Assessing China-South Korea Competition and Cooperation Scenarios on North Korean Special Economic Zones

From Failed Economic Interfaces to Political Levers: Assessing China-South Korea Competition and Cooperation Scenarios on North Korean Special Economic Zones

By Théo Clément

Abstract

While North Korea has developed Special Economic Zones for several decades now, these zones have attracted little attention from foreign investors, due to a mix of lack of economic reforms in the DPRK, the tense geopolitical situation, and China’s peculiar economic engagement towards North Korea. With the denuclearization process and North-South dialogue moving forward, this situation could change as South Korea’s announced policy of economic engagement with the North could provide Pyongyang the opportunity to play Beijing against Seoul to maximize its interests and attract foreign investment in Special Economic Zones from partners keen to maintain close ties with the DPRK.

Key Words: North Korea; special economic zones, economic reform, Rajin-Sonbong, Jang Song-taek

Introduction

Often caricatured as a closed economy aiming at complete isolation and autarky, or analyzed through the lens of China’s 1980s “opening and reform” policies (改革开放), the Democratic People’s Republic of Korea (DPRK or North Korea) economy is the focus of limited academic efforts. Ongoing economic reforms in North Korea are, for instance, often presented as half-baked attempts at transforming the economy after the Arduous March (1995-1998), the widespread famine that is said to have taken nearly 300,000 North Korean lives. Another common view is that Pyongyang, under Chinese influence or political pressure, reluctantly implemented a selection of opening policies in a desperate attempt to keep the state afloat. Recent academic research has shown, however, that North Korean economic planners have experimented with economic reforms since at least the 1960s, while countless early speeches by Kim Il-sung clearly show that the Pyongyang leadership has long been aware of the typical shortcomings of centrally-planned economies and has consistently tried to address this situation.

The Chinese example is, of course, considered the model of a successful economic reform and is often highlighted as a potential model for future North Korean economic policies. Besides the relative ideological, institutional, and political similarities, as well as the shared historical background and “lips and teeth relationship” (唇齿相依), Pyongyang’s interest in developing special economic zones (SEZs) from the 1980s on clearly derives from Chinese experiences in Guangdong and Fujian provinces at that time. However, while the overwhelming majority of the DPRK’s SEZs are first and foremost aimed at attracting foreign direct investment (FDI) from China, it seems that, paradoxically, only the two North Korean SEZs supported by South Korea in the context of the “Sunshine policy” have met significant success. As scholars have argued, Chinese companies tend to minimize their footprint in North Korea, preferring trade over investment. Besides, Chinese infrastructure development initiatives such as the Zhengxing Dongbei (振兴东北) and Changjitu (长吉图) programs since 2003 have resulted in an “economy of anticipation” in the borderlands, with Chinese entrepreneurs waiting for the further opening of the DPRK before seizing investment opportunities in North Korean SEZs.
This paper argues that this “wait and see” Chinese approach towards North Korea, and its SEZs in particular, may be put in jeopardy by South Korea’s return to economic engagement with the DPRK, as seen during the three 2018 North-South summits. The paper will proceed as follows: first, it will briefly recall the general trends of North Korean SEZs policies, with a specific focus on their evolution during the Kim Jong-un era. It will then discuss Chinese and South Korean economic engagement strategies towards North Korean SEZs and the (geo)economic determinants for their success. Lastly, this paper will assess the future of North Korean SEZs within the larger framework of competing or cooperating South Korean and Chinese economic engagement policies.3

North Korea’s Special Economic Zones

As North Korean scholars rightfully consider the DPRK economy as industrialized, they often do not mention China as a model for their economic policies, and thus ordinarily do not acknowledge China’s influence in the SEZ programs of the DPRK.4 That being said, the comparison between China’s 1979 and North Korea’s 1984 joint venture laws leaves little doubt that Pyongyang’s interest in economic opening was Chinese-inspired, perhaps following Kim Jong-il’s 1983 visit to China. The first mention in the North Korean official literature of plans to develop “open cities” in Rason indeed appeared as early as 1984 in Kim Il-sung’s speeches.5

Revealingly, plans to develop the first DPRK SEZ, the Rajin-Sonbong Free Economic and Trade Zone (the “free” was dropped in 1998), began only after China pushed for the development of the Tumen River area, under the auspices of the UNDP and the Tumen River Area Development Program (TRADP) in 1990. However, Chinese rationales for the opening of the strategically located Rajin-Sonbong (“Rason” for short) were unrelated to influence strategies on DPRK policy-making but were more self-interested, with Beijing eager to internationalize the Tumen River delta to secure access to the sea for landlocked Northeast China. Russia and the DPRK of course opposed this strategy, and the subsequent collapse of the North Korean economy in the mid-1990s caused the project to lose political momentum.

