



# D.P.R. Korea's

Rajin-Sonbong Economic & Trade Zone



## Investment & Business Guide

A special guide on the climate for foreign investment and foreign transit trade in the Democratic People's Republic of Korea's Tumen River Area, in the Rajin-Sonbong Economic and Trade Zone.

Rajin-Sonbong Zone '98

# Rajin-Sonbong Economic and Trade Zone: Where the DPR Korea, Russia and China meet in the Tumen River Area



Northeast Asia showing the Tumen River Economic Development Area and Rajin-Sonbong Economic and Trade Zone

## Introduction

The Rajin-Sonbong Economic and Trade Zone is a coastal special economic zone designed to encourage international and transit trade, manufacturing and tourism through foreign investment at the northern tip of the Democratic People's Republic of Korea (DPRK), on the Chinese and Russian borders. The Zone is one of the key openings to the sea for the Tumen River Economic Development Area (TREDA), an area centred on the Tumen River, which borders all three countries but which encompasses the Rajin-Sonbong Zone, China's Yanbian Korean Autonomous Prefecture, and the Russian Far East's southern Primorsky Territory (including Vladivostok and Nakhodka cities). The Rajin-Sonbong Zone is fast becoming an important transport hub and international gateway for Northeast Asia, offering highly competitive transit trade opportunities to and from Northeast China

introduction





*View of Pipa Island and the Emperor Group (HK) hotel construction site*

The Rajin-Sonbong Economic and Trade Zone forms a triangular coastal area in the northeast of the DPRK, bordering on the Tumen River on the Russian and Chinese borders, with a rail link to the Russian Federation at Tumangang and a road link to the Chinese border at the Wonjong bridge. It is an area twice the size of Shenzhen, China's leading special economic zone. It has a coastline of 150 km, in which there are three ports, the largest of which is Rajin Port, followed by the specialised oil port of Sonbong and the specialised timber port of Ungsang. Within this zone, ten sites with a total area of 19 sq km have been set aside for development as industrial estates.

The population is currently 150,000, including recent arrivals and construction workers, of whom 45% live in Rajin. The urbanisation rate in the Zone is high, at 76%, with the three main urban centres being Rajin (67,000), Sonbong (30,000) and Tumangang (9,000). Plans exist to develop urban infrastructure and expand population through migration to a point where the population will reach 350,000 between the years 2005-2010, and ultimately one million, creating a new growth pole in Northeast Asia rivalling the goal of Hunchun City in China's neighbouring Yanbian Prefecture.

In terms of topography and land use, over half of the area in the Zone is general hilly, with mountainous areas to the west where two peaks are over 1000 metres above sea level. The largest series of lakes in the DPRK are found in the northern part of the Zone, and have a surface area of 97 sq km, having been created by ancient beds of the Tumen River. Forested areas and cultivated areas account for over 80% of the Zone's area, leaving only 5% of

the area allocated to urban and industrial areas. However, adequate areas of poor forested but suitable land exist to allow for industrial and residential expansion under the Master Plan for the Zone's development.

The climate in the Zone is temperate, with four distinct seasons, being cold in winter (snow in January-March); windy in spring; rainy, warm and foggy from June to September; and relatively dry from October and throughout the winter. The area has a relatively high rainfall (average annual 770 mm), 60% of which falls in summer. The climate is heavily influenced by its coastal location and warm sea currents which keeps temperatures relatively mild compared with the continental climate of China's neighbouring Yanbian Prefecture. Consequently, port facilities are never frozen (although the Tumen River freezes for four months of winter), and summertime is ideal for beach activities and tourism.

Rajin-Sonbong's climate is well suited to a rich and diverse range of seasonal crops, livestock and forestry. Agriculture is based on maize growing and some rice, but potatoes, beans, fruit-growing, poultry and forestry are also important. Large areas of coastal pasture and fodder fields near the Tumen River support modern intensive farms of cattle, pigs, sheep and mink, and duck farming in the lakes area is extensive. Cultivated land accounts for 13% of the Zone's area, and rural activities based on cooperative farms and state farms provide 30% of employment in the Zone.

The Zone is relatively rich in natural resources. Non-metallic minerals include sand, granite and construction gravel reserves, and lignite. In the Zone's surrounding areas, in North Hamgyong Province, there are major resources of national importance including coal, high grade iron ore, magnesite, nickel, crystal

and ceramic clay. The Zone's large forested areas yield high valued mushrooms, ginseng and mountain herbs. Together with specialised deer farms on the border with Russia, the Zone has a valuable raw material base for the production of traditional Korean

medicines. However, of far greater significance to the Zone's economy is Rajin-Sonbong's fish and seafood resources, based primarily on abundant sea fishing and on specialised seafood from Rajin-Sonbong's many lakes and coastal areas. Major products include pollack, sardines, herring, salmon, shrimp, shellfish and seaweed, but major high valued export items include sea urchin, trepang, squid, crab, clams, oysters and shrimps.

# The Zone's Legal Foundation & Administrative System

**U**nder legislation establishing the Zone in 1991-93, the Zone came under the unified management of the Rajin-Sonbong City Administrative and Economic Committee, or Zone Government. The name of the city authorities changed again in a Government decree of September 1998, to the current name of the Rajin-Sonbong City People's Committee. To support the Zone administration and its independent authority, as it had to handle exceptional economic issues that differ from the DPRK state system, the central government issued a comprehensive set of over forty laws and regulations that established the specific legal and institutional mechanisms for these activities. The Zone authorities established departments responsible for external economic matters, foreign enterprise management, labour, foreign

relations, industrial affairs, planning and construction, land use, entry and exit, and transportation, among many others.

The Zone also established a Customs fence in 1995-96 to promote and strengthen its new multi-sectoral economic activities centred on customs free international transit trade, transportation and bonded warehousing, export processing activities, and to encourage preferential manufacturing, tourist and service activities.

In terms of authority, Rajin-Sonbong City People's Committee has the right to allocate land and approve leases to buildings and land, and to deal with almost all other foreign trade and foreign-related business activities. Projects are required to be approved by the central external economic organ, which is also responsible for the overall central government policy-based guidance and formulation of legislation for the development and operation of the Zone. Directly under the Commission, the Korea Committee for the Promotion of External Economic Cooperation (CPEEC) works closely with the Zone authorities, taking responsibility for assisting the Zone in all promotional aspects of the zone, in conducting all major foreign economic

## About the Rajin-Sonbong Zone

<b>Formal Name</b> .....	Rajin-Sonbong Economic and Trade Zone
<b>DPRK Government</b> .....	DPRK Korea Committee for the Promotion of External Economic .....Cooperation (CPEEC), Pyongyang
<b>Population 1998</b>	150,000
<b>Urbanisation Level</b>	76%
<b>GDP (DPRK) Per Capita</b> .....	\$US 481 (1996)
<b>Capital of the Zone</b> .....	Rajin-Sonbong City
<b>Main Urban Centres</b> .....	Rajin, Sonbong, Tumangang, Ungsang
<b>Foreign Investment</b> .....	Accumulative to December 1997: (est.) \$US 80 million
<b>Currency</b> .....	Won: \$US 1.00 = 220 Won (Dec 1998)

relations, and in assisting with and where necessary negotiating foreign investment projects located in the Zone. In September 1998, in line with a government-wide administrative restructure, SEEAC and all of its responsibilities were replaced by the Ministry of Foreign Trade. The CPEEC now reports direct to the Ministry of Foreign Trade.

The Rajin-Sonbong Zone in the past year or so (1997-98) has undergone a major transition in its economic base. GDP statistics are not yet available for publication at zone level, but observers of the zone's development have noted that

# The *Economic Base*



*Design of the Emperor Hotel and Casino, under construction by the Emperor Group (HK). Pipa Beach, Sonbong*

Rajin, with a population of 139,000 in 1993, was a small economy previously highly dependent on agriculture, marine industry and transit trade with Russia. By mid-1998, largely as a result of foreign investment and the opening of transit trade and tourism with China, Rajin had acquired a new face with the beginnings of a modern telecommunication and port and shipping infrastructure and new hotel, tourism and commercial services, newly upgraded education and hospital facilities, and had developed a comprehensive export seafood processing industry. The Sonbong Oil Refinery went back into more regular operation under petroleum toll-refining contracts.

