



ECONOMIC RESEARCH OF THE NORTHEAST ASIA REGION

Tumen Secretariat, 2009

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PART I

NORTHEAST ASIA ECONOMIC OUTLOOK

1. Greater Tumen Initiative

The Greater Tumen Initiative (GTI) (originally known as the Tumen River Area Development Programme -TRADP), is an intergovernmental cooperation mechanism in North-East Asia, supported by the United Nations Development Programme (UNDP), with a membership of five countries: People's Republic of China, Democratic People's Republic of Korea, Republic of Korea, Mongolia and Russian Federation. Japan participates in GTI events as an observer. Since its creation, GTI has remained a unique intergovernmental platform for economic cooperation, fostering peace, harmonization, stability and sustainable development in North-East Asia. Moreover, it is playing a significant role in expanding policy dialogues and strengthening business-friendly environments in the region and contributing therefore to the raising of living standards through development of interregional infrastructure and the promotion of trade and investments.



Northeast Asia is the vast geographic ensemble that stretches from Mongolia in the West to the Pacific coasts of Russia and the Korean Peninsula in the East and encompasses North East China. The geographical coverage of the Greater Tumen Initiative itself involves the three Northeast provinces (Jilin, Heilongjiang, & Liaoning) and Inner Mongolia of China; the Rajin-Sonbong Economic and Trade Zone of the Democratic People's of Korea; the Eastern Provinces of Mongolia; the Eastern port cities of Republic of Korea and the Primorskiy Territory in the Russian Federation.

This region possesses enormous potential for investment and job opportunities with its skilled, educated and low-cost labor pool. The Tumen River ties this region together at the crossroads of vital trade, transport and energy routes. Rich in gas, oil and minerals, the Greater Tumen Region has easy access to affluent markets in the GTI five member countries and Japan, representing over 500 million consumers. The huge economic potential of the Tumen River region can only be fully harnessed through dynamic cooperation among its neighbours and sharing of resources. Northeast Asia is abundant in resources, land and market potential,

which is essential to investors.

The core decision-making institution of GTI is the Consultative Commission composed of government representatives from all five GTI member countries. The role of the Consultative Commission is to foster support for the development of North-East Asia and the Tumen River Economic Development Area in particular. Moreover, it promotes mutual understanding as well as economic, environmental and technical cooperation among the peoples and countries of the Greater Tumen Region. GTI program provides great motivation for developing investment perspectives in Northeast Asia and using unidentified resources.

In spite of the difficult global environment in times of the financial crisis and economic recession, as a whole, the region is placed in a rather dynamic framework of change and new economic opportunities. The state of play within the countries of the Tumen Initiative will have decisive impact on the way in which regional or local actors will be able to use the momentum created by economic growth, increasing prosperity and political change.

Summarizing the results of the GTI activities over the last 14 years, we can see that the GTI has achieved important results in implementing the agreements signed by the participating governments, especially with regards to expanding policy dialogues and strengthening business-friendly environments in the region. Concrete results have been achieved in the meantime by way of the development of interregional infrastructure and promotion of trade and investments, contributing thus to improving living standards and sustainable development in the region.

2. Economic Overview in Northeast Asia

The severe impact of global financial crisis has affected the international market as well as Northeast Asian countries; UNCTAD reported that the world economy is currently facing a severe global crisis that spilled from financial sector to the real economy in the last quarter of 2008, leading to steep falls in industrial production and a rapid decrease in international trade, and to a slowdown in foreign direct investments and potentially in development assistance. GDP in emerging Asia excluding China and India plummeted by no less than 15 percent on a seasonally adjusted annualized basis in the last quarter of 2008, and a further decline is expected for the first quarter of 2009.¹ Access to cheap capital and high international consumer demand has been key drivers behind investment in Northeast Asian economies in recent years. These two pillars no longer stand and as such a certain amount of short term pain is commonly agreed.

The crisis has translated into a sharp decline in FDI inflows, both for developed and developing countries. UNCTAD estimates that global FDI inflows declined by 15 per cent in 2008.² Asia's exceptional integration with the global economy is one of the parts of this severe impact. Much of Asia relies heavily on technologically sophisticated manufacturing exports, products for which demand has collapsed. At the same time, Asia's financial ties with the rest of the world have deepened over the past decade, exposing the region to the forces of global deleveraging. As the global economy revives in 2010, so too will Asia. But the recovery is likely to be tepid—and not only because the global economy will remain weak;

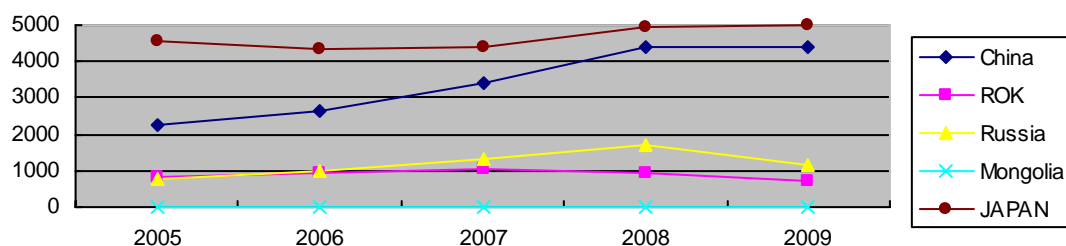
¹ IMF; Regional Economic Outlook; Asia and Pacific – Global Crisis: the Asian Context. May, 2009

² UNCTAD; Global economic crisis: implications for trade and development. May, 2009

historical experience shows that investment tends to recover slowly from downturns, especially those that involve financial stress.

However, Northeast Asia has huge potential possibility to grow; apart from the Far Eastern Russia, Northeast Asia as a whole have gained a growing share in the global economy every year accounting for almost 18% of the global economy in 2008, which is one of the top three economic zones in the world. And on a positive note, many of these economies have high savings and moderate debt which will give them far more flexibility when it comes to stimulus packages and policies. Over all long term prospects in Asia's emerging economies remain good thanks to the structural reform that has been evident in the last decade as well as better macro-economic policies.

Chart 1-1. Growth rate of GDP
(in US\$ billions)



* Source: IMF – World Economic Outlook Database (April, 2009). 2009 data estimated by IMF.

In this regards, the regional cooperation and partnership are more required to improve the investment environment and easy market access in Northeast Asia and attract more investment from within and outside the region to strengthen the economic conditions in response to the financial crisis and potential threats, as Northeast Asia's growth path will continue to run parallel to the global economy. Integration of Northeast Asia increased economic and political cooperation, have proven to be a unique opportunity for these regions. To realize the common interest of the member countries and to achieve sustainable economic development, economic integration and international mechanism for cooperation should be established.