Since the opening of Rason, there have been several generations of SEZs, usually established in batches since Kim Jong-un took power. As Table 1 shows, there has been a significant increase in SEZ openings since 2013, but this quantitative evolution hides subtler, and little-studied, qualitative changes in SEZ-related policies.

All pre-Kim Jong-un SEZs were joint or multilateral initiatives, designed to accelerate and institutionalize pre-existing economic cooperation processes. After the collapse of the UNDP-backed TRADP, Rason de facto became a joint China-DPRK project under the auspices of the “Joint Steering Committee for Developing China-DPRK Two Economic Zones” (中朝共同开发和共同管理罗先经济贸易区和黄金坪、威化岛经济区, “steering committee” for short), co-headed by Kim Jong-il’s brother-in-law Jang Song-taek. The Hwanggumpyong and Wiwha SEZ, which form one zone split into two areas,6 was established in 2011 and was intended to be developed jointly with China under the joint steering committee and based on Chinese legal and business expertise.7 Revealingly, when in 2002 North Korea tried to develop a SEZ in Sinuiju on its own, collaborating with Hong Kong and Macau lawyers8 but without coordinating with Liaoning and central authorities in mainland China, the Chinese side reacted by arresting the Chinese-born Dutch promoter of the project and sentence him to 18 years in prison for corruption and fraud. In sharp contrast, the KAESONG INDUSTRIAL COMPLEX (KIC) as well as the Mt. Kumgang Special Administrative Region have been developed in close cooperation with South Korean authorities and the Hyundai Asan firm.

One can generally describe pre-Kim Jong-un SEZs as “generalist” SEZs. Although Rason and Hwanggumpyong-Wiwha have “priority sectors” in which certain investment projects receive additional tax cuts (such as high technology and infrastructure),9 earlier generations of SEZs often aim at attracting FDI in various sectors, depending on the needs of the foreign partner. For instance, calls for investment in Rason include projects in light industry manufacturing, tourism, infrastructure, and heavy industry.10 The development plan for the Hwanggumpyong area is focused on information technology, trade logistics, modern and high-yield agriculture, cultural tourism, and textile processing.11 Interestingly, South Korea-supported projects like Kaesong and Mt. Kumgang were more specifically focused on light industry and tourism sectors, because these SEZs were political projects that the South Korean government supported and facilitated by strong links to large chaebol conglomerates. In addition, for political reasons, the flagship projects of South Korea’s “sunshine policy” to the DPRK had to stay away from all potentially sensitive sectors (including high-tech, heavy industry and information technology). This politically driven economic engagement strategy sharply differs from economic integration processes with China, which unfolded according to the following maxim: “government-led, company-based, market...
### Table 1. Special Economic Zones in the DPRK

