

The Noticeable Issues in Introduction of Foreign Investment to the Economic Special Zone

Choe Yong Ok

The great leader Comrade **Kim Jong Il** said as follows.

“The development of economic and cultural cooperation and exchange between nations will enable them to develop rapidly by making up for each other’s shortages and through joint efforts and to consolidate their political unity.” (“**KIM JONG IL SELECTED WORKS**” Vol. 1 P. 91)

Today it is a world trend to establish and make use of the economic special zone for accelerating the national economic development.

The economic special zone is an area where the preferential treatments are offered in the fixed economic activities, restricting from the other areas of the country. There are various kinds of preferential treatments according to the purpose and types of the special economic zones, but those are generally classified into the lowering of the restrictions to the economic deals with the other countries or the provision of the favorable environment for the economic activities in the zone.

It is originated from the free trade spot of Roman Empire, the free city in the middle Ages or the free trade port of Britain. It has several types such as trade-centered type, production-centered type, production-trade complex type or knowledge creation type.

Today, many countries take advantage of the economic special zones in order to enforce the trade policy like the immunity from taxation or realize the economic development strategy such as introduction of the cutting edge technology and improvement of production by the foreign investment.

The first noticeable issue in introducing the foreign investment in an active way to the zone is offering the treatments preferential to foreign investment.

What the foreign business and investors wants in the special zone is, literally, the environment favorable for business activities.

The favorable environments include the production management environments such as status of infrastructure, condition of finance, materials and labor, availability of foreign currency, labor and land, reduction of risk from the rate of foreign currency, regulation of business management, etc. And also living condition and outside environment are included.

Among these environments the most critical one is provision of production management and living condition as required by the investors.

For this reason many countries have been offering a lot of the preferential treatments to interest the foreign investors to the zone.

For example, in the economic special zone of Shenzhen, China, they are attracting the foreign investors by allowing the ownership of property including real estate, leasing the land or lowering the taxation differently from former times. They impose the income tax in the rate of 15% in the zone while 33% outside of the zone. Especially in the sector of advanced technology, the taxation is further reduced to encourage the investors.

Here are the similar examples in Rason economic special zone in our country. The income tax is imposed to foreign investment business established in the zone in the rate of 14% of account profit,

11% lower than other business in the other areas in our country. Especially, the foreign investment companies of those sectors such as construction of infrastructure, advanced science and technology and production of competitive goods pay the income tax in the rate of 10%.

The foreign companies of management period of more than 10 years in the production sector shall be exempted for 3 years from the first year of profit creation and 50% off of income tax for the next 2 years. And the foreign companies of management period of over 10 years in the service sector shall be offered exemption of income tax for the 1st year of profit creation and 50 % off for the next 2 years.

What is increasingly focused in the environment favorable for business activities is provision of fine living condition. The increasing requirement for life of culture and material makes it difficult to attract the foreign investors without providing of fine living condition. That's why many countries have made every effort to establish the fine dwelling and cultural living environments in and around the zone.

The next noticeable issue in introducing the foreign investment to the zone is the definite selection of foreign investors.

Which industry would be given priority or what extent the scale of investment would be estimated depends on the selection of foreign investors concerned.

The selection and initial introduction of the foreign investor that plays the leading role in the same sector in the position of influence may lay up the ground favorable to the other investors. For this reason, many countries take the actions of giving subsidies and grants to the influencing investors.

It is advantageous to accept the related companies in a group rather than individually.

If the companies requiring technical works, for example - a manufacturer of auto car fittings and an assembly center, are introduced in a group, they will exchange the technics with each other and gather the technical engineers and make it favorable for investors to collect the more skillful labor. On the other hand there will be a close link between them in the reproduction. It provides the continuous production even in the economical fluctuation and also broadens the consumer markets in the zone to develop the service sector as well as commerce.

In the zone the industry sectors are established necessarily with service sector such as commerce. The sequence of establishment is different to the stages and impacts the introduction of investment. In the past the service sector followed the industry sector. At this time they provide the living conditions necessary and then establish the commercial and public service to win the investors of industry sector. This is because the living condition has much sense in interesting the investors.

As mentioned above, most of the countries have taken several actions for the introduction of foreign investment to their special zone.

We must study the real state of development of the economic special zones of other countries to establish ones in keeping with the real conditions of our country while contributing to the construction of socialist economic powerful nation.