Chart 1-2. Key Economy Indicators of Northeast Asia countries in 2007

	China	ROK	Russia	Mongolia	DPRK	Japan
GDP (US\$ in billions)	3,382.5	1,049.3	1,294.4	3.9	N/A	4,384.4
GDP growth (annual %)	13.0	5.1	8.1	10.2	-2.3	2.4
Merchandise Trade (% of GDP) ³	67.8	75.1	44.8	101.9	17.7	30.4
Exports (US\$ in billions)	1,217.8	371.5	352.3	1.9	1.9	714.3
Imports (US\$ in billions)	956.0	356.8	199.7	2.1	3.2	622.2
FDI, net flows (US\$ in billions)	138.4	1.6	55.1	0.3	N/A	22.2
Inflation, GDP deflator (annual %)	7.4	0.3	13.5	12.3	N/A	-0.6
Population, total (millions)	1318.3	48.5	142.1	2.61	23.8	127.8

* Source:

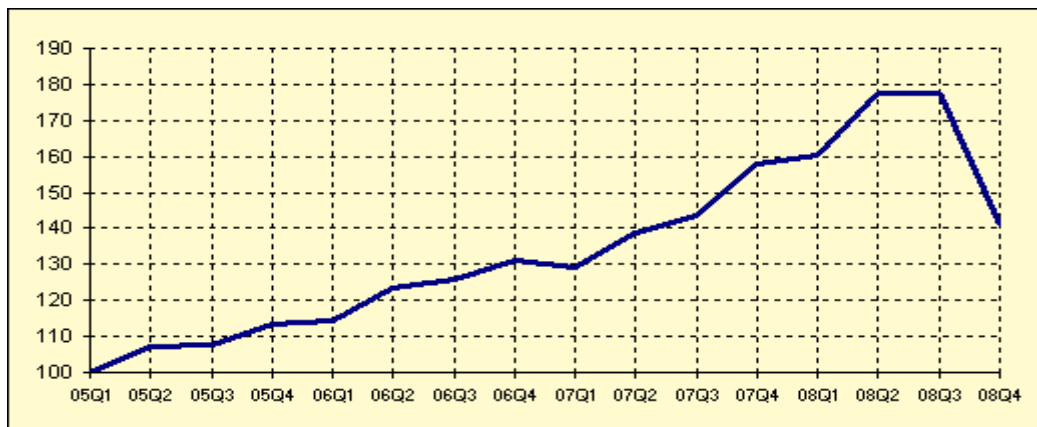
³ Merchandise trade as a share of GDP is the sum of merchandise exports and imports divided by the value of GDP

- IMF – World Economic Outlook Database (April, 2009) for GDP of China, ROK, Russia, Mongolia and Japan figures.
- World Bank – World Development Indicators database (April, 2009)
- ERINA – Basic Economic Statistics (May, 2009) for DPRK figures.

3. Trade and Investment Conditions in Northeast Asia

The global economy is projected to shrink by 1.3 percent in 2009, with a slow recovery expected to take hold next year, according to the IMF’s April World Economic Outlook (WEO). Although the U.S. economy may have suffered most from intensified financial strains and the continued fall in the housing sector, Western Europe and advanced Asia have been hit hard by the collapse in global trade, as well as by rising financial problems of their own and housing corrections in some national markets.

Chart 2-1. Quarterly world export developments, 2005-2008
(2005Q1=100, in current US dollars)



* Source: WTO Secretariat

Emerging economies too are suffering badly and contracted 4 percent in the fourth quarter of 2008 in the aggregate. The damage is being inflicted through both financial and trade channels, particularly to east Asian countries that rely heavily on manufacturing exports and the emerging European and Commonwealth of Independent States (CIS) economies, which have depended on strong capital inflows to fuel growth.⁴

Northeast Asian countries are highly dependent on trade; the region’s share in international trade increased from over 18% in 1995 to 19.2% in 2007, which is higher than NAFTA’s 16.2% and lower than EU’s 34.1%. The Intra-regional trade is more important; the proportion of intra-regional trade to international trade, or intra-regional trade dependency rate of Northeast Asian economies has increased every year and recently amounted to 35%.

In these circumstances, an international investment and trade framework and cooperation among Northeast Asian region remains an important goal. A collective effort could significantly contribute to making the existing system of international investment rules and trade facilitations function more effectively and efficiently, and making it more conducive to growth and development in the region. Not only the government but also the public sector

⁴ IMF; Global economy contracts, with slow recovery next year (April 22, 2009)

should make conscious efforts to create conditions where international trade can be facilitated at the private level for stable growth.

Chart 2-2. Export Volume of NE Asian countries (in US\$ Billions)

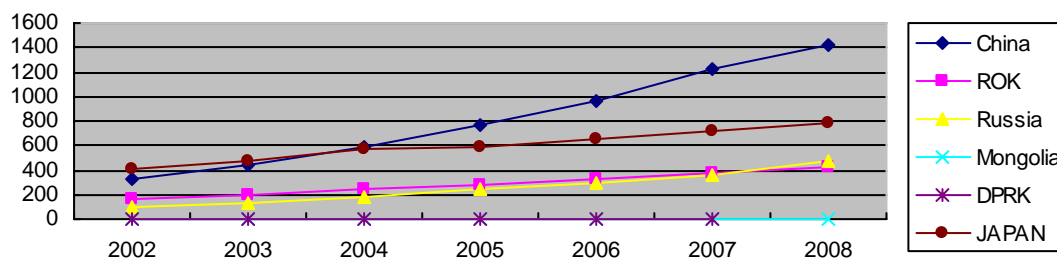


Chart 2-3. Import Volume of NE Asian countries (in US\$ Billions)