<table>
<thead>
<tr>
<th>Generation</th>
<th>Official Opening Date</th>
<th>Name and Location</th>
<th>Note</th>
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<tbody>
<tr>
<td>Generation 1</td>
<td>1991</td>
<td>• Rajin-Sonbong (North Hamgyong Province)</td>
<td></td>
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<td>Generation 2</td>
<td>• 2000 (Kaesong)</td>
<td>• Kaesong Industrial Complex (Kaesong),</td>
<td>• The Sinuiju SAR was cancelled in 2002 after its Dutch governor was arrested by the Chinese authorities. It was replaced by the Sinuiju International Economic Zone in 2015.</td>
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<td></td>
<td>• 2002 (Sinuiju)</td>
<td>• Sinuiju Special Administrative Region (North Phyongan),</td>
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<td></td>
<td>• 2002 (Mt Kumgang)</td>
<td>• Mt. Kumgang Special Administrative Region (Kangwon)</td>
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<td></td>
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<td></td>
<td>• The Mt. Kumgang SAR stopped operating after a South Korean tourist was shot in 2008. Its current status is blurry given the announcement of the Wonsan-Kumgang International Zone in 2014 and later a Kalma Peninsula Coastal Tourism Zone.</td>
</tr>
<tr>
<td>Generation 3</td>
<td>2011</td>
<td>Hwanggumphyong-Wiwha</td>
<td>Jointly developed with China through the Joint Steering Committee (co-headed by Jang Song-thaek and Chen Deming)</td>
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<tr>
<td>Generation 4</td>
<td>2013</td>
<td>• Amnok River EDP (North Pyongan)</td>
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<td>• Manpo EDP (Jagang)</td>
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<td>• Wiwon Industrial Development Zone (Jagang)</td>
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<td>• Sinpyong Tourism Development Zone (North Hwanghae)</td>
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<td>• Songrim Export-processing Zone (North Hwanghae)</td>
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<td></td>
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<td>• Hyondong Industrial Development Zone (Kangwon)</td>
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<td>• Hungnam Industrial Zone (South Hamgyong)</td>
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<td>• Pukchong Agricultural Development Zone (South Hamgyong)</td>
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<td>• Chongjin EDP (North Hamgyong Province)</td>
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<td>• Orang Agricultural Development Zone (North Hamgyong)</td>
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<td>• Orang Agricultural Development Zone (North Hamgyong)</td>
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<td>• Onsong Tourism Zone (North Hamgyong)</td>
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<td>• Hyesang EDP (Ryanggang)</td>
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<td>• Wau-do Export-processing Zone (Nampho)</td>
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<td>Generation 5</td>
<td>2014</td>
<td>• Unjong High-technology development zone (Pyongyang)</td>
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<td>• Kangryong international green model zone (South Hwanghae)</td>
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<td>• Jindo export processing zone (Nampho)</td>
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<td>• Chongnam industrial development zone (South Pyongan)</td>
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<td>• Wonsan Mt. Kumgang International Tourism Zone (Kangwon)</td>
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<td>• Sukchon agricultural development zone (South Pyongan)</td>
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<td>• Chongsu tourist development zone (North Pyongan)</td>
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<td>Generation 6</td>
<td>2015</td>
<td>• Mubong Special Zone for International tourism (Ryanggang)</td>
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<td></td>
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<td>• Kyongwon EDP (North Hamgyong)</td>
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<td>Generation 7</td>
<td>2017</td>
<td>• Kangnam International Development Park (Pyongyang)</td>
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Source: Multiple sources
operated and mutually beneficial" [政府主导，企业为主，市场运作，利共赢]. The role of market mechanisms in the management of both Rason and Hwanggumpyong-Wiwha was, surprisingly, acknowledged by law in 2011, in what must be among the very few official acknowledgments that markets play a role in the North Korean economy.

After Kim Jong-un took power, the North Korean Special Economic Zone program expanded greatly, albeit according to a significantly different strategy. The number of SEZs grew from four in 2011, to 27 or 28 SEZs currently in North Korea. These new SEZs opened in several batches in 2013, 2014, 2015, and the last one in 2017. Unsurprisingly, 11 of these zones are located at the Chinese border, in addition to four others SEZs located near ports that have strong links to China (Nampo and Chongjin). In addition, officials in charge of the development of the Wonsan-Kumgangsan Zone and DPRK diplomats posted abroad explained to the author that they were first and foremost aiming at attracting Chinese tourists to Mt. Kumgang.