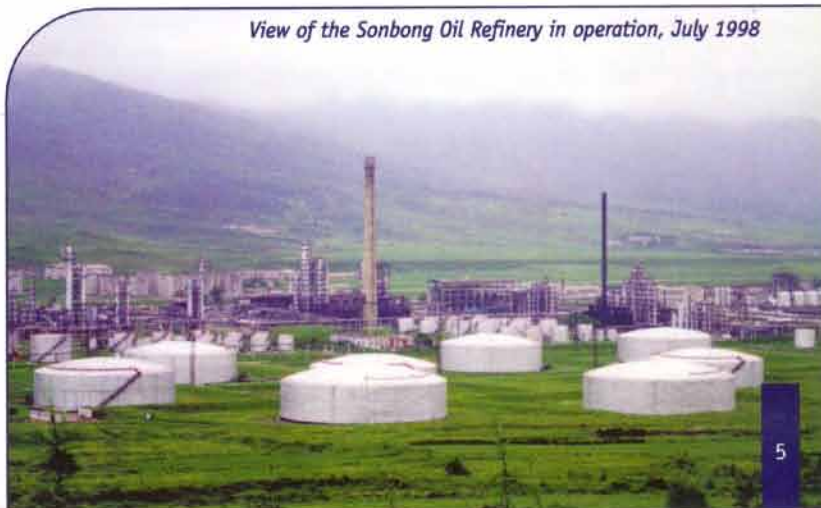
These business and service sectors that dramatically changed the nature of employment and business opportunities in the Zone quickly became the leading economic sectors in the Zone, followed by fast-developing container shipping and transport services to foreign ports. The fishing and seafood processing industry was further strengthened by additional modernisation, and the construction industry benefited enormously through the upsurge in inflow of foreign investment.

The light manufacturing sector in the Zone is currently small, comprising about fifty locally-run state-owned factories using relatively low or obsolete technology producing processed foodstuffs, basic household consumer products, garments, tanning products and wood processing. These plants are now operating as financially-independent enterprises within the zone economy.

Rajin-Sonbong has a number of nationally-important state enterprises. Most notable is the DPRK's largest oil refinery, at Sonbong (Sungri Chemical Plant), with an annual capacity of 2.0 million tonnes. Built in 1972 with Soviet aid, it changed its source of crude oil in 1992 from Russian crude with the collapse of the Soviet Union to intermittent crude oil supplies from the Persian Gulf and other foreign sources under toll-refining contracts with various companies including more recently, Chinese and Hong Kong companies. Crude oil toll refining, where Rajin receives a processing fee in the form of refined products and the balance of petroleum products is exported, now appears to be placed on a more solid basis from 1998.

Other large scale nationally-important state enterprises in the Zone include Rajin Port, Sonbong Oil Port, Ungsang Timber Port, the Sonbong Thermal (Heavy Fuel Oil) Power Plant, the Rajin Shipbuilding and Repair Yard (specialising more recently in trawler building and repair), and the Tumangang Railway Sleeper Factory (which manufacturers mine props and railway sleepers for markets throughout the DPRK).

*View of the Sonbong Oil Refinery in operation, July 1998*



# Tumen River Area (Development Programme)

The DPRK is an integral member of the Tumen River Area Development Programme (TRADP), which was launched in 1992 by the United Nations Development Programme (UNDP) and the countries of the Tumen River Area to develop joint development strategies, enhance regional economic cooperation, and promote economic growth in the area. The core of the TRADP's economic programme is a geographic area designated as the Tumen River Economic

Development Area (TREDA). This Area encompasses the Yanbian Korean Autonomous Prefecture of China in the west, Vladivostok and Ussuriysk in Russia's Primorsky Territory to the north, Nakhodka/Vostochny to the east, and the Rajin-Sonbong Zone in the DPR Korea to the south east. The Rajin-Sonbong Zone and its important transport gateway role are central strands in this strategy.

In December 1995 in the United Nations in New York, intergovernmental agreements were signed to establish institutional arrangements governing cooperation in the development of the Tumen River Area, involving the five governments of China, DPRK, Mongolia, ROK and the Russian Federation. The establishment in 1996 of a Tumen Consultative Commission by the five countries, and a Tumen Coordination Committee by the three riparian countries around the Tumen River, enabled the member states to take over from UNDP the leading role in formulating and deciding on TRADP programmes and their implementation.

These new mechanisms provided the framework for coordinated and accelerated economic development of cross-border infrastructure, transit trade, foreign investment, manufacturing, and tourism in this area. The programme took on an investment promotion, trade and tourism facilitation and cross-border harmonisation orientation, and a new approach to resolving environmental concerns in the area was established. Under these new arrangements, the role of UNDP, assisted in the field by UNIDO and other UN agencies, is to help facilitate these processes.

The TRADP and member states' vision is to transform TREDA into an international shipping, trading and manufacturing base by establishing a clear competitive edge that will attract foreign investment, further promote transit trade through the Tumen Area's coastal ports, and promote sustainable and coordinated development. In a relatively short period, the area has progressed along this path, assisted partly by the greater awareness abroad of the Tumen River Area and the recent and ongoing establishment of faster and more efficient transport linkages from the area to the Asia-Pacific markets. Foreign investors have acted quickly on the known comparative advantages of the region, with the result that by the end of 1997 TREDA had attracted \$US 950 million in foreign investment, over half of which had arrived in the last two years 1996-97.

*View of Rajin Namsan Hotel*



*View of the new Rajin Market, opened May 1998*



*View of new commercial buildings and the city square, Rajin City*



# Foreign Investment Inflow

Prior to 1991/92, a restricted form of foreign investment was permitted throughout the DPRK under its 1984 foreign investment legislation but no investments took place in the DPRK's Tumen River Area. Foreign investment in the DPRK's Rajin-Sonbong Zone has only been encouraged from 1992,

following Government promulgation of laws which permitted the establishment of the Zone in December 1991 and laws in 1992-93 which provided for special or preferential investment conditions within the Zone.

The Asian currency and financial crisis is constraining growth in foreign investment inflow throughout the region in 1998-99. Nevertheless, TREDAs might still achieve an accumulated foreign capital inflow of \$US 1.05-1.10 billion by the end of 1998, and possibly \$US 1.5 billion by the end of the year 2000, driven by the current upsurge in local economic momentum in the area as a result of the opening of new infrastructure projects and fast-rising cross-border and transit trade. Meanwhile, the Tumen area governments are counting on new investment policies and developmental measures introduced in 1998, and associated drives to intensify investment promotion, to improve their investment climates and to sustain this momentum for the foreseeable future.

*The tri-border area of DPRK (Rajin-Sonbong Zone on the right), China (in the foreground) and the Russian Federation (left), showing the Tumen River flowing to the sea in winter*



The release of more laws and regulations in the period 1993-95 clarified preferential investment and banking conditions, entry/exit, institutional arrangements and special trade incentives, and gradually gave interested investors the protection or comfort they were seeking. In 1996, however, foreign awareness of the Zone's new investment and transit trade opportunities improved significantly following a series of overseas investment promotion activities in that year, including the holding of a major international investment forum in the Zone in September 1996 attended by over 500 foreign businessmen and officials. Then in February 1997 the investment climate in the Zone changed with the opening of the DPRK/Chinese border crossing at Wonjong bridge on the Tumen River, which gave direct access from China to the Rajin-Sonbong Zone. This measure significantly improved accessibility for both business people and tourists, and provided an immediate and major boost to the inflow of foreign capital, transit cargoes and border crossings.