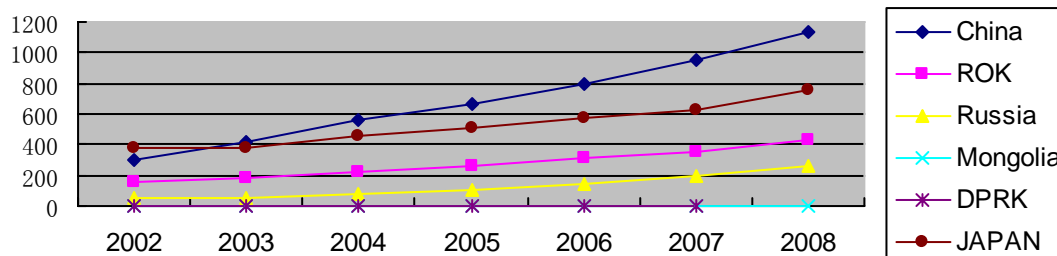
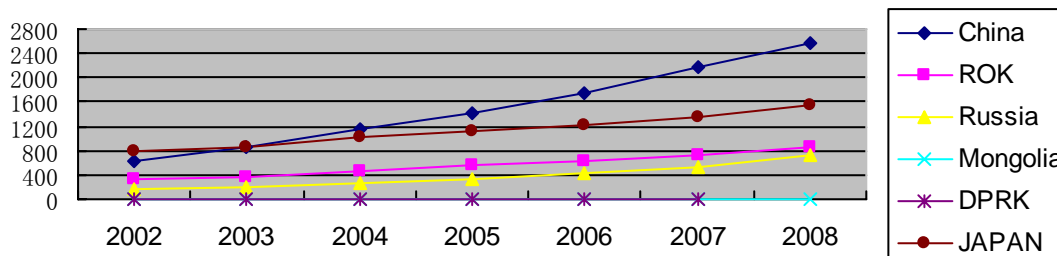


Chart 2-4. Trade Total Volume of NE Asian countries (in US\$ Billions)



*** Source:**

- United Nations Statistics Division (UNSD) annual totals table (ATT) for China, ROK, Russia, Mongolia and Japan figures.
- Congressional Research Service report “The North Korean Economy: Leverage and Policy Analysis” (August 26, 2008) for DPRK figures
- Japan External Trade Organization (JETRO) for Japan figures.

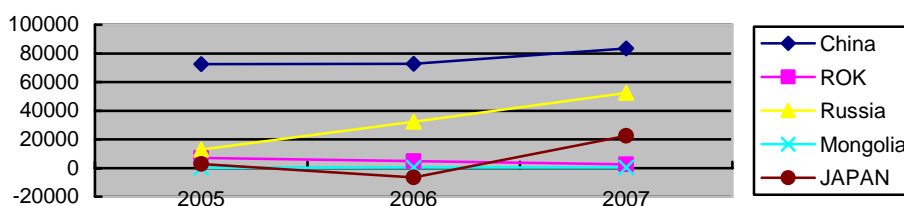
*** Note:**

- General Imports CIF by country of origin
- General Exports FOB by country of last known destination

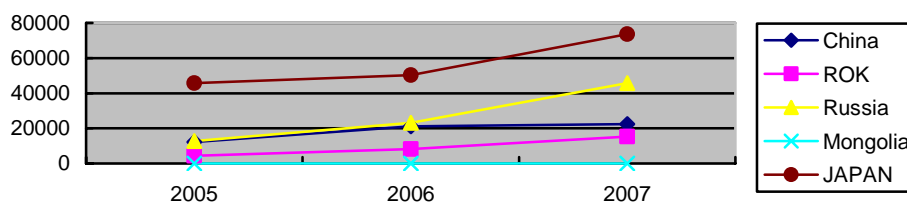
Increased investment in the region has promoted production networking among countries, and the expansion of FDI has been accelerating a vertical division of labor by which Northeast Asia is characterized. Market integration and trade liberalization contribute both expanding mutual benefits and strengthening regional economy. To attract foreign investment and achieve successful sustainable development, improvement of infrastructure and domestic laws and regulations should be reformed according to the international standards. All these

significant efforts will deliver win-win results to both the region and foreign investors. Ingredients for a good investment climate are stable exchange rates, steady economic growth, privatized infrastructure services, high literacy rates, extensive access to the internet, liberalized trade and stable and transparent political institutions and procedures. Although Northeast Asia has tried to facilitate the trade and accelerate the free movement, various types of non-tariff measures are still distorting the market, which obstruct the low of services including finance and free movement of goods and capital. In order to advance market integration and expand market share, close policy cooperation within the regional framework should be adopted. No FTA between Northeast Asian countries till now.

**Chart 2-5. Foreign Direct Investment - Inward
(in US\$ millions)**



**Chart 2-6. Foreign Direct Investment - Outward
(in US\$ millions)**



* Source: UNCTAD – World Investment Report (September, 2008)

TRADE AND INVESTMENT POLICY - COUNTRY OUTLOOK

1. PEOPLE'S REPUBLIC OF CHINA

Economic Overview

The Chinese government set the strategy of “Go Global” in 2001; since then, the outflow investment of Chinese enterprises has grown at a steady speed. The total value increased from \$2.5 billion in 2002 to \$18.76 in 2007, increased by nearly 7 times. China historically is second largest supplier of imports to US after Canada; 85% of China exports to the US were from foreign-invested enterprises; exports in January declined 17.5% from 2008. Half of China’s imports are raw materials used to produce exports; meaning that imports are a leading indicator for exports (hence, exports from China this year will likely continue to decline with

recession in major markets). China's shrinking imports for foreign goods and commodities have battered economies of Asia neighbors such as ROK and Taiwan.

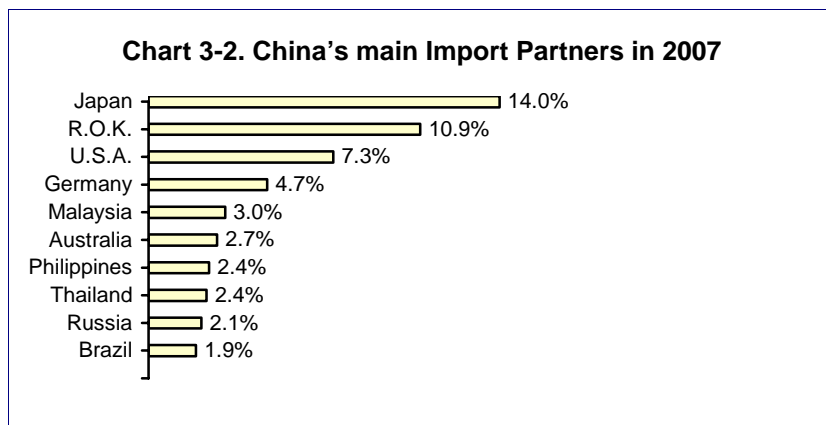
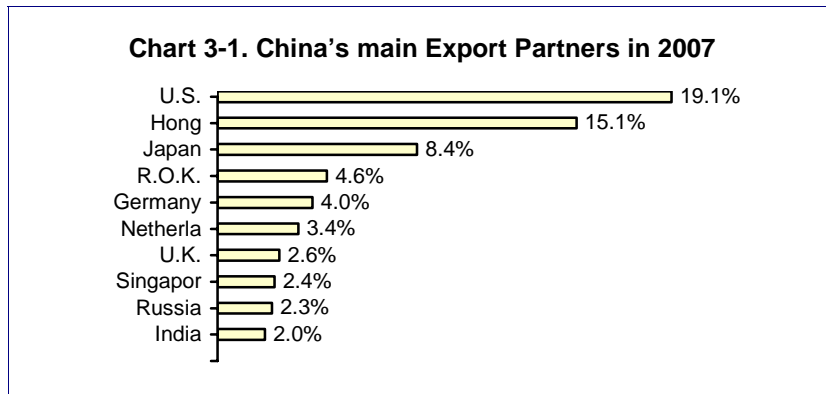
China now attaches greater importance to equipment manufacturing. China still relies heavily of imported equipment in spite of the fact that it is the giant in world manufacturing. According to the Ministry of Science and Technology, two-thirds of China's fixed investment in equipment is imported. High-end equipment used in integrated circuits, petrochemicals, automobiles and textiles are still dominated by foreign companies. As the country develops further a natural progression is to expand its equipment manufacturing base at home. General speaking, China has offered a favorable investment climate for a diverse range of investors from all over the world to invest, manufacture and manage in.