In contrast to earlier generations of SEZs, these zones are unilateral North Korean initiatives and generally have a very specific sectorial focus. These features are important to underline as it makes post-2011 SEZs useful tools to decipher current North Korean economic development strategy and expectations from increased interaction with foreign actors. While several recent zones are labelled “comprehensive economic development parks”, the rest of them are designated as “industrial”, “agricultural” or even “high-tech development” zones, based on locally available resources (human capital, raw materials, etc.) or locational advantages. For instance, export-processing zones are often located very close to the Chinese border or near port facilities, while the Wiwon SEZ, which specializes in mineral resources processing, is located in resource-rich Jagang province near China. This specialization based on local features might stem from the apparent desire to decentralize, to an admittedly limited extent, SEZ governance in the DPRK. The 2013 law on “Economic Development Parks” (경제개발구, the North Korean term for SEZs) stipulates that provincial and municipal people’s committees must apply to the Central Guidance Authority for the establishment of SEZs in their jurisdictions, which might explain the proliferation of often ill-prepared and sometimes overlapping zones in the country. As can be seen in Figure 1, some clusters of mutually competing SEZs in North Hamgyong Province or near the Nampo area suggest that there is no comprehensive central strategy to develop Special Economic Zones. For instance, the Jindo and adjacent Wau-do SEZs are both trying to attract FDI in the same sector: light-industry. This is also a sector focus shared by the Songnim export-processing zone, which is fewer than 30 kilometres away from Jindo and Wau-do. While Rason, which benefits from a visa-free regime and an ideal geographic location, has attracted moderate interest from foreign investors as a tourism resort and a manufacturing hub, the small, remote, and less connected Kyongwon and Onsong SEZs, located only a few kilometres north, will not be able to compete against Rason for an already limited stream of investment.

Pyongyang seems eager to use SEZs as tools for industrial improvement rather than as unemployment “pressure valves” or “testing grounds” for further reforms. While Pyongyang would more easily accelerate its existing economic cooperation with China by opening SEZs in sectors where it already has a comparative advantage (mining-focused SEZs near the China-DPRK border for instance), it chooses to instead orient its SEZ program towards sectors such as tourism, manufacturing, and even R&D in the Unjong Hi-Tech Development Park (located next to the Academy of Science in Pyongyang).
Beyond Mono-Causal Explanations of North Korean SEZs’ Mixed Successes

While information on post-2013 SEZs is still scarce, even for North Korean officials directly impacted by these projects, they are widely considered as failures, with no substantial foreign-invested venture being reported. However, while the very rigid business environment of the DPRK is partially responsible for the failure of most of North Korean zones, this moncausal and simplistic explanation is hardly satisfactory.

Following a 2010 visit by Kim Jong-il, Rajin-Sonbong saw an uptick in activity against the backdrop of booming China-DPRK economic ties and high-level institutional coordination in the form of the “Steering Committee.” Infrastructure development undertaken by Chinese and Russian companies in Rason allowed for the expansion of business activity in the zone. Official North Korean figures state that, as of November 2015, 150 companies were active in the zone, with investment stocks nearing the very likely exaggerated total of $500 million.

All other SEZs have failed to attract attention from foreign investors, with the notable exception of Kaesong and Mt. Kumgang. Heavily criticized by South Korean conservatives for funding the North Korean government and its controversial WMD programs, these inter-Korean projects have, nevertheless, been immensely successful for South Korean companies. For instance, Kaesong surpassed $3 billion in cumulative output before closing in 2016. While the amount of the revenue it generated for the North Korean government has been heavily debated, the least that can be said from a purely political economic perspective is that Kaesong is an example of a successful SEZ program from Pyongyang’s standpoint. Kaesong workers not only generated (relative) revenue for Pyongyang and for themselves, but also received on-the-job training regarding the use of more advanced machinery, gained exposure to modern management techniques, and became key agents in technology and know-how transfers to the mainstream North Korean economy. Kaesong’s success, amplified by its strong political symbolism, advertised the potential for the DPRK to develop as a cheap manufacturing hub. Before its operations were suspended following the tragic death of a tourist shot by a North Korean guard in 2008, Mt. Kumgang hosted no fewer than two million South Koreans. While these zones were effectively jointly managed by North and South Korea, their success nevertheless demonstrates how SEZs can be successful in the DPRK as long as they fit within an existing pattern of economic cooperation with foreign actors: infrastructure, equipment, power supply, and funding was provided by South Korean companies, making it a cost-neutral, economically risk free, and politically manageable for the North Korean government.

While Chinese economic engagement patterns towards the DPRK also have political and strategic rationales, they do not follow the same logic. Chinese economic cooperation with North Korea is led by small-scale, profit-seeking companies with limited financial means. This economic engagement strategy stands in sharp contrast to Beijing’s practices with other neighboring developing countries, especially in the larger framework of the Belt and Road Initiative (BRI), where large state-owned banks and companies often have a trail-blazing role for smaller businesses. This strategy, which is intended to familiarize the DPRK with market mechanisms and pressure it into economic reform, has been met with mixed feelings in Pyongyang. While it has allowed China-DPRK trade to surge to an unprecedented level, as Figure 2 shows, this approach de facto transformed North Korea into a supplier of raw, unprocessed resources to China, an inferior position that North Korean leaders have specifically tried to avoid since the founding of the country.