This step-by-step improvement in investment and business conditions resulted, by 1995, in an accumulated foreign investment of at least \$US 6.3 million, heavily focussed on transport and services. Led by investments in telecommunications, hotels and banking services, a sudden upsurge in realised foreign investment took place in 1996, pushing accumulated foreign investment by the end of 1996 to \$US 37.3 million. Thereafter, an acceleration in joint venture

and wholly-owned foreign investment negotiations in 1997, in response to an improved business climate, greater accessibility, and economic management systems in the Zone from June 1997, led to accumulated foreign investment climbing to an estimated \$US 80 million by the end of 1997. By mid-1998, investment project negotiations, projects under construction or near completion, and deliveries in the pipeline suggest that accumulated foreign capital inflow by summer 1999 may reach \$US 150 million. If realised, this figure would be a major achievement for a small area and population, in a Zone which has only been in existence and under construction for a little over five years.

## Foreign Investment by Economic Sector

Detailed official data on actually-used foreign investment to the end of 1997 is not available. However, estimates based on 1996 data and individual projects implemented since then suggest that foreign capital inflow has been largely directed into physical and business/tourism service infrastructure - to the transport, telecommunication, commercial buildings and hotels, and banking sectors. These four service areas accounted for over 80% of all foreign capital absorbed by the end of 1997, a figure which is unlikely to change very much in 1998-99 given continuation of construction of large scale projects in telecommunications, highway upgrading, port container facilities, and hotel and

commercial buildings. The current heavy emphasis by foreign investors in new infrastructure is expected to be continued over the next three years as new projects get underway in the tertiary educational sphere, Anju People's Hospital, the 60 MW capacity extension to Sonbong Power Station (\$US 67 million) and the possible mobilisation of funds to build and operate a sporting, conference and recreational centre at Sinhae, on the coast between Rajin and Pipa/Sonbong.

Manufacturing and processing, in contrast, had only received a tiny proportion, less than 5% of foreign capital inflow by the end of 1997. However, this important sector is about to take on a greater role in the Zone, from 1999-2000, given that 32 of the 38 new foreign investment enterprises registered in the first half of the 1998 were in small to medium scale manufacturing - in which garment processing, foodstuffs processing, seafood and fish processing, traditional pharmaceuticals and wood processing were the most important. By mid-1998, three projects with committed investments exceeding \$US9 million in the traditional and modern pharmaceuticals sectors had been registered, and the fish and seafood processing sector had registered six investments totalling \$US 25 million. However, actually-used investments, on an annual basis, were less than these amounts due to time lags and construction and expansion of projects over several years.

## Sources of Foreign Investment

By mid-1998, the major sources of foreign investments were Hong Kong, China, Thailand, Japan, Russia and the Netherlands. Smaller scale investments had been received from Singapore, Australia, and the UK.

By the end of 1997, China led the way in terms of numbers of registered foreign investment enterprises (47), a number which quickly increased to 63 by the middle of 1998, or 56% of the total of 113 registered from all countries by mid-1998. However, most of these were small in scale, many were in commercial and retail activities, and in terms of value, Chinese investment accounted for less than a quarter of total foreign capital actually-used by 1997-98. In terms of larger scale Chinese investments, the most notable were the Hyuntong Group (Yanbian Shipping Company/Yanji) container handling facility at Rajin Port, several commercial buildings, recreational facilities and restaurants, fish processing, pharmaceuticals, and the Rajin Market.

In the near future, the Hyuntong Group of Yanji is likely to assist with or arrange a new \$US 43 million foreign capital loan to support and upgrade the DPRK

*View of city street, Rajin City*





Railways track between the Chinese border at Namyang (opposite Tumen City) and Rajin Port, including locomotives and rolling stock. Aimed at expanding low cost transport capacity for Chinese cargoes, this investment is expected to significantly reduce transport freight rates and improve the competitiveness of transit trade through the Tumen River Area.

Hong Kong investors in the Zone by 1998 had taken the lead in terms of value and project scale, with 35% of all foreign investment actually-used (but only less than 10% by number of enterprises). Most notable were the Emperor Group's hotel and casino project at Pipa beach near Sonbong (first stage investment \$US 60 million, 1997-99, Tyson's hotel, taxi and road projects (\$US 10 million, 1996-99), Peregrine's banking operations, and Perigold's new involvement with the Sonbong Oil Refinery.

Thailand has a major presence in the form of Loxley Pacific Co Ltd, which has a \$US 28 million contractual joint venture telecommunication concession in the Zone. By the end of 1998,

Loxley would have invested over \$US 20 million in a wide range of modern telecommunication technology, with the remainder earmarked for use in 1999-2000. Japanese investors by 1998 had over 20 foreign investment enterprises, with an accumulated value of \$US 10 million, ranging from port handling to tourist hotels, restaurants, and seafood and wood processing. Russia was an early investor, with \$US 7 million in investments in bulk chemical fertilizer and alumina terminals at Rajin Port designed to facilitate Russian transit trade through the Zone.

As of mid-1998, there had been no registrations of direct investments in Rajin-Sonbong Zone by South Korean companies.

# Forms of *Foreign Investment*

The DPRK Government permits the establishment of three forms of foreign investment in the Rajin-Sonbong Zone - joint equity ventures, wholly-owned foreign investments, and contractual joint ventures. By mid-1998, the Zone had registered 113 foreign investment enterprises, up from 75 at the end of 1997 and 28 at the end of 1996.

On average, wholly-owned foreign investments were the largest in scale or value terms, and by the end of 1997, they had become the most popular method of business cooperation in the Zone in terms of value (49% by value, 21% by number). These were followed by joint equity ventures (24% by value, 63% by), and contractual joint ventures made up the balance. The trend over the next two-three years appears to be a continuation of this pattern, with a slight loss of appeal over time of the contractual joint venture. In terms of numbers, joint equity ventures approved and registered are expected to accelerate throughout 1998 and 1999.

There are several structural requirements common to most forms of foreign investment operating under Rajin-Sonbong Zone legislation. However, Rajin-Sonbong foreign partners are not required to achieve a minimum proportion of registered capital (whereas in China the proportion is 25%), but there are guidelines on when registered capital can be contributed. The Zone legislation, for instance, stipulates that registered capital, if contributed by the foreign investor in one lump sum, should be made within six months of registration. If approval is given for registered capital to be contributed by instalment, the full amount should be contributed within two years of registration, with the first instalment being a minimum 15% of registered capital.

contributed within three months of registration.

Further, when establishing such enterprises, foreign investors are required by law to meet guidelines on debt/equity ratios. For projects with a total investment of less than \$US 3 million, registered capital is required to be at least 65% (with the balance of funding provided by loans); for projects with a total investment between \$US 3 million and \$US 10 million, registered capital must be at least 45%; and the equity or registered capital proportion must be at least 35% for projects of \$US 10-30 million, and at least 30% for projects above \$US 30 million.

Other conditions which are critical to planning or operations that must be met by foreign investors or joint enterprises are that funds for reserves, staff bonuses and staff welfare are required to be financed out of annual taxable income (profits). The scale of the latter two funds can be determined by the enterprise or its Board of Directors. DPRK law, however, states that the reserve fund should be 5% of taxable profits until it amounts to 25% of registered capital, and that this should be used for increasing registered capital and facilitating expansion, or for making up future losses. Enterprises are also required to support their trade union with working funds varying between 1-2 % of monthly payroll. These conditions also apply to joint equity ventures and contractual joint ventures.

## Joint Equity Ventures

In Rajin-Sonbong, joint equity ventures are limited liability companies which operate under DPRK legislation designed to protect and support this form of cooperation in the Zone. In this form, both local and foreign partners invest, and they establish a Board of Directors representative of the ownership of the enterprise and which issues guidelines and approves all strategic decisions of the enterprise, and also appoint a general manager to manage the enterprise. Profit and loss are shared according to the proportion invested, which may be contributed in cash, material or equipment in kind,

and industrial property rights. Subject to negotiations, foreign companies can acquire management rights and control, including the appointment of a foreign manager and foreign technical assistants. Joint-equity ventures usually have contract durations determined by land leasing conditions, the maximum in the Zone being 50 years, with provisions for extensions.