Trade

The overall aim of China's trade policy is to accelerate the opening of its economy to the outside world to introduce foreign technology and know-how, develop foreign trade, and promote sound economic development. China aims to further strengthen the multilateral trading system; at the same time, it has been intensifying its pursuit of bilateral/regional free-trade agreements with some of its trading partners. China has continued to place high emphasis on the multilateral trading system. China has recently been moving towards achieving a level playing field for foreign and domestic investors in China. During the past two years, China has continued to take steps to improve transparency, and the Government recently adopted various measures to enhance transparency in the public sector.

China acceded to the WTO on 11 December 2001. It is of the view that whereas the multilateral trading system is the main channel to promote trade liberalization, regional and bilateral trade arrangements serve as new platforms and complement the multilateral system; regional/bilateral trade arrangements interact with the multilateral trading system in a mutually beneficial way. China also supports the open regionalism approach of the Asia-Pacific Economic Cooperation (APEC) forum, and participates in various other regional trade fora, such as the Asia-Europe Meeting (ASEM), the ASEAN+3, and the East Asia Summit.

Trade between China and Russia has contributed to the development of the Northeast in recent years. Trade has surpassed US\$ 48 billion in 2007, after it reached a record high of US\$ 33.4 billion in 2006. The two-day trade has continued to increase since 1999, with an average annual growth of 28.6 percent. ROK has been increased its portion of trade with China. ROK and China had hoped bilateral trade volume would reach 200 billion U.S. dollars by 2012. The bilateral trade and economic cooperation between China and Mongolia are steady growth over the past dozen years or so. The establishment of the good-neighborly partnership of mutual trust between the two countries in 2003 has given a strong impetus to the development of bilateral trade and economic cooperation, the scope of which has been further expanded. China has been Mongolia's No. 1 trading partner for nine consecutive years. Closer economic ties serve the interests of both China and DPRK, the two countries are ready to make further efforts to push bilateral cooperation to a higher level.



* **Source:** United Nations Commodity Trade Statistics Database (UN Comtrade)

The most important export products are machinery and transport equipment; and the most important import products are the same. China's major industrial products are china's main exports also. Share of manufactured goods, including textiles, garments, electronics and arms are highest in Chinese exports. Besides, important import products are raw materials. China's trade and production structure is intermediate in Asia; less sophisticated than Japan and the first tier newly industrialized economies (NIEs) (Singapore, the Republic of Korea, Taipei, China), but in some sectors considerably more sophisticated than that of the second tier NIEs (Indonesia, Malaysia, Thailand and the Philippines)⁵.

In recent years, China's industry has competed internationally, and as a result, the country's industrial development is increasingly influenced by international economic environments. On one hand, exporting becomes more difficult and export prices keep declining; on the other hand, market share of foreign products and foreign-invested enterprises' products keeps growing. The above two factors increase the difficulties for the country's domestic industry in terms of producing and selling; the state-owned enterprises are impacted particularly. In fact, textile and other light industries have slowed their growth. China is one of the leaders of cement production in the world. The pillar industries, such as the auto industry and the housing industry, in the interim of industrialization have developed by leaps and bounds. Iron and steel manufacturing are also major industries in China.

⁵ Asian Development Bank Institute: Discussion paper No.13

Chart 3-3. Export structure of China

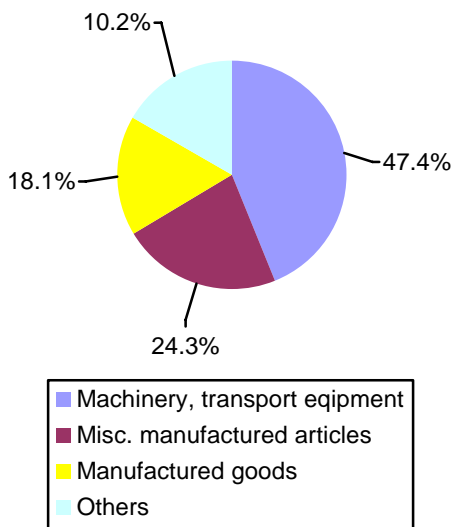
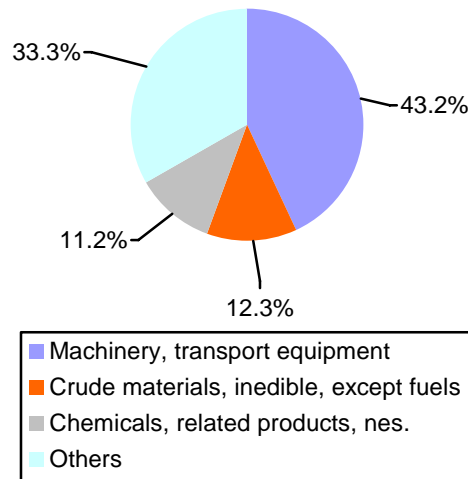


Chart 3-4. Import structure of China



*** Source:**

- United Nations Commodity Trade Statistics Database (UN Comtrade)

*** Note:**

- General Imports CIF by commodities of SITC, Rev.3
 - General Exports FOB by commodities of SITC, Rev.3

All foreign trade-related laws, regulations, and rules are published in the *China Foreign Trade and Economic Gazette*, edited and published by MOFCOM. The Ministry of Commerce (MOFCOM) has main responsibility for policy coordination and implementation in respect of all trade-related issues. Other key agencies that have an influence on trade policy include: the National Development and Reform Commission (NDRC), which is in charge of overall national economic and social development policy; and the Ministries of Finance, Agriculture, Information Industries, Communications, and Land and Resources.