These small-scale companies cannot act as developers of North Korean infrastructure in the way that Hyundai Asan did, and therefore engage primarily in trade rather than investments with the DPRK. During one research interview in Jilin province, a DPRK trade official formerly posted in Europe used the word “imperialism” (帝国主义) to describe China’s attitude towards North Korea.

James Reilly at the University of Sydney has already criticized the idea that more China-DPRK engagement would lead to “institutional isomorphism” and Pyongyang merely copying Chinese market mechanisms. Quite counter-intuitively, it could further be argued that while generally considered to be signs of Chinese influence, DPRK SEZs, and especially post-2011 ones, are used by Pyongyang as tools to rebalance its economic ties with China. Jang Song-taek’s surprise arrest in December 2013 was justified by North Korean media by his role in “economic crimes” and his proximity to “a foreign country”—which can only be China. First, Jang was charged with selling “coal and other precious resources at random,” generating large debts. Second, he was also purged for “committing such [an] act of treachery... as selling off the land of the Rason economic and trade zone to a foreign country for a period of five decades under the pretext of paying those debts.” This obviously is a clear reference to his role in the China-DPRK Steering Committee.

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Increased specialization on higher value-added areas and the fact that post-2011 zones were unilateral initiatives, suggest that Pyongyang is awkwardly trying to use SEZs as a means of industrial and technological catch-up as well as tools to reorient its economic cooperation with China. Evidence, as well as previous research, further suggests that North Korea expects a “Kaesong-like” approach to SEZ development from China, where the foreign party undertakes the necessary development of the infrastructure, provides training and technology, and pays wages. This strategy has limited chances of success for three main reasons. The first and most obvious argument is that the North Korean business environment remains difficult for large companies due to chronic lack of legal security and political risk. North Korea has shown increasing willingness to reform its trade and investment-related laws, as the sometimes bold evolutions of the Rason Law suggest. However, the lack of explicit support for economic reform from the top leadership casts doubts on Pyongyang’s candor.

The second reason for skepticism on North Korea’s SEZ strategy is that the DPRK sometimes aims at attracting Chinese investments in sectors that would make them the competitors of Chinese businesses. The Manpo SEZ, for instance, aims at becoming a herbs-based medicinal drugs manufacturing base, which would make it a direct competitor of several large companies established in Ji’An, the Chinese city on the opposite side of the border. Other examples include the Rason and Kyongwon SEZ’s, which are in the close vicinity of Hunchun city in China. Hunchun, while not having access to the sea, has become an important trading hub for highly-reputed North Korean seafood. As a result of Rason’s infrastructure and power supply falling short of demand, the Hunchun municipal government has tried to boost the local seafood processing industry on its side of the border. This is a clear example of a China-dominated division of labor at the local level wherein North Koreans provide raw materials while Chinese companies are tasked with more added-value activities. The ambitions of DPRK zones to attract investments in seafood processing factories puts them at odds with economic development strategies implemented on the other side of the border.

Third, and most importantly, the fact that North Korean trade is almost exclusively with China, offers limited leverage for Pyongyang to coerce or convince Beijing to adopt a different strategy, particularly with the stringent economic sanctions since its fourth nuclear test in January 2016. As trade allows more
Prospects for North Korean SEZs in the Moonshine Policy

Kim Dae-jung’s and Roh Moo-hyun’s Sunshine policy of unconditional economic engagement with the North increased economic interaction with the DPRK and built people-to-people exchanges, but has had limited impact on the North Korean nuclear program. The “sunshine policy” of South Korean President Moon Jae-in, which seeks to strengthen diplomatic engagement with the DPRK, has come to adopt a significantly different approach as the international sanctions regime prevents North-South economic cooperation. In this context, economic engagement is conditional on U.S.-DPRK talks. This presents Seoul with limited leeway to move forward with its engagement strategy beyond symbolic exchanges. The Pyongyang declaration, adopted during the September 2018 summit in North Korea, nonetheless explicitly mentions the relaunching of existing SEZs (Kaesong and Mt. Kumgang) as well as “discussions” on the forming of two new additional zones. One of these proposed zones, which the declaration refers to as the “west coast joint special economic zone,” is likely to be a newer version of the Haeju SEZ that was mentioned in the post-2007 North-South summit declaration.