## Contractual Joint Ventures

Contractual joint ventures are a more flexible arrangement under which the rights and obligations of each partner are specified in a contract. It is also protected and supported by DPRK legislation. The Korean partner will usually provide contributions in kind such as buildings or land, while the foreign investor will usually provide capital and advanced technology or equipment. One of the reasons for making a contractual joint venture is that the foreign partner can negotiate to take a greater share of the profit than it has in equity. There is also no limit on foreign equity. However, these enterprises normally have short to medium term contract terms, at the end of which the assets and management rights are then transferred to the Korean partner. Foreign investors planning or engaged in this form of cooperation are encouraged to invest in manufacturing for export or export-processing, and the tourism and service sectors.

## Wholly-Owned Foreign Enterprises

The DPRK permits 100% foreign-owned enterprises in the Zone, and since 1995 these have become particularly popular, accounting for a growing proportion by value of all foreign investment in the Zone (currently 49% by value). Wholly-owned foreign enterprises are supported by specific DPRK legislation. The Government has laid down guidelines on which sectors wholly-owned foreign enterprises can operate and cannot operate. They are permitted and actively encouraged in sectors covering electronics, machine building, electric power and transport infrastructure/services, food processing, consumer goods, building materials, pharma-ceuticals, chemicals,



*Rajin Seafood Processing - joint venture*



View of the Russian-Japanese bulk fertilizer terminal, Rajin Port

construction, and services. They are excluded from publishing, the media, and telecommunications, and along with other cooperative forms, they are not allowed in sectors prohibited by the state, such as defence and security, and to engage in activities detrimental to public health, the environment, or public morale.

Contract durations for wholly-owned enterprises are the same as for joint equity ventures - these are negotiable up to a maximum of fifty years. Other operational conditions are similar to joint equity ventures.

# Foreign Investment Approval & Registration Procedures

The institutional arrangements for approval and registration in the Rajin-Sonbong Zone are embodied in the Zone's legislation. Projects are evaluated and approved by the central external economic organisations in Pyongyang. The organisation is responsible for evaluations and approvals, and for issuing all foreign investment enterprise registration documents.

Foreign companies interested in exploring the possibility of investing in the Zone must first approach the CPEEC in Pyongyang (or its representative office in Beijing), or the Rajin-Sonbong City Department of External Economic Cooperation (or its representative office in Yanji, capital of the Yanbian Korean Autonomous Prefecture, Jilin Province, China). These authorities can arrange foreign companies to conduct business and investigation visits to the Zone, assist in the preparation of project feasibility studies, and undertake contract negotiations.

Standard approval submission forms must be completed. These should be accompanied by copies of a standard 15-point Zone feasibility study report, copies of the contract, copies of the list of machinery and equipment (and value) to be imported, and copies of the foreign investor's registration details from abroad, credit references from the investor's bank, and details of industrial property rights, technological knowhow and trademarks/copyrights to be contributed by the foreign investor or to be used in the new enterprise.

The approval process takes a maximum of fifty days for joint venture projects and eighty days for wholly-owned foreign investments. Upon issuance of the approval certificate, the foreign investor (or Korean partner on behalf of the joint venture) has a maximum of thirty days to submit the approval document and standard registration application form to the Rajin-Sonbong City Department of Foreign Enterprise Management for formal enterprise registration. Upon registration, the new enterprise has twenty days to register with the Rajin-Sonbong Tax Department.

In addition, all new foreign investment enterprises are required to submit their operating plans to the Rajin-Sonbong City's relevant organs, register with the Rajin-Sonbong Customs Office, submit applications for land lease arrangements and for environmental protection approval to the City Land and Environment Protection Department, register labour and skill requirements with the City Labour Department, and

## Preferential Taxation Treatment

Rajin-Sonbong offers some quite extraordinary taxation advantages. Foreign companies operating in the Zone are subject to a much simpler and lower tax system than in neighbouring countries, and a Zone company income tax of 14% - 11% less than the country's standard rate of 25%. Companies operating with advanced technology, infrastructure construction and operation, scientific research, or developing natural resources can benefit from a lower rate again - 10%.

The preferential tax system extends to a range of tax breaks that ensure that investors enjoy significantly-lower taxation in their early years of operation:

- **Industrial investments are exempt from company income tax for three years from their first profit-making year, with a reduction of up to 50% during the following two years**

- **Service sector investments are exempt from company tax for one year from their first profit-making year, with a reduction of up to 50% during the following two years**

- **Infrastructure-business enterprises such as railways, roads, telecommunications and ports in the Zone with total investments above \$US 30 million may enjoy full exemption from income tax for four years after the first profit-making year, and a reduction of 50% for the following three years**

- **Re-invested profits attract a tax rebate of 50% for those enterprises which have re-invested profits for more than five years, and infrastructure-businesses attract a 100% rebate for tax paid on those profits re-invested for more than five years**

- **Buildings in the Zone are exempt from paying property tax (1% of registered value per annum) for the first five years of operation**

In addition, foreign managers and technical specialists must pay personal income tax on their earnings from within and outside the Zone if they are resident in the Zone for more than 12 months. The tax rates vary between 4 and 20% of annual remuneration, payable monthly, with taxation starting at an income level of \$US 1,000 per month (4% tax), and rising to 7% for incomes of \$ 2,500/month, 10% for incomes of \$US 4,000/month, and 20% for incomes above \$US 5,000 per month. Tax on income from technological knowhow, industrial property rights, copyright and trademarks, dividends, rent and company bank interest is payable at the rate of 20%. There is no tax on interest incomes from savings deposits in banks registered in the Zone.

Foreign investment enterprises are also subject to a range of sales or turnover taxes, payable monthly, and some local minor city management taxes (1% of payroll, and 1% of remuneration of foreign personnel who reside in the Zone for more than six months) and vehicle license taxes. These rates are far less than those prevailing in China and other Northeast/East Asian countries, and in the case of turnover taxes on manufactured goods, these

are exempt in full if the goods are exported. For turnover taxes in the service sector (commerce, transport, banking and tourism), Zone enterprises enjoy a reduction of 50%. The rates for turnover taxes (based on sales revenue) in the DPRK are as follows:

**Turnover Tax - Commercial Sector:**  
**(retail, foreign trade, commission processing): 2% of sales revenue**

**Turnover Tax - Service Sector:**

**Telecommunications: 3%**

**Hotels, recreation, tourism: 3%**

**Transportation services: 2%**

**Restaurants, rentals and amenities: 4%**

**Public utilities and Others: 3%**

**Turnover Tax - Manufacturing Sector:**

**Machinery and Equipment: 4-5%**

**Cotton, Wool, Synthetic Yarn: 7%**

**Electrical Motors & Generators: 8%**

**Cotton Textile Fabrics: 5%**

**Electrical Appliances: 4-7%**

**Synthetic Textile Fabrics: 8-9%**

**Wood Processing: 2%**

**Garments: 10%**

**Brick-making: 5%**

**Leather Footwear: 3%**

**Cement: 10%**

**Household Appliances: 10-15%**

**Glassware: 13%**

**Electronic Components: 4-7%**

**Agricultural Chemicals: 2%**

**Leatherware/Furs: 5-8%**

**Paints, Resins, and other Chemicals: 5-6%**

**Rice, Corn and Wheat products: 3%**

**Metal Products: 4-7%**

**Fruit & Vegetables: 4%**

**Petroleum products: mainly 2%**

**Livestock Products: 4-5%**

**Rubber Products: 4-6%**

**Seafood Products: 9-10%**

**Coal & Briquettes: 4%**

**Other Foodstuffs: 20%**

**Mining Products: 4-5%**

**Beverages and Tobacco: 60%**

## Land Leasing

Land use leases and property rentals in the Rajin-Sonbong Zone are a fraction of those charged in competitor areas such as coastal China, Japan, and Taiwan. Land is less than half that of Chinese coastal city rates and in South China. As in China and many other parts of Asia, it is not possible for foreigners

or joint ventures to own land in the Rajin-Sonbong Zone. Instead, land is leased from the state for up to fifty years, paid as a lump sum within ninety days of concluding the land lease contract. Priority investments or development areas of higher lease cost can pay land lease fees by instalment within five years. It is also possible for foreign investment enterprises to rent factory buildings and office buildings from the Zone authorities at a monthly rate of \$US 1.00 per sq. metre for existing factory buildings and a rate of \$US 1.50/sq metre for existing office buildings. Where a building is rented on leased land, both the rent of the building and the lease of the land should be paid. It is also common for Korean partners to a joint venture to capitalise the land lease and contribute this right to use the land as equity in the joint venture.