Foreign Direct Investment

In 2006, China was the third largest recipient of FDI in the world, after the United States and the United Kingdom.⁶ But the ongoing financial crisis has brought about adverse impact on China's utilization of foreign capital impacted by worse conditions of the global FDI flows. It was decreased by 33% in January 2009 compared with January 2008.⁷ So far China is the largest host country for FDI in the NE region. In recent years, however, it has begun to increase its outward FDI, from US\$ 12,261 millions in 2005 to US\$ 21,160 in 2006 and US\$ 22,469 millions in 2007 respectively. FDI from China goes mainly to less developed economies. Not counting Hong Kong, China in the main invests in its neighboring countries to all sides. FDI in China plays roles not only in improving the productivity but also a major factor becoming a world leading manufacturer. China has continued to provide a business environment conducive to FDI, which, often embodying new technology, has consequently played a key role in the country's economic

⁶ In 2006, inflows of FDI into China were US\$ 69.4 billion; those into the United States and the United Kingdom were US\$ 175.4 billion and US\$ 139.5 billion, respectively (UNCTAD (2007)).

⁷ The American Chamber of Commerce People's Republic of China (2009)

development. Foreign investment has been encouraged mainly in manufacturing with particular emphasis on high value-added production. Until end 2007, China provided better than national treatment in its taxation of foreign-invested enterprises (FIEs), which were subject to enterprise income tax rate of 15% or 24% (depending on their location) compared with the standard rate of 33%. Since 1 January 2008, however, a statutory rate of 25% has been set in accordance with the Enterprise Income Tax Law, which was approved on 16 March 2007. China also encourages outward FDI, largely to upgrade technical skills and to secure supplies of key raw materials, such as petroleum and iron ore. Laws and regulations specifically related to FDI include: the Law on Chinese-Foreign Equity Joint-Ventures, Law on Chinese-Foreign Contractual Joint Ventures, Law on Foreign-Capital Enterprises, and their implementing regulations.

2. REPUBLIC OF KOREA

Economic Overview

With a strong emphasis on exports and labour-intensive light industry, rapid debt-financed industrial expansion has allowed Gross Domestic Product (GDP) to increase rapidly in ROK since the 1960s. During the past four decades, ROK has achieved a remarkable record of growth and integration into the high-tech modern world economy. This economic advancement of ROK resulted from government's pro-business policies such as import restrictions, directed credit, support of specific industries, and a strong labor effort.

Although this progress was stunted briefly during the 1997 Asian Financial Crisis, the ROK rebounded quickly thereafter and continued integrating into the world economy. The government has promoted the import of technology and raw materials and encouraged investment and saving more than consumption. After the economic crisis in 1997, the ROK's GDP plunged by 6.9% in 1998 and recovered by 9% in 1999-2000. Affected by the slowdown of the global economy, growth briefly fell back to 3.3% in 2001. However, led by encouraging exports and consumer spending, growth in 2002 recorded around 7% despite blunting global economy. Between 2003 and 2007, growth kept moderated to about 4-5%. In 2008, however, because of the rising oil prices, the value of the won fell down, and the economy also slowed down in the second half of 2008. Since the global economic crisis in 2008, the ROK government has taken policy measures to limit the global economic turmoil including foreign exchange market stabilisation, tax reduction and job creation.

In order to meet the challenges of globalization and unlimited competition, ROK is pursuing economic and trade diplomacy to build an advanced trading country by focusing on the creation of new growth potential, improved access to key markets (through participation in multilateral negotiations and negotiation of more FTAs) and close economic cooperation with its trading partners.⁸ To help meet the Government's growth target, trade volume should reach US \$1 trillion by 2010, making ROK one of the top eight traders.

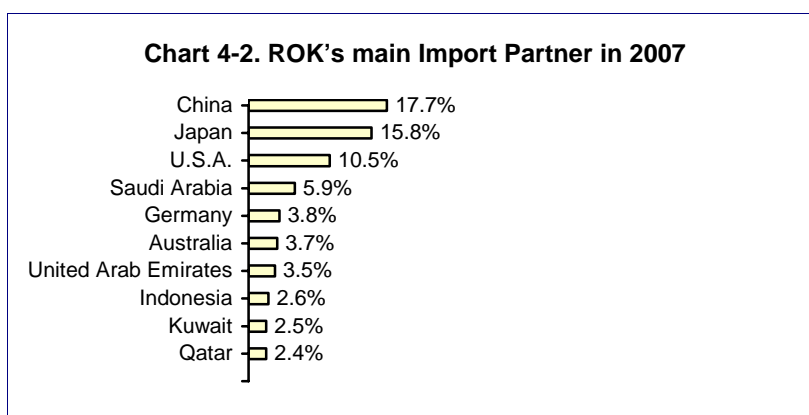
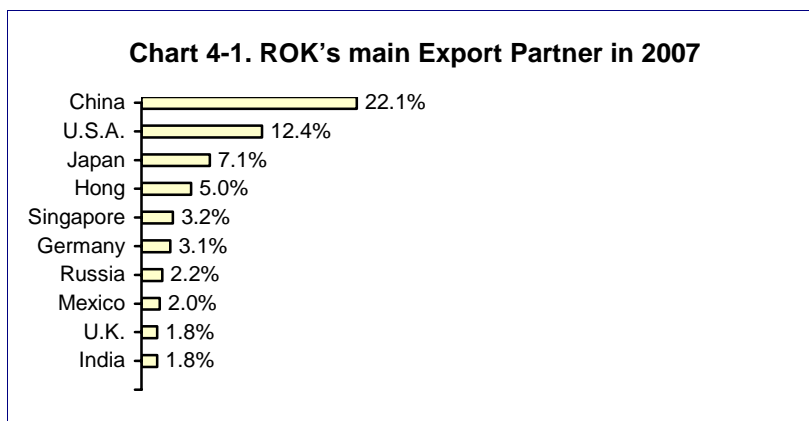
Trade

ROK's economy has continued to become more outward oriented, with trade in goods and

⁸ Ministry of Foreign Affairs and Trade (2007).

services keep rising; foreign trade accounted for 71.5% of the national GDP in 2006 and 75.1% in 2007 respectively. While remaining committed to multilateralism, ROK has pursued free trade agreements (FTAs) with major trading partners or regional groups (ASEAN, Singapore, EFTA, United States) and continues or is planning negotiations with others, to establish an FTA network with large economic blocs and newly emerging markets. The ROK Government promulgated the WTO Agreement in December 1994. ROK's general trade policy objective is to build a free economy based on market principles, and to promote international competitiveness of its businesses and economic growth through openness and reforms. Recently, ROK signed investment FTA for merchandise, services and investment with ASEAN in June, 2009, which is expected to boost trade by removing tariffs and improving transparency. They will try to increase the trade volume between the ASEAN member nations and Korea to \$150 billion by 2015 through the bilateral free trade agreement and other complementary measures.

