Article 77 (Provision of conditions for entry or exit of persons, vehicles and goods)

Institutions of passage control, customs, quarantine and others concerned shall streamline the procedures for the entry and exit of persons, vehicles and goods in order that development of the Zone and business activities may progress smoothly.

Article 78 (Entry and exit of foreign ships and seamen)

Foreign ships and seamen may enter or leave the Rajin Port, Shonbong Port and Ungsang Port of the Zone in accordance with the internationally accepted procedures for entry or exit of free trade ports.

Article 79 (Entry\exit, stay, and resident of foreigners)

Foreigners may enter, leave, stay or reside in the Zone and may enter or leave the Zone through the designated route without visa upon presentation of passport or other equivalent pass.

Procedures for entering the Zone from other areas of the DPRK shall be prescribed separately.

Chapter 8: Complaints, Settlement of Disputes

Article 80 (Complaints, settlement)

Enterprises and individuals in the Zone may lodge complaints with the management committee, the Rason municipal people's committee, the central guidance authority of special economic zones and other institutions concerned.

The institutions shall make inquiries and settle the complaints within 30 days of receipt and notify the complainant of the result.

Article 81 (Settlement of dispute by mediation)

The management committee or the institution concerned may, upon request of the parties to a dispute, mediate the dispute. In this case mediation plan shall be worked out by reference to the opinions of the parties to the dispute.

The mediation plan shall take effect upon signature of the parties to the dispute.

Article 82 (Settlement of dispute by arbitration)

Parties to a dispute may, upon agreement, apply for arbitration to a DPRK or a foreign international arbitration institution established in the Zone.

Arbitration shall be conducted in accordance with the arbitration rules of the international arbitration committee concerned.

Article 83 (Settlement of dispute by court)

Parties to a dispute may bring an action to a competent court in the Zone.

Procedures for administrative action in the Zone shall be provided separately.

Appendix

Article 1 (Date of entry into force)

This law shall enter into force from the date of promulgation.

Article 2 (Right of interpretation)

Interpretation of this Law shall be provided by the Presidium of the Supreme People's Assembly.