For land use leases, there are three charges:

- **Land lease costs, usually paid once in lump sum form for the duration of the enterprise contract, vary according to geographical conditions and proposed use of the land, and are in three categories: category I is where infrastructure and services exist, prime tourist areas, and urban and port areas; category II includes suburban land and areas in between category I and III; and category III covers areas with no infrastructure or services, such as rural and hilly areas. Land can also be classified into its purpose of use, such as areas for industrial and warehouse use, residential or public building use, and commercial, financial, hotel and recreational use.**

*Leases for industrial use range from \$US 20/sq. metre for category I land and \$US 10/sq metre for category II land; leases for housing range from \$US 25/sq.metre for category I land and \$US 20/sq metre for category II land; and leases for commercial, hotel and recreational use range from \$US 30/sq metre for category I land and \$US 25/sq.metre for category II land.*

- **An annual land use fee of \$US 0.50/sq. metre, payable by the enterprise**

- **A land development fee, to cover the costs of land levelling, road construction, water and sewerage supply, and power and telecommunication and heating. The fee for all services is \$US 25/sq.metre, or 20% of this amount for one kind of service, and 40% for two services, 60% for three services, and 80% for four services. Enterprises leasing developed land must also pay this land development fee. An additional land transfer fee is payable as compensation for the loss of farmland and rural buildings, calculated as the average annual crop harvest and its market value for that year.**

## Labour Costs

As employment costs continue to rise in Asia, including China, Rajin-Sonbong offers a dual advantage: relatively low wages and no hidden extras. The minimum wage is \$US 80 per month, for unskilled workers. This is less than one third of minimum wages in joint ventures in South China's coastal zones, and nearly a tenth of the average in Taiwan or Hong Kong. In addition, there are no extra social costs involved when employing workers, although profitable firms also pay year-end bonuses.

Salary costs of workers and staff who are semi-skilled or skilled, or are technicians, engineers or at management level, are determined by the foreign investment enterprise or its Board of Directors. No government guidelines exist for salaries except for the minimum wage level.

The working week is still six days in the Zone, offering a competitive edge over much of Asia which has moved to the five day working week. Taking this longer working week into account, hourly labour rates start from \$US 0.42 in industry and processing.

# Public Utilities & Urban & Business Services

## Electric Power

The Sonbong Thermal Power Station relies of heavy fuel oil for fuel, and is the only source of electric power in the Zone, and the bulk of power from this station goes into the North Hamgyong power grid to service other cities and towns including Chongjin City. New investors are encouraged to instal diesel generators during their construction phase and to maintain an in-house capacity to generate power for operations, especially during power cuts.

Electric power for foreign investment projects is supplied from the Zone grid at the rate of \$US 0.04 per kwh for lighting, and the rate of \$US 0.05 per kwh for industrial use. These rates are below electric power rates in Beijing and other large cities in China, and are a fraction of rates in Japan and Hong Kong.

The Zone is expected to overcome its power shortages in the near future with the construction of a modern 60 MW thermal power station at Sonbong using fuel oil, funded by a \$US 67 million foreign consortium. Construction of the first module of this plant may start in 1999.

## Water Supply

The Zone relies on water reservoirs in Sonbong and underground clean water resources northeast of Rajin City near Muchang. Zone planning includes the development of a water reservoir at Muchang to service the entire urban area of the Zone in the next decade. Water supplies are currently made available at the rate of \$US 0.035/cubic metre for industrial use and \$US 0.05/cubic metre for residential use (drinking water).

## Transport Costs

Railway and road freight rates per tonne/km in the Zone are set at \$US 0.011 for rail, and \$US 0.085 - 0.23 for road depending on the type of goods and method of packing. The current shipping container service charges a freight rate of about \$US 600 per 20 ft. container.

## Telecommunications

Telecommunication facilities in the Zone were given a massive boost by the Thailand Loxley Pacific Co investment starting in 1996. A twenty seven year contractual joint venture was established between Loxley and the DPR Korean Posts and Telecommunications Corporation(KPTC), the Rajin-Sonbong Zone authority and CPEEC known as NEAT&T to construct and operate a comprehensive state-of-the-art telecommunication network in the Zone. This included IDD access and facsimile based on optic fibres, and an international link via the Pyongyang satellite gateway and an optical fibre transmission link to Hunchun, China.

By the end of 1998, \$US 21 million would have been invested (excluding Korean contribution of land), and a complete range of services would have been provided including a satellite gateway, mobile telephone system, and internet/email. By 1999-2000, a total of \$US 28 million would have been invested, including a ten storey telecommunication centre with commercial offices and apartments, total media (TV/radio), data transmission, and 15,000 subscriber lines. NEAT&T's eventual objective is to provide a telecom-munication gateway for all three



Tumen River Area countries in which the international satellite services provided will be used on a shared basis by the neighbouring countries.

The cost of telecommunication connection in the Zone is \$US 500, plus a minor monthly usage fee. Telephone charges vary from \$US 0.05 per minute to Pyongyang, to \$US 1.50 per minute to Yanji/Beijing, \$US 5.50 per minute to Vladivostok and Europe, \$US 5.00 per minute to Hong Kong, Japan and other Asian countries, and \$US 7.50 per minute to the USA.

The Golden Triangle Bank is the Zone's own bank, which was established in 1995 with capital from the Central Bank of the DPRK, CPEEC Pyongyang and the Rajin-Sonbong Municipal Government, for the purpose of facilitating the economic development and foreign trade of Rajin-Sonbong. It took over the commercial banking business from the Rajin branch of the Foreign Trade Bank of the DPRK, and has an official registered capital of \$US 3 million. The Bank holds six foreign exchange bureaus and eleven deposit branches throughout the Zone. The Bank's activities so far have been mainly limited to taking deposits from individual companies and residents in the Zone, and supporting working capital loans to both domestic and foreign investment companies in the Zone. Loans are provided on the basis of collateral, usually real estate or land leases (up to a maximum of 30%) or foreign joint venture assets.

*The Golden Triangle Bank, Rajin-Sonbong Zone*



## Banking Services and Foreign Exchange

Rajin-Sonbong is currently served by the Zone's state-run Golden Triangle Bank. The Zone has already attracted registrations and investments from two foreign banks - the ING Bank of the Netherlands, and Peregrine from Hong Kong, the latter of which established a joint venture bank known as the Peregrine-Daesong Development Bank. These banks have active and profitable branches in Pyongyang, and plan to locate in Rajin-Sonbong Zone. Currently these two banks handle foreign accounts in Pyongyang and provide credit assessments and letter of credit transactions.

The Bank has recently commenced limited letter of credit business, operating on the basis of correspondence relationships with the Foreign Trade Bank in Pyongyang (and its domestic branches), the Delta Asia SARL Bank in Macau, the Far Eastern Bank, Vladivostok, the ING Bank-Tokyo, the Industrial and Commercial Bank in Yanji, and the Construction Bank in Hunchun, China.

In terms of accepting international credit cards, the Golden Triangle Bank handles Mastercard and JCB cards, in which the authenticity of the cards are checked by telex. The use of credit cards in the Zone will become more widespread when the Bank begins to use the online telecommunication system offered by NEAT&T.