ROK regards trade with DPRK as intra-Korean commerce in accordance with the 1992 Agreement on Reconciliation, Non-aggression and Exchange and Cooperation. Such trade is therefore exempt from tariffs. Trade with DPRK still requires approval from the Minister of Unification on the kind of products traded, the type of transaction, and the settlement method. Among the trade partners, China is the ROK's most significant trade partner, accounting for 22.1% of its exports demand and 17.7% of its imports in 2007. Japan and the USA also have key trade relationships with the ROK.



* **Source:** United Nations Commodity Trade Statistics Database (UN Comtrade)

ROK aims at diversifying the nation's export market and import sources in order to avoid over-dependence on a few traditional trading partners, most notably the United States, China

and Japan. ROK has grown increasingly dependent on the United States market for its exports, and now China took the place of majority. ROK's dependence on Japan as its major source of imports has generated large and chronic annual trade deficits with its eastern neighbor so far. ROK pursued rapid structural transformation toward more skilled and technology-intensive production so as to upgrade its industrial structure and thus, enhance export competitiveness. This trend has been gaining momentum for several years now, ever since it became apparent in the 1970s that Korea was gradually losing its comparative advantage in labor-intensive manufactured exports.

Major export items are machinery and transport equipment sharing 58.3% of the total exports, and manufactured goods sharing 12.0% of total. ROK is highly dependent on imports of raw materials; major import items include goods such as machinery and transport equipment and industrial raw materials such as mineral fuels and lubricants, general consumer products, and foodstuffs. ROK has established itself as one of the world's leading shipbuilders and manufacturers of electronics, semiconductors and automobiles.

Chart 4-3. Export structure of ROK

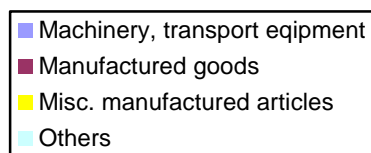
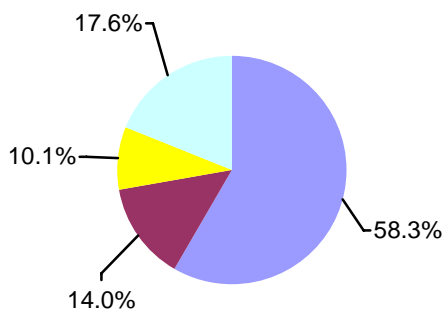
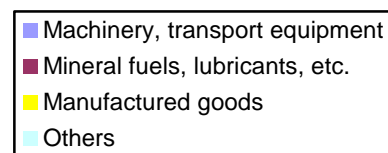
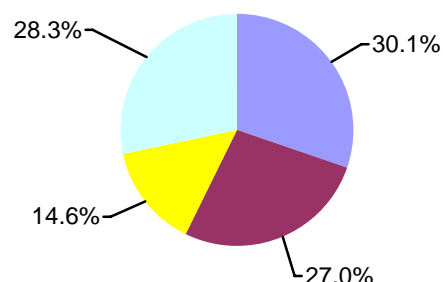


Chart 4-4. Import structure of ROK



*** Source:**

- United Nations Commodity Trade Statistics Database (UN Comtrade)

*** Note:**

- General Imports CIF by commodities of SITC, Rev.3
- General Exports FOB by commodities of SITC, Rev.3

Trade policy formulation and implementation involves several ministries: the Ministry of Foreign Affairs and Trade (MOFAT) has primary responsibility for international trade negotiations, including FTAs, and formulation and implementation of trade policies. In 2008, the Ministry of Commerce, Industry and Energy, which is responsible for export and import measures as well as for policies on industry, energy, and resources, was renamed as Ministry of Knowledge Economy (MKE); it now incorporates certain functions that were previously the responsibility of other ministries (i.e. Information and Communications, Science and Technology, Finance and Economy).

Foreign Direct Investment

In 2007, on the occasion of the 10th anniversary of the ROK's pro-FDI policy, the government initiated a new goal of increasing high value-added investment and established an action plan to support the national effort to attract foreign companies and expand FDI-related infrastructure. Inflows of foreign direct investment (FDI) are considerably lower in ROK than in most other OECD countries, the authorities recognize that FDI is of vital importance to economic growth. Taking the year of 2007 as an example, Inward FDI flow was \$US 2,628 millions while the outward flow was \$US 15,276 millions. Comparing to this, Japan's inward FDI flow was \$US 22,549 millions, and outward FDI was \$US 73,549 millions in 2007.

To increase FDI, several tax and other incentives are reserved for foreign-invested companies. Moreover, action has been taken to improve both the business and the living environment for foreign-invested companies and their employees. However, FDI in a few sectors remains partially or fully restricted (television and radio broadcasting, nuclear power generation). ROK remains an important source of FDI for the rest of the world, and welcomes inward FDI as vital to the economy's growth and providing the necessary financial and technological resources for economic restructuring and enhancing international competitiveness. FDI is seen as a means of technology and know-how transfer as well as a major contributor to export and employment growth;" foreign-capital invested" companies play an increasingly vital role in the economy.

Nevertheless, ROK's share of global inward FDI has reportedly been declining steadily since 2004. This seems to be due to the manufacturing sector's relatively weak record in attracting FDI. The authorities indicate, *inter alia*, that these developments are widely observed in other parts of the world and that during the first quarter of 2008, investment by existing foreign-invested companies increased by 75.7% compared with the same period last year. ROK is committed to improving its system of incentives offered to foreign investors, and continues to revise laws and regulations designed to promote FDI and to offer tax and other benefits. The Foreign Investment Promotion Act (FIPA) permits all FDI types, which include: establishment of new businesses, purchase of shares in existing businesses, mergers and acquisitions, with at least 10% foreign ownership; and loans of five years or longer from foreign parent or affiliated companies.⁹ Korea abides by OECD Codes of Liberalization of Capital Movements and of Current Invisible Operations, and the National Treatment Instrument.

