

# The 8th Rason International Trade Exhibition in North Korea

## Bazar, window to the world, and a glimpse of a changing economy

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For the last decades, headlines on North Korea have been driven by its nuclear armament program and crumbling economy, together with the bizarre leadership style of the ruling Kim dynasty. However, unnoticed among often sensationalist headlines, some form of spontaneous market economy has risen out of the ashes of the centrally-planned economy which broke down in the early 1990s. Markets – first called farmer markets, but later gaining more and more official status – grew first outside the official economy and are now more and more intertwined with the official economy. While a formal acknowledgement of marketization is still lacking and the façade of a socialist economy is still kept, markets are now important for a major share of economic activities, in particular in the cities. At the same time, the fast-growing exports since the early 2000s, mainly seafood, textiles, coal and other mining products plus labor, have been curbed by sanctions and isolation due to the nuclear ambitions of North Korea. Also, Chinese tourism to North Korea stopped. Interestingly, this did not affect imports yet – 2017 saw indeed slightly higher imports than 2016, with exports in free fall, leading to the largest ever trade deficit of North Korea, presumably financed by a China unwilling to risk political stability in North Korea. Certainly, such a policy is far from sustainable.

### Special Economic Zone of Rason

The Special Economic Zone of Rason, the oldest in North Korea, exists since 1991. It is closer integrated with China than most of the country and enjoyed relative wealth through numerous joint ventures, overwhelmingly with Chinese partners. While there are no reliable statistics for Rason as for the rest of the country, Rason had been hit hard by the 2017 sanctions imposed by the international community, including those on North Korea labor, textile, and sea food, as well as tourism. By late 2017, Rason administration was worried about the prospects of the economy under continuing sanctions. The abrupt change of economic and political strategy in early 2018 again brought hope for a speedy improvement of the situation. Already in March, tourists could again be observed in Rason and by June the number of tourists was back to normal. The 8th Rason International Trade Exhibition (RITE), which took place in late August in Rason, was an opportunity to check how the interplay of market forces and sanctions affected the area.

Rason Special Economic Zone was founded in 1991 by combining two small counties directly at the Chinese and Russian border,



The harbor of Rason: the right-hand pier is rented to Russia; in this photo of 2016 coal can be seen; currently the Russian pier is empty, while small amounts of coal are shipped from the middle (North Korean) pier.

Rajin (the main city in the area) and Sonbong. The original vision of Kim Il-Sung to make Rajin-Sonbong the "Singapore of the East" seemed doomed from the beginning and Rason could not attract any significant amount of investment for the first ten years of its existence. It was only good for occasional exotic or bizarre notes, like when the casino run by a Hong Kong tycoon and immodestly called "Emperor hotel" opened and, later, had to close again due to Chinese pressure, after several Chinese officials gambled away money which did not belong to them in this casino – today there are four casinos in the zone, including the renamed "Imperial Hotel and Casino", by far still the biggest one.

From the North Korean point of view, three reasons were named why Rason, seemed poised to become a free trade zone: First, the port was ideally located for transit trade. Two islands in front of the harbour are protecting the area from typhoons, and in the winter the port remains largely ice-free, a fact making it attractive also for Russia, whose ports at the Far Eastern coast are freezing. A road links the zone to Wonjeong at the border to China, and the port has been used in its heydays for transportation to Russia, Japan (until the first nuclear test in October 2006), and, during the Sunshine Policy, also to Seokcho and Busan in South Korea. Second, Rason was also ideally located to attract tourists from China and Russia, due to its beautiful and unspoiled beaches. Indeed, several thousand Chinese tourists and a considerably smaller number of Russian tourists (mostly confined to one resort) visit the area every year for holidays, though this is far from the expected potential. Lastly, a liberal legislation (by North Korean standards) was designed to attract foreign investment. This, however, was largely unsuccessful to begin with. Too big were obstacles for transportation and communication to make Rason attractive as an investment location. This changed slowly when China massively invested in its own Northeastern area, the adjacent Yanbian autonomous prefecture with a sizeable ethnic Korean population. First, roads and now a high speed train linked Yanji (capital of the region) and Hunchun to the rest of China. Then, the 48 km dirt road from the border to the city of Rajin, which had seen frequent accidents in the past, often



In the past years, building activities in Rason have been brisk. While official statistics are lacking, it seems to indicate also a sizeable increase of population in the area.

involving trucks bringing seafood out of the country, was paved and in 2016 also a new bridge was opened over the Tumen (border) river. Russia modernized the railway track from Rajin harbor to Hassan and Vladivostok and rented for several decades the pier 3 of Rajin harbor, which was fenced and equipped with its own energy source.

### Rason International Trade Exhibition

Since 2010, every August the Rason International Trade Exhibition takes place. This year, it hosted around 115 exhibitors, slightly down from the figures of the early exhibitions. Roughly half of the companies are from North Korea and half from China, with only a handful of "others". Products range from clothes, shoes, beverages, foods and consumer electronics to health products and tractors. After being hosted seven times in a socialist cultural hall in Sonbong, this year RITE took place in a newly designated and built building in Rajin with more space and also a number of permanent shops. For the emerging middle class of Rason, RITE is a kind of a (albeit small) "window to the world", often with a bazar-like atmosphere.