# Rajin-Sonbong Customs Duty Rates

## Customs Procedures and Duties

Product	DPRK Preferential Duty Rate	Foreign Investment Duty Rate	
		First Five Years	Next Three Years
Grain, Flour	0	0	0
Fruit & Veg.	0	0	0
Alcohol	18	9	12.6
Cigarettes	18	9	12.6
Raw Tobacco	1.5	0.75	1.05
Household Appliances	12	6	8.4
Components for assembly	12	6	8.4
Timber, Woodchips	0	0	0
Plywood	3	1.5	2.1
Furniture	12	6	8.4
Raw wool	0	0	0
Raw cotton	0	0	0
Silk	6	3	4.2
Cotton Fabrics	7.5	3.75	5.25
Synthetic Fabrics	0	0	0
Raw hides	0	0	0
Tanned hides	1.2	0.06	0.84
Rubber	18	9	12.6
Plastics (ABS, PP, PE)	0	0	0
Cars	18	9	12.6
Trucks	3-6	1.5-3	2.1-4.2

Rajin-Sonbong Zone has an efficient Customs system, based in Rajin Port with branches in six other locations, and a solid customs fence surrounding the Zone. Rajin Customs' tasks are to supervise implementation of the Zone's special Customs privileges for enterprises and transit trade based on Zone legislation and the DPRK's 21 foreign trade classifications. The key principle is that only the DPRK's preferential category is applied in the Zone, regardless of the origin of materials and goods, and this is generally set at 30% of the rate of the General Category for the DPRK (that level which applies outside the Zone in other parts of the DPRK). Secondly, transit trade is free of Customs Duty except for a minor supervising fee of 1% of the transit trade agent's commission, paid by the agent or representative. Thirdly, processing of imported materials for export (trade processing) is free of duty.

Furthermore, foreign investment projects are treated more favourably than local enterprises, with rates of duty on imported materials consumed in manufacturing reduced by half of the preferential rate for the first five years of operation, and by 30% for the next three years of operation. Machinery and equipment imported for foreign investment projects is exempt from Customs Duty. With preferential general category rates applying in the first eight years of operation, Customs treatment of foreign investment companies makes the Zone highly competitive compared with neighbouring countries.

In addition to import duties, Rajin-Sonbong Zone has a number of export duties on specialised products. Fish and seafoods attract a 3% export duty, pollack and sea



urchin eggs 4.5%, ginseng and other medical roots 9%, mushrooms and herbs 6%, timber 15%, fruit 3%, pinenuts 4.5%, copper 30%, scrap iron and steel 15%, and pig iron 12%.

Goods imported by a registered foreign investment enterprise for direct sale in the local Zone market are subject to the zone's preferential duty rates. For instance, a tourist hotel can import alcohol and sell it to guests with a 9% duty for the first five years, 12.6% duty for years 6-8, and 18% duty thereafter, but elsewhere in the DPRK, the rate is usually at the General Duty level, three times higher than in the Zone. Goods imported and kept in a warehouse or bonded store in the Zone are exempt from duty for up to a maximum of two years.

At present, Rajin-Sonbong lacks high class accommodation for business executives, but this will change by mid-1999 when the Hong Kong Emperor group opens its hotel and casino at Pipa Beach, Sonbong. Other accommodation for businessmen in the Zone is available at the Rajin Hotel, a three star hotel opened in 1996 and overlooking Rajin Bay, at the Namsan Hotel in Rajin City centre, at the Foreigners' Guesthouse in Rajin, used by long term foreign residents, and at the Pipa Hotel, a resort style complex overlooking Pipa Beach and Sonbong. There are also four other tourist hotels and guesthouses used mainly by Chinese tourists at Sonbong and Ungsang. The construction of a major conference, tourist and Taekwondo sports facility with 300 rooms and spread over 160 hectares including beach areas is planned (utilising foreign capital) for secluded Sinhae, located on the coast between Rajin and Pipa.

There are two taxi companies in Rajin-Sonbong, both joint ventures. Standard taxi fares for a journey from Wonjong bridge border crossing with China or Tumangang railway station (Russian border) to Rajin (40 km) is \$US 50 each way.

There are a number of foreign style office and apartment buildings under construction in Rajin which will become available for rent in 1999-2000, significantly improving standards of long term accommodation of foreign residents in the Zone.

## Hotels and Other Services

# Rajin-Sonbong Zone:

## Hotel Accommodation Contact Details and Costs

Name of Hotel/Guesthouse	Telephone	Facsimile	No.Beds	Cost of Twin Bed Standard Room (twin share, per person)
Namsan Hotel, Rajin	50-8-211268	50-8-21068	60	\$US 32-65
Rajin Hotel, Rajin	850-8-21929	850-8-21067	200	\$US 40-75
Foreigners' Guesthouse	850-8-21611	850-8-21070	100	\$US 16-28
Pipa Hotel, Sonbong	850-8-26126	850-8-26070	60	\$US 42-58
Pipa Guesthouse, Pipa	n.a.	n.a.	80	n.a.
Sonbong Hotel, Sonbong	n.a.	n.a.	200	n.a.



Pipa Hotel, Sonbong



Rajin Hotel, Rajin City

Accessing

# the DPRK's Tumen River Area



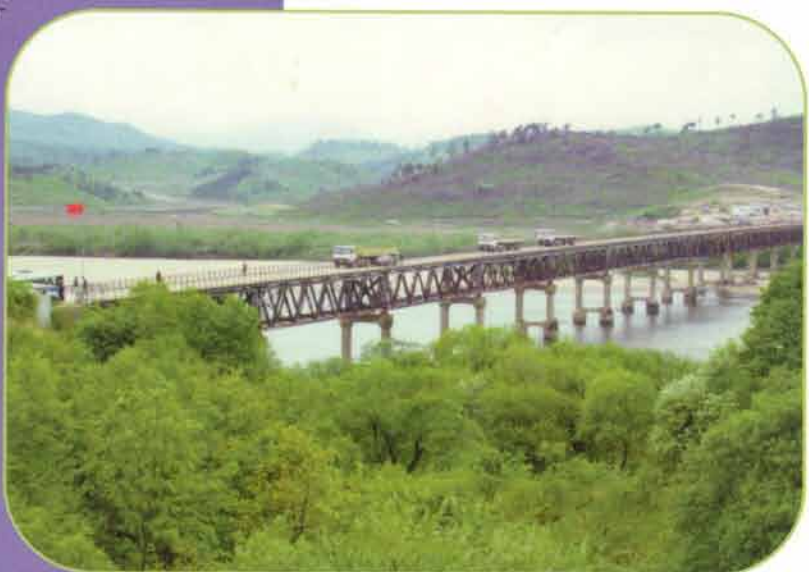
travellers and traders. Since then there have been step-by-step improvements in road and highway construction on both sides and upgrade work on new border crossing facilities is currently underway by both sides. A new 12 metre wide all-weather bitumen highway between Hunchun and Quanhe, including tunnels, will be opened in 1999, and a new highway on the DPRK side following the Tumen River valley from Wonjong to Songbang will be completed in the same year, considerably improving road safety and cutting down transit time from Yanji to Rajin from 4.5-5 hours to 3-3.5 hours by 1999.

For Chinese tourists, a twice-a-week tourist train from Tumen City to Rajin and return was introduced in summer 1998. Improving road conditions and the building of tourism facilities and hotels in Rajin-Sonbong have led to an overall rapid growth in Chinese and Asian tourism to the Zone, with numbers rising from 3,477 in 1996, to 6,941 in 1997, and to 14,442 in 1998.

## Business Travellers and Tourists

For travellers and businessmen, Rajin-Sonbong Zone can be accessed daily by air and road from Yanbian Prefecture, Jilin Province, China, by rail twice a week from the Russian Far East (Khasan, Primorsky Territory), by rail daily from Pyongyang, and occasionally by sea through Rajin Port. The most common access route is from Beijing or Shenyang to Yanji by air (four to seven flights a day from Beijing in summer, two flights a day in winter, and more regular flights from Shenyang), and road from Yanji through Hunchun to the Quanhe/Wonjong border crossing (three hours), on the lower reaches of the Tumen River, then by road (40 km) from Wonjong to Rajin (one hour).

Access by road changed dramatically in February 1997 when the Wonjong Bridge was opened to foreign and Chinese



*The Wonjong Bridge border crossing between China and the Rajin-Sonbong Zone, DPRK, on the Tumen River, showing container traffic returning from Rajin Port to Hunchun*



*Korean tourist bus in Sonbong*

## Cargo Traffic, Transit Trade & Shipping Services

For cargo transport, major road and rail infrastructure developments are underway in 1997-2000 in the Tumen River Area to transform it into an international shipping and trading hub with integrated highway, railway, bridge, border crossing, port facilities and shipping links, in which the Rajin-Sonbong Zone and Rajin Port will be the principal beneficiaries. The trigger for this current flurry of activity is that Rajin Port's new container facilities and shipping links, introduced on an experimental basis in November 1995 with the help of the Yanbian Shipping Company, have completely altered the economics of doing business in the Tumen Region and Northeast China.