3. RUSSIAN FEDERATION

Economic Overview

Russia is the largest country on earth and constitutes more than one-ninth of the world's land area. It includes a collection of diverse territories at different stages of their development. Russia's economy is the tenth largest in the world and is centered on its key natural resources, oil and gas, heavy industry and more recently a growing commercial agricultural sector. Blessed with 20% of world oil and gas Russia is the global energy leader and able to fuel any

⁹ The legislation also recognizes foreign ownership of below 10% as FDI, where the investor enters agreements concerning officer's dispatch or appointment; a technical license or joint research/development; or the supply and purchase of products /raw materials exceeding one year. (KOTRA)

industrial economy. Other chief exports are wood, wood products, metals, chemicals, weapons and military equipment.

The Russian economy underwent tremendous difficulties while converting to free market economy in the 1990's that were to be exacerbated by lower international prices on Russia's major export earners and loss of investor confidence ensuing from the Asian financial crisis. Russia weathered the crisis well though and regained its confidence under in the nine years leading up to 2007. Between the period of 1999 and 2007 it realized an impressive 83% growth partly due to the favorable commodity prices but also because of the important reforms that Russia was able to implement under Putin's first term. These economic reforms took place in the areas of tax, banking labor and land codes, and tight fiscal policy. Although these developments are ongoing the achievements thus far have steadily raised investor confidence and Russia's economic prospects.

This exemplary decade of growth was initially driven predominantly by a weakened ruble and high oil prices but since 2003 domestic demand and most recently investment have played increasingly significant roles. Building up to 2007 Russia used its stabilization fund based on oil taxes to repay significant debts. Oil export earnings also allowed Russia to build up foreign reserves to \$470 billion at yearend 2007. This meant Russia entered the financial crisis with strong macro economic fundamentals and has been better placed to deal with it than many other emerging markets. At the other end of the spectrum, such a high dependence on one commodity has meant the impact on Russia has been more pronounced. As the recession has set in more deeply so to the precipitous drop in production has lead to substantially lower oil prices in line with demand. Russia's stock market decline in November 2008 can be largely attributed to the lower oil price along with the decrease in investor sentiment. Prudent fiscal management and substantial financial reserves along with a swift and coordinated government policy response proved invaluable and have helped limit the impact. Manufacturing has been responsible for fueling the industrial growth in Russia. Most recent figures show that manufacturing grew at 8.2% year on year in September 2008 which is a similar to previous years. These figures are expected to show a slow down in the last quarter of 08 and beginning of 2009 though. Russia also needs to be aware that the manufacturing base needs to be refurbished or modernized to achieve broad based economic growth.

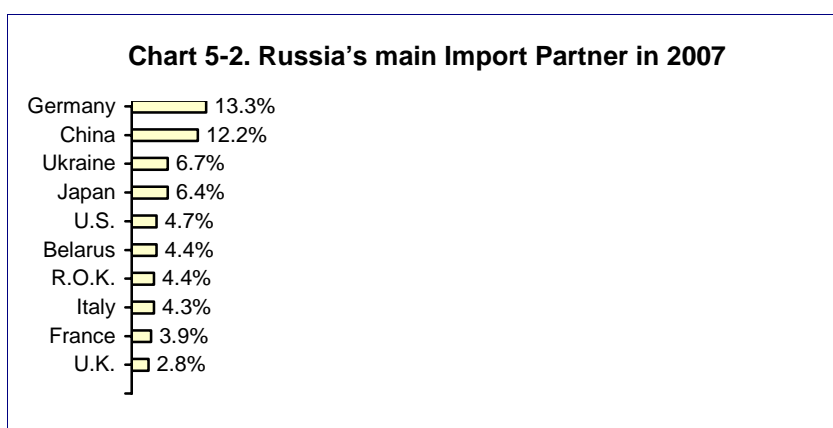
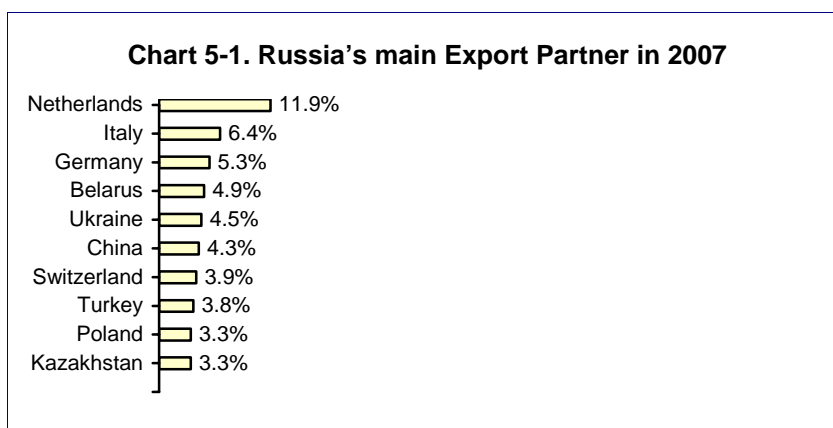
Russia faces challenges in 2009, like the rest of the globe, in trying to deal with contractions born out of the financial crisis. Russia has had the benefit of a huge reserve to help stabilize the situation. Production has indeed fallen for the first time in a decade but authorities are in a strong position and have larger artillery of policy options than many others. It has run a current account surplus for many years, yet it has also been hit by capital outflows of late and a credit freeze. In addition, with the oil price having dropped to as low as \$35 a barrel in recent weeks and expected to remain low, we are likely to see a contraction of the Russian economy in 2009. Manufacturing and in turn aggregate demand should loose the momentum carried through as production based on past orders subsides and as the economy tightens. Total investment-to-GDP remains at about 22 percent. A slowdown however is not without a positive spin-off. A rise in inflation and a simultaneous decline in employment as well as capital utilization and real wages outpacing output growth have been signs that warned of overheating. As the country is underdeveloped, once the economy has had time to address

the infrastructural constraints and cool off so too could expectations of above average future growth be expected. Indeed, some of slowdown represents a welcome cooling off that will help to reduce inflation from the current high levels.

Russia is an attractive investment region with a large population that has an increasingly higher purchasing power. A large consumer base with a growing percentage of consumer disposable income has been driving expansion in retail, healthcare, financial and medical segments. This has been extremely encouraging for an economy in need of sector diversification. Most encouraging though is that markets are far from saturated. We have also seen large and positive strides taken to continue reforms within the country as well as the encouraging results of prudent and effective fiscal policy. Over the past eight years, Russia's robust growth has reduced poverty. Real GDP per capita grew on average by about 7 percent a year between 2000 and 2007. Meanwhile, the poverty headcount rate declined from 29 percent in 2000 to 13.4 percent in 2007. This implies that approximately 30 million people appeared to have moved out of poverty during 2000–2007.