The Hanoi summit was a major setback in the denuclearization process, and a huge disappointment for Washington, Pyongyang, and Seoul. The result was frustrating for Pyongyang and Washington, but also for Seoul, which has to either obtain large and unlikely sanctions exemptions to restart its economic engagement policies towards the DPRK or try to help the diplomatic process move forward before implementing its “Sunshine Policy 2.0.” While these rounds of negotiations most obviously focus on traditional security issues, Pyongyang’s insistence on economic assistance and investment makes SEZs an important aspect in the negotiation process. SEZs, therefore, represent not just a potential hub for foreign investment in the country, but also a pivotal issue for potential future geopolitical and economic rivalry over the DPRK’s economic potential.

Echoing a well-established Cold War pattern of playing partners against each other to reap maximum benefits from foreign interaction, Seoul’s policy of economic engagement provides Pyongyang with an alternative partner to play against Beijing. While Chinese businesses have been reluctant to seize larger-scale business opportunities in the DPRK besides a few mining ventures, the return of politically-motivated competitors in the North Korean market such as South Korea could trigger a change of attitude from Beijing. South Korea’s preferred approach to economic engagement is at the state level (which leaves Pyongyang with more bargaining power) and includes infrastructure development and investments in sectors that are crucial for the further development of the North Korean economy. This would cause Pyongyang to favor economic integration with South Korea, a move that would most likely weaken China’s position vis-à-vis Pyongyang. While Beijing admittedly has limited influence over the DPRK, given the strategic importance of the “buffer state” and lack of trust between both countries, China would need to prevent Pyongyang from balancing with Seoul or even the US. This could, in the long term, become a security threat for the Chinese leadership, as North Korean diplomats often relay, off the record, Pyongyang’s will to get closer to Washington and Seoul to balance a Chinese partner seen as unreliable and interfering. Beijing would thus be tempted to develop closer relations with Pyongyang, most likely by implementing an economic engagement strategy more in line with the DPRK’s objectives. This strategy could be determined by several factors, the most obvious ones being the extent to which sanctions are lifted as well as the nature and magnitude of Seoul’s engagement policies that Beijing will have to counter. However, given the earlier successes of both Kaesong and Mt. Kumgang SEZs, as well as the importance of moving the North-South dialogue forward for the Moon administration, there is a relatively strong likelihood that China would have to come up with a sizable contribution to the North Korean economy if it wants to compete with South Korea.

Beijing could develop an approach that more closely follows the traditional BRI-inspired policies in most other neighboring countries: a mixture of infrastructure development, assistance, and technology transfers. Earlier generations of SEZs, located near long-established trade hubs, would most likely be the most immediate target of Chinese investments, especially Rason or Sinuiju due to their ideal geographic location along the main routes towards South Korean, Japanese or even South Chinese markets. Recent reports on Chinese companies’ stated interest
in investing in trade and logistics platforms in Sinuiju might be an early reflection of these likely future trends, suggesting that Chinese companies might either be proactively entering the North Korean market or at least entering late stage preparations in anticipation of formal sanctions relief.

Cooperation and Competition for Special Economic Zones

In a 2017 article, Christina Kim-Chilcote coined the term “economy of anticipation” to describe how Chinese public and private actors muddle through economic sanctions and prepare for what they expect to be the inevitable opening of the DPRK according to the Chinese experience. These preparations include the development of infrastructure on the Chinese side of the border, the development of personal business links with North Korean businessmen and traders, as well as the establishment of institutional vehicles for future collaboration such as SEZs.