In parallel to and in support of these construction projects, China and the DPRK are working together to improve efficiencies at border crossings, bringing much closer the reality of creating a new Northeast Asian gateway to the Pacific Rim based on significantly-improved rapid transport access from Northeast China to Rajin Port.

These new infrastructure programmes are being undertaken largely on Chinese territory aimed at improving cross-border accessibility and reducing transit time and transport costs to the border of DPRK's Rajin-Sonbong Zone. On the Chinese side, road-building projects are

now at record levels. The major activities include the construction of the Dunhua-Yanji-Hunchun expressway (1996-2003), especially the section Yanji-Tumen (1996-2000), the Hunchun-Quanhe (Wonjong border, Rajin-Sonbong Zone) Highway which will be completed in 1999, the upgrading of the Chinese border crossing facility at Quanhe to Customs Grade 1 status (1998-99), and on the rail side, the organisation of financing (currently under negotiation) for upgrading of the DPRK Namyang-Rajin Port railway track and rolling stock to facilitate heavier volumes of transit container traffic (1998-2000).

On the DPRK side, the Wonjong border crossing facilities (parking, traffic control, inspection and Immigration and Customs control)

are being completely re-constructed and expanded to remove congestion and prepare for a greatly-increased passenger (including tourist) and cargo flow, a new concrete and bitumen highway is under construction from Wonjong to Sonbong through the Tumen River Valley (to be completed by the end of 1999), and the existing highway between Sonbong and Rajin is being widened and re-paved (to be finished end-1998). Rajin Port's container handling capacity is being substantially upgraded with new investment from the Hyuntong Group in Yanji, new shipping services from Rajin Port are being introduced 1998-99, and negotiation with DPRK Railways are underway with China's Hyuntong Group to upgrade the Namyang-Rajin Railway to handle heavier cargo and higher container traffic volumes. New Chinese-installed mobile cranes and handling facilities went into operation in late-1997 at Namyang Station, opposite Tumen City, China, as part of the programme to place more transit cargo on the lower-cost railway link from China to Rajin (by the end of 1998, 70% of Chinese transit cargo will go by rail).

By 1998, Rajin had become Yanbian Prefecture's major outlet for exports by container. Building on the infrastructure development programmes of 1996-2000, transit trade from and to China via Rajin Port over the next few years is expected to continue its high growth rates of 1996-98. New Chinese transit cargo is being attracted by delivery times which are one quarter of those via Dalian Port and by lower and declining freight rates as more



*Rajin Railway Station showing the daily electric locomotive train service to Pyongyang*

traffic goes by lower-cost rail between Tumen City and Rajin and volumes rise through trade diversion in Northeast China's Jilin and Heilongjiang Provinces. Should this transit trade momentum be sustained by foreign investment-driven export manufacturing and by a continuation of highly-competitive transport services provided by the Hyuntong Group of Yanji (Yanbian Shipping Company), by the year 2005 Rajin Port could become Northeast China's major opening to the sea for container traffic, replacing the importance of the Port of Dalian.

Rajin Port has a long term desire to expand the number of terminals and berth capacity from its current annual 3 million tonnes to 17 million tonnes, and ultimately 100 million tonnes. Early on its expansion agenda is to continue to upgrade handling capacity for containers, increase berth size to handle larger ships, and build port-side passenger facilities. Other specialised handling facilities that require new investments include bonded warehousing and cargo services, woodchips from China, and bulk cement.

Rajin Port has had the facilities to handle transit trade from the Russian Far East for over three decades. Using a composite railway track from the Russian border station of Khasan with a Russian broad gauge rail, Russian transit trade for many years has passed through the ports of Ungsang (timber), Sonbong (oil) and Rajin (bulk commodities). More recently, as a result of Russian investments in 1992-95 in specialised terminals and handling facilities, Rajin Port has diversified from its traditional coal, timber and metals base to add exported bulk chemical fertilisers and imported Australian alumina. Rajin Port's annual cargo handling capacity of four million tonnes, with thirteen berths, however, uses only half due to shrinking supplies out of Russia, competition from other Russian ports, and difficult conditions in a recession-

Alumina terminal, Rajin Port



dominated Japanese market, traditionally the major destination for Russian transit cargo.

Sonbong Port near Rajin is a specialist oil port with an annual capacity of three

### Projected Northeast China-Rajin Port Transit Cargo\* (TEU standard containers, both ways)

	1997	1998	1999	2000	2005
<b>Number of Containers</b>	3,112	7,000	10,000	24,000-38,000	80,000-100,000

{Source: Hyuntong Group, Yanji, China (Yanbian Shipping Company), April 1998. The above figures exclude cargo generated in Rajin-Sonbong Zone or destined only for the Zone. In 1997, 20% of containers went by railway; by the year 2000, over 80% of containers are projected to go by rail. The big jump in traffic in the year 2000, and between 2000 and 2005, is due largely to the new operation of export-oriented foreign invested manufacturing enterprises, especially those engaged in wood processing in Yanbian Prefecture, China, cargo generated directly from Japan, and to the diversion of foreign trade both ways in Heilongjiang and Jilin Provinces from Dalian Port to Rajin.}

million tonnes handling both crude oil and refined products, and servicing the Sonbong Oil Refinery and the Sonbong heavy fuel oil-fired 200 MW Power Station. Sonbong Port is also the site for the Royal Dutch Shell's future bitumen and product storage facility, which is aimed at supplying hot bitumen to Zone projects as well as to the Yanbian road and highway construction programme.

Ungsang Port, north of Sonbong and close to the Russian border, is a specialised timber port handling 0.6 million tonnes of timber railed from Russia. Timber felled in Khabarovsk Territory is transhipped at Ungsang for other Korean ports and abroad. Abundant land in the vicinity of the port and timber handling facility will be used by a Japanese wood processing



A passenger vessel at Rajin Port

venture, now under construction, drawing on timber supplied from Russia using the rail terminal and port facilities at Uingsang.

Railway services in the Zone fan out in three directions from Rajin. Two have international links. One service to the northeast is to Russia via Tumangang, with passenger train services daily to the border and international services twice a week (and intermittent transit cargo services via Khasan to Khabarovsk). The second is northwards to Namyang and Tumen City in Yanbian, China, with daily passenger services and twice-weekly tourist services in summer, and container services to China. The third is a daily passenger service to Pyongyang (overnight) and several times a day local service to the DPRK's major northeastern city and heavy industrial centre of

Chongjin. All lines are electrified except the cross-border rail services to China (Tumen) and Russia (Khasan), where diesel is used. The Rajin-Namyang rail link had its service electrified by 1996. However, shortages of locomotives and rolling stock, generally poor conditions of the railway track to Namyang and Chongjin, and power shortages in winter have prevented the Zone rail network from working efficiently. To remedy this, the Hyuntong Group of Yanji (Yanbian Shipping Company) began arrangements in 1998 to mobilise \$US 43 million in foreign finance in cooperation with the CPEEC Pyongyang to assist the DPRK Namyang and Rajin Railway Bureaus to upgrade the Namyang-Rajin track (heavy rails, sleepers, strengthening of bridges, ballast and provision of rolling stock) in order to ensure timely delivery by rail of transit containers and to handle the potential rapid rise in Chinese demand for transit rail capacity. This rail upgrade project, expected to take place over three years 1999-2001, is now the most critical of all infrastructure developmental programmes in the Tumen River Area. It will have the greatest impact on the Tumen Region goal of transforming the region and in particular Rajin-Sonbong Zone into a major international shipping and trading hub within the coming five years.



