

A Study on the Setting-Up of Economic Development Zones in the Democratic People's Republic of Korea

LI, Shenghua

Associate Professor, College of Economics and Management, Yanbian University, and the Co-Innovation Center for Korean Peninsula Studies, Yanbian University, and ERINA Collaborative Researcher

Summary

The Democratic People's Republic of Korea (DPRK) promoted the putting in place of the legal basis in order to attract foreign direct investment in the mid-1980s, and established special economic zones from the 1990s and economic development zones in the 2010s. The setting-up of special economic zones and economic development zones was a major distinctive feature of economic reform policy in the DPRK. In order to undertake this kind of open economic management, economic reform is a pressing task. On the other hand, the attraction of foreign capital, and the establishment of special economic zones and development zones are part of the policy of opening-up to the outside world.

What can be raised as the greatest change in the introduction of foreign capital policy in the DPRK in recent years is the expanding of the application of investment activity with the putting in place of special economic zones and development zones in each region domestically. Next, the DPRK law on external economic relations has been in large part amended many times since the 1990s, but subsequently further improvement in the investment environment is necessary.

The various economic reforms which the DPRK is implementing are basically being promoted within the maintenance of the existing system, and are the government-led attraction of foreign capital within the existing planned-economic system. The realization of economic modernization via the extraction of internal resources which the DPRK government is aiming for and the introduction of foreign capital policy compensate for the DPRK's lack of domestic funds, and is a part of so-called self-reliance.

Under the planned-economic system in the DPRK, the introduction of a market-economic system is difficult, and because with the current high tension with the outside world the spillover effect for the economy from the attraction of foreign capital is limited, the realizing of economic modernization via the extraction of internal resources which the DPRK government is aiming for is considered to be difficult. Consequently, in order to tie the attraction of foreign capital to growth in the real sense, it is necessary to go on further promoting initiatives, aiming toward an improvement in the investment environment, including the formation of a stable international political and economic environment and the upgrading of infrastructure.

What is necessary at the current stage in order to invigorate the DPRK economy are the following three things. First, while an all-out implementation of a market economy is difficult, its introduction experimentally in some leading regions is possible. For example, within the Sinuiju International Economic Zone, the nation grants special legislation and jurisdiction, and I would like to propose the putting ahead of market economic reforms in the special zones. Through that, at the same time as forming a base for propagating the market economy in the future to more regions, it will be possible to enliven investment, giving foreign enterprises free room for economic activity. Second, the improvement of international political relations, especially the improvement of relations with neighboring countries, is a pressing task. Even though an improvement in relations with Western countries, including the United States, is difficult in the short term, within the bigger picture of the unification of the Korean Peninsula, it will be necessary to reduce the fruitless maneuvering in relations with the ROK, and strive for reconciliation. In the future, when the DPRK constructs a peaceful diplomatic environment, the possibility that the ROK will become the largest investor and donor country for the DPRK cannot be denied. Third, for the construction of the development zones, it is necessary to avoid overlapping investment as much as possible, and clarify the types of foreign capital to attract. The DPRK labor force in the current stage cannot be called plentiful, and the mass development of labor-intensive processing and assembly industries as China adopted at the beginning of its reform and opening-up does not match the realities of the DPRK. As a result, in the construction of development zones and real economic development it can be said that the screening of foreign capital is another important issue.

[Translated by ERINA]