Chinese traders from the adjacent Yanbian region come there to exhibit products and also sell those, including, for example, refrigerators or motorcycles by large Chinese brands. Other companies seem to be rather clueless about the potential customers there, bringing technical equipment like drill equipment or sophisticated agricultural technology, but not doing any business. North Korean companies selling textiles and seafood were exhibiting, though sanctions on these goods are formally still in place. The goods exhibited by Pyongyang companies are particularly interesting: besides some specialized stalls for books or stamps, in particular they specialized in health products. Many of them offered "miracle cures", like magnetic stones supposedly fending off viruses or injections against all kind of deadly diseases. Certainly, the Asian market for these kinds of products exists, but probably it is also a consequence of the lack of proper medicines and medical services in the country. It might even be related to the issue of sanctions:



Opening ceremony of the 8th RITE – with the General Consuls of China and Russia from Chongjin present, the political representation was much stronger than in the past

why else would so-called "high-tech" companies, some according to their names involved in road construction or nano-technology, offer vitamin supplements for fast growth of children?

Another notable trend is the ever-increasing number of North Korea-made consumer goods, in particular food and beverages, which substitutes (also on the market) former Chinese imports. Import substitution is a double-edged sword and not always good; but, given the stark dominance of Chinese products a few years ago, when up to 85 percent of goods in markets were Chinese-made, this is a welcome development. And, as a trip to the noodle factory producing ramyon-style cup noodles near Rajin confirmed, the design and quality markedly improved over time.

**Investments vs. Sanctions**

As usual in the trade fair, an investors' meeting was held where officials of the city read texts about the potential development of the zone. Unfortunately, there continue to be huge plans, with very little signs of implementation. Given the 25 year long history of the zone, it is amazing how difficult it seems to be to relate to potential investors, e.g. through a Q&A session. Certainly, the last years under Kim Jong-Un saw a marked development here like in other places in the country. A construction boom of sorts, partly related to Chinese



The team of Hanns-Seidel-Foundation at the so-called "investors' seminar" NAMEN?



The trade fair is a bazaar and also "window to the world" for the emerging middle class of Rason



New products like this cup noodles substitute Chinese imports.

joint ventures, including the probably largest investment here, a cement factory, and partly related to new government buildings, including a water park, a new stadium and gymnasium, started in 2012. The most important result of the construction boom was a quite impressive new market, also a joint venture, with a quantity and quality of goods formerly unknown to this provincial city.

Regarding sanctions, North Korea developed some coping mechanisms, including for example a new seafood market directly at the border, where Chinese tourists can privately go shopping for the sought-after seafood. However, without a lifting of sanctions, a real economic take-off seems very unlikely. And even then, the zone is far from being ready for investment: communication costs and availability are still a headache, to name just one problem. At least one positive change in this direction was the end of an often extensive search into Western visitors cell-phones and computers; during this visit, they were only registered (to be sure nothing is left in the zone unauthorized), but not longer searched, neither going into nor out of the country. This was one of the frequent complaints

by us and other visitors to the zone in the past and might be a sign for a slightly better understanding.

Rason has advantages which might allow it a bright future: unspoiled beaches attracting again more and more Chinese and Russian tourists, still ample seafood resources at prices highly competitive, a well-educated labor force, and the harbor. Rason also hosts since this year one of two Ramsar sites in the country, a wetland of international importance near the Korean-Russian border. Hopefully, the development of the economy and the preservation of the environment can go hand in hand in this area. Sustainable tourism would be one way forward for Rason. But foremost, without a solution to the nuclear problem no sustainable growth seems possible.



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## Intercultural Issues in Contracts Between Korean and Western Business Partners

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### Common roots of the legal system and common pitfalls

Exporters and other enterprises doing business with Korea will find that there are many common features between Korean and continental European law. This applies in particular to Germany as many Korean acts in the area of civil and procedural law have German roots, including without limitation the Civil Code, the Commercial Code and the Code of Civil Procedure. Although the close nexus between both legal systems is facing new challenges now in view of the important role played by the United States in the education of legal practitioners and academics, the basis of the legal system in Germany and Korea remains the same.

which they refer in their purchase orders (PO). These importers GTC frequently conflict with any GTC to which the exporter refers when it submits an offer or pitch. Exporters should therefore pay special attention to the question which GTC are prevailing. In practice, the sequence of events will commonly start with a request for proposal, followed by the submission of a proposal, the issuance of a PO and finally the acceptance of the PO by the exporter. Although details always depend on the individual case, there is hence a good chance for the importer to get its GTC approved when the PO is accepted by the exporter. This shall normally lead to the consequence that the importer's GTC will prevail, including the provisions on the choice of law, principles of construction, dispute resolution and the rules governing change orders, their impact on other terms and conditions and liquidated damages, unless expressly otherwise agreed.

The fact that both legal systems share the same roots, however, does not mean that cultural differences may be ignored, which are a source of common pitfalls. One particular issue, which is repeatedly experienced, is the impact of change orders on hard deadlines and delivery dates, where the failure to meet such deadlines may trigger claims for liquidated damages resulting in serious legal risks for exporters and providers of services.

It is common market practice in Korea that GTC of importers contain detailed rules governing changes to POs, including changes to delivery dates, deadlines and liquidated damages. It is a common feature that most of these GTCs provide the importer with substantial flexibility to issue change orders, which become binding on the exporter if the exporter does not rise objections in writing within a short period specified in the GTC. This applies in particular, but is not limited to, complex projects and sophisticated industrial

### The impact of change orders on deadlines and delivery dates

Most Korean importers apply general terms and conditions (GTC) to

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Quo Vadis, Korea?



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