*Sonbong Oil Port, showing a foreign tanker at the oil products wharf*

## Investment

# Opportunities

Foreign investors intending to explore opportunities for investment in Rajin-Sonbong have a wide range of activities in which to place their funds or re-locate their business operations. In particular, the Zone's labour-intensive processing and light industries offer enormous potential for expansion, and tourism and infrastructure projects, including business services and construction of industrial estates, are particularly attractive.

### Light Industry/Processing

Light industry and processing for export offers the most immediate returns for foreign investors and traders, especially those with links to the Japanese, other Asia-Pacific markets and in Europe. Light industry is already well-supported by a great depth in human and natural resources and the easy availability of semi-processed materials from China. Rajin-Sonbong offers a large, literate, industrially-experienced workforce, unlike many newly-industrialised areas where the workforce is mainly rural. Already, the DPRK has established a reputation in Japan and other Asian countries for high quality assembly of suits, jackets,

bags and shoes, a strength which new Zone enterprises can build on and promote. Extra labour requirements that cannot be fulfilled locally are obtained by the government's labour service authorities from the large human resource pool of northern cities such as Chongjin. Foreign investors are also free to bring in managers and specialist workers and technicians from abroad if they find there is a skills shortage locally, particularly to help maximise local skills through training. The hunt is on among international clothing traders for new low-cost duty-free trade processing zones or port locations giving quick access to the bulk of the Asian clothing market - one of the fastest growing in the world. Rajin-Sonbong Zone offers this opportunity, as well as being one of the few remaining sources of import quota-free garments and footwear.

Existing state or local enterprises, under market changes and financial autonomy measures introduced in June 1997, are now encouraged to restructure their operations by seeking foreign partners and by actively engaging in trade processing deals. Joint ventures benefit from assembly and processing arrangements more attractive than in China, especially export incentives and lower transport costs. Over 115 such projects, mostly light industry, are currently on offer by the CPEEC and the Zone authorities to foreign investors, and include sectors ranging from garments and textiles to footwear, foodstuffs, beverages, plastic products, packaging materials, garment accessories, luggage, household chemicals, household electrical appliances, medicines, glasswear, sanitaryware, kitchenware, electronic components, toys and stationary products.

## Fish & Seafood Processing

Seafood processing was an early sector to attract foreign investors, and it continues to offer attractive and profitable opportunities, especially for export products destined for the neighbouring markets. By mid-1998, \$US 25 million had been utilised in foreign-invested processing plants and fishing enterprises. The seas surrounding Rajin offer an abundance of squid, crab, sea urchin, sea cucumber, shrimp, shellfish and seaweed for the Japanese market, and herring, plaice, sardine and high quality live fish for the Chinese/Yanbian restaurant trade.

There remain a range of opportunities for the further processing of fresh, frozen and canned fish and seafood, for the netting of deep sea fish, and for expanding mariculture. In particular demand are new and stronger fishing trawlers with refrigeration capacity, larger and superior nets, and diesel fuel for longer deep sea activities which the Zone authorities are keen to acquire through foreign investment. Port-located facilities in Rajin Bay and at Sonbong for processing are available for reconstruction and expansion.

## Wood Processing

Rajin-Sonbong is already a centre for wood processing, importing pine timber from Kharbarovsk Territory in Siberia. Timber processing takes place in Ungsang Port (where there is a timber handling terminal) and Tumangang, on the Russian border, where is a large rail sleeper plant. For foreign investors who can bring skills and technology, there are good business opportunities in accessing low-cost timber supplies at the railhead and in the manufacture of high class furniture and components for shipment to affluent markets in Japan and North America. Ungsang timber terminal offers one of the best locations in northeast Asia for wood processing.

## Pharmaceuticals/Traditional Korean Medicine

Rajin-Sonbong has already attracted several joint venture in the pharmaceutical sector, which specialise mainly in traditional Korean medicine and the processing of mountain wild herbs and plants, ginseng, and animal parts, products highly valued by Japanese, Koreans and Chinese for their aphrodisiac or life-fulfilling properties). Foreign pharmaceutical companies already draw heavily on materials from the Tumen River Area, and the Zone offers the perfect opportunity for such manufacturers to relocate to a lower cost area close to abundant natural supplies or from supplies of ingredients in Yanbian, China.



*Seafood processing for the Japanese market*

## Building Materials

The Tumen River Area and the Zone are rich in stone resources such as granite, gravel and sand, which offers extensive opportunities for development of quarries, bricks and building materials. However, the industry is not well developed and operates on small scale obsolete technology. Existing enterprises are seeking foreign capital to assist in the expansion of gravel and stone quarries and brick and tile plants. The construction boom in Rajin-Sonbong, which commenced in 1997/98, currently relies mainly on imports of higher quality building materials from China and

abroad, and the demand generated over the next few years from this boom as well as the rapid expansion in residential accommodation offers new business for foreign investors in ceramic tiles, sanitaryware, float glass, thermal insulation, cement, concrete pipe and prefabricated building components.

## Tourism

Rajin-Sonbong, with its many scenic coastal attractions, clean water and attractive beaches, has great potential for tourism development, particularly tourists and travellers from land-locked Northeast China. The Zone's tourism authorities are capitalising on this natural endowment, and as a result, the tourism sector has recently experienced rapid growth, in which the number of group foreign tourists has doubled in each of the last two years. This has been supported by new foreign investments aimed at expanding and upgrading tourist facilities, particularly in restaurants, hotels and taxi services in 1996-97, and by the introduction of a twice weekly tourist train in summer-autumn 1997-98 from Tumen City (China) to Rajin.

Expectations of continued high growth in tourism from China and the potential for transit tourism from 1999 have attracted major new investments such as the \$US 60 million Hong Kong Emperor Group's high class hotel and casino on Pipa beach, which will be ready for business in the second half of 1999.

The number of group tourists to the Zone in 1998, at 14,442, is still relatively small, but the number of business travellers, traders and tourists combined exceeded 110,000 in 1997 and the number promises to be even higher in 1998. This tourist and travel base and its potential for growth has encouraged the Zone's tourist authorities to actively seek further foreign investment in the sector. Some of the local scenic and historical attractions which are undeveloped include the opening of new tourists services to Mt. Chilbo in North Hamgyong Province (famed for its sunrise and graceful natural forests), various hot and mineral springs offering good potential for developing spa resorts, sanctuaries for sea birds and seals, the pre-historic Kulpo ruins, and historic fortresses along



*View of Pipa Island and the Emperor Group (HK) hotel construction site*

the border at Tumangang. These natural and historical attractions and the further development of seaside tourism in the Zone offer major tourism investment opportunities, as do plans which are well advanced for an international sporting and conference facility on the coast at Sinhae (between Rajin and Sonbong), supported by the International Taekwondo Federation, to promote Korea's national martial arts sport.

## Infrastructure

Medium and large scale infrastructure projects, especially in the power, communication, urban utilities and industrial estate areas, tend to require long periods of return on investment. To remedy this and attract foreign investment into these important sectors to complement state investments, major tax concessions and other privileges have been introduced by the CPEEC and Zone authorities. So far, infrastructure projects involving foreign investors have been limited to the Zone's telecommunication system and expansion of Rajin Port facilities, but new road and highway projects, the Rajin Heliport project and the building of a new heavy fuel oil-fired power plant alongside the old Sonbong Thermal Power Station by a foreign consortium under concession terms are being encouraged as foreign investment projects, and negotiations on all projects are well advanced. Other infrastructure projects which the Zone authorities have

opened to foreign capital include the city's sewerage system, the city's urban solid waste treatment system, and the city's water supply system (Muchang reservoir).

The Rajin-Sonbong authorities are acutely aware of the critical importance of establishing fully-serviced industrial estates to attract more foreign investment in manufacturing into the Zone. Industrial estates provide good access and urban service facilities, support services and other efficiencies, including warehousing and rented factory space, that reduce the time and cost of new foreign investors in establishing their factory operations. No industrial estates are yet in operation. However, all of Rajin-Sonbong's several industrial estate sites are available for property development and management by foreign capital, supported by DPRK legislation, in which fully-serviced factory building sites would be available for sub-lease by the property developer or investor.

*Rajin helipad*





# Contacts

for further information

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