South Korea’s ambitions to economically engage with North Korean SEZs could trigger China switching from a policy of “economy of anticipation” to a more active engagement policy, as a discrete uptick in cross-border economic projects after the Singapore summit would suggest. Should sanctions be eventually lifted, or if China decides to more openly break sanctions, it would most likely not only result in Chinese business resuming pre-2016 trade patterns. Massive coal, textile, and seafood exports might push Chinese state or provincial actors to pursue more sustainable economic engagement strategies that would factor in, at least to some extent, North Korea’s objective of independence or more indigenous growth. In more concrete terms, this could mean Chinese initiative to seize business opportunities in ideally located SEZ such as Rajin Sonbong, Sinuiju, Wonsan, or even, as recent news suggest, Manpho. It would give the DPRK the opportunity to obtain more investment and infrastructure development without further reforming its economy, by playing foreign actors against one another. This strategy of artificially increasing either its strategic value as a buffer state or its threat potential in order to obtain security or economic development guarantees is a well-established Cold War-era foreign policy pattern of the DPRK. However, in a post-Cold War environment, this would mean that instead of obtaining assistance from friendly socialist brethren, North Korea would use pressure tactics and brinkmanship to coerce any partner into implementing specific economic engagement strategies that are seen as viable from the DPRK’s perspective.

This leaves two potential prospective policy options, respectively based on the premises of Sino-South Korean cooperation or competition. One potential course of action would be to try to keep close collaboration between China and South Korea, and to make investments from both countries conditional to progress on the denuclearization front, in order to not lessen the risk of manipulation from Pyongyang. This would require coordination and transparency between Seoul and Beijing on their economic engagement strategy towards the DPRK, which is highly unlikely in the current diplomatic framework given the magnitude of the issues at stake for both countries (reunification, US-China relations, etc.). It is, furthermore, even more unlikely given that Seoul requires the US approval to lift sanctions and move forward with economic engagement of North Korea. If Seoul and Beijing decide to jointly engage with the North Korea economy, it would thus require for Beijing to coordinate its North Korea approach with Washington.

If Seoul and Beijing are unable to work out a cooperative, well-thought approach to North Korean economic engagement, and they end up competing for influence and business opportunities in the DPRK, it would lead to a race to the bottom. Investing countries would fight to offer better conditions (technology, infrastructure development, focus on more added-value activities) to North Korea. In the current context of stalled discussions and passive-aggressive North Korean behavior (as witnessed during the early May 2019 “projectiles” testing campaign), this would definitely appease tensions and help pave the way for more constructive dialogue on security issues. It would, however, further convince Pyongyang that it can keep developing its economy by mobilizing its strategic value and geopolitical capital in exchange for assistance and friendly engagement policies rather than by undergoing economic reforms that would necessarily impact existing political structures.
Endnotes


3. This argument is based on the author’s PhD research fieldwork in the China-DPRK borderlands and, to a lesser extent, in North Korea between 2014 and 2018. The author conducted dozens of interviews with the Chinese business community involved in the DPRK, most of whom were traders rather than investors. The author also conducted interviews with North Korean trade and economic development officials, as well as diplomats and scholars both in the DPRK and abroad. While still extremely valuable, interviews conducted in the DPRK were usually not carried out in ideal research conditions, for obvious reasons.


6. The author’s personal observations near Hwanggumpyong market entrance.

7. According the laws on Rason and Hwanggumpyong-Wiwha, priority sectors are given preferential tax rates on net profit (10% instead of 14%).


9. The current status of several zones in the Wonsan-Kumgang area (namely the Mt. Kumgang SAR, the Wonsan-Kumgangsan Zone for International Tourism and the Mt. Kumgang International Tourism zone) is somewhat blurry.


11. Author’s personal observations near Hwanggumpyong market entrance.


13. Reported Chinese investment stocks to the DPRK reached, at their highest, about $622 million, at least according to Chinese customs data.


16. Quite surprisingly, several officials positioned inside and outside the DPRK, as well as local scholars, have expressed to the author their eagerness to learn about SEZs in general and the DPRK in particular.


18. Reported Chinese investment stocks to the DPRK reached, at their highest, about $622 million, at least according to Chinese customs data.


27. They can “see seagulls but not the sea” (见海鸥不见海), as the local saying goes.

29 Some Chinese companies based in Heilongjiang or Jilin see potential for Rason as an export window to South China, according to the principle of “domestic trade, foreign transit” (内贸外运). “Annual Production plans of 500,000 tons of citric acid and supporting projects signed in Hunchun” [年产50万吨柠檬酸及配套工程项目落户珲春], Hunchun Official Website, August 2018, http://www.hunchunnet.com/archives/49274/.


32 Clément, “Jian-Manpho Bridge.”