Trade

Russia is positioned to benefit easily from trade with both Europe and Asia. Most of the major export partners are European countries such as Netherlands which occupies 11.9% of total export volume, Italy of 6.4%, and Germany of 5.3%. Among the GTI member countries, China and ROK were the second and seventh most important Russian import partners respectively in 2007. Germany was Russia's most chief import partner with the Ukraine, Japan, US and Belarus placing above ROK in this measure as well.



* **Source:** United Nations Commodity Trade Statistics Database (UN Comtrade)

In 2007, 61.5 percent of the total value of Russian exports was gained from mineral fuels and lubricants. The next largest contributor was manufacturing which brought in 15.4 percent of total value. Crude materials (excluding fuel), Chemicals and related products and machines and transport equipment each totaled about 12.1 percent in 2006 of total exports. Russia's main imports were mainly of machines and transport equipment, which made up 45.9% of total imports. Chemicals and related products, manufactured goods and food and live animals all made up close to 28.8% of the total figure in 2007. The foreign trade policy is regulated by the Ministry of Economic Development and the Ministry of Industry and Trade.

Chart 5-3. Export structure of Russia

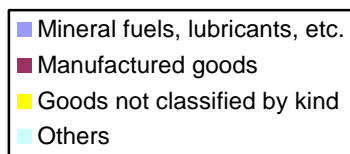
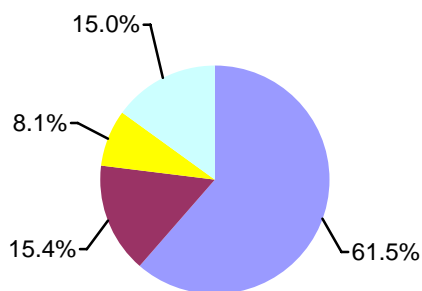
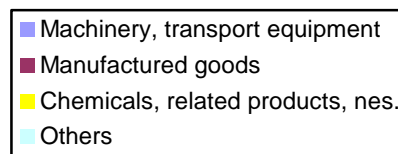
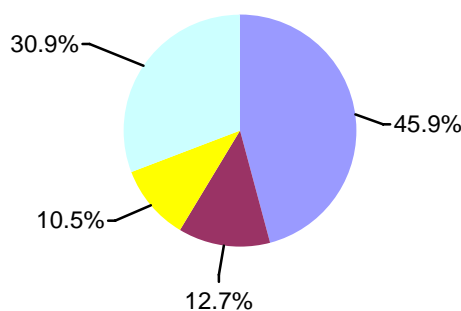


Chart 5-4. Import structure of Russia



*** Source:**

- United Nations Commodity Trade Statistics Database (UN Comtrade)

*** Note:**

- General Imports CIF by commodities of SITC, Rev.3
- General Exports FOB by commodities of SITC, Rev.3

Russia has been working hard to build a diversified presence in international trade over the last years. This has been done primarily through a purposeful effort to assist domestic business in developing traditional and getting into new markets, above all for science-intensive products and high technology goods. Russia has an economy which is set to become increasingly diversified, and has a highly educated workforce which is able to provide a market for a wide range of technologically sophisticated products. There are very few countries able to offer such a broad a range of partnership opportunities or capabilities for cooperation in scientific or technical spheres. Discussions continue over Russia's accession to the WTO. Russia continues to maintain a number of barriers to with respect to imports and negotiations surround the modification of these measures in order for them to meet internationally accepted trade policies.

Foreign Direct Investment

Foreign direct investment (FDI) flows continued to improve in 2007 to \$52.5 billion

compared to \$32.4 billion in 2006. Until recently, few of the profits from the fuel, gas and mineral industries were not substantially reinvested in Russia. Continuing political and economic stability, however, has encouraged successful industrialists to seek investment opportunities in high-growth sectors within Russia such as agribusiness, food processing, automotive, retail and telecommunication.

After peaking in 2007 though a sudden reversal in of capital flows was witnessed. The surplus of the capital account for the first three quarters of 2008 was only US\$ 0.5 billion, compared to US\$ 59.3 billion in the same period of 2007. The two main factors behind this sudden change were firstly attributed to a change in investor sentiment and second, a result of unwinding of ruble positions held by foreign investors betting on further ruble appreciation. Extraction industries accounted for about half of the FDI in 2007. The fall in 2008 was largely due to decreased FDI in these particular industries. The new law governing foreign investment in companies with strategic importance has also caused a move away from extractive industries in addition to the dwindling investor sentiment. There appears to be a clear shift towards the recently more liberalized electricity sector.

In 2005 the Russian government passed law on the Special Economic Zones (SEZs). These were for a period of 20 years with the aim of encouraging hi-tech industrial production business or progressive R&D zones. In November 2005, a tender was announced and the establishment of six SEZs: in Zelenograd and Dubna in the Moscow region (focused on microelectronics and nuclear technology, respectively), St. Petersburg (information technology), Tomsk (new materials), Lipetsk (appliances and electronics), and Yelabuga (auto components and petrochemicals). Subsequent tenders for additional economic zones have since announced in addition to the above mentioned.

As a whole investment in Russia remains substantial; Rosstat (Federal State Statistics Service) reports that as of October 1 2008, the accumulated foreign investment reached \$US 251.3 billion. The size of investment abroad by Russia amounted at the same date amounted to \$US 91.3 billion and for the first time in recent years outflows surpassed inflows. The Russian investment climate, despite the deterioration world economic environment, remains generally favorable. Russia remained the largest markets for investment for the International Finance Corporation (IFC) and the European Bank of Reconstruction and Development (EBRD). Their investment, predominantly in the private sector of the Russian economy, amounted to \$US 2.8 billion and €10.5 billion respectively. Russia also top among beneficiary countries of the Multilateral Investment Guarantee Agency (MIGA)

4. MONGOLIA

Economic Overview

Once a former Soviet state, Mongolia shifted to a market-based economy and democracy in 1990. The Mongolian economy is considered an open economy with free government-administered prices, exchange rates, and interest rates, in addition to a two-tier banking system and opportunities for private initiatives. Mongolia's main economic partners are Russia and China. Mongolia exports 71.0 percent of its goods to China and imports heavily from China and Russia. A striking 80 percent of its food supplies are imported from

China and Russia as well. The country is still struggling so it has come to also rely on aid from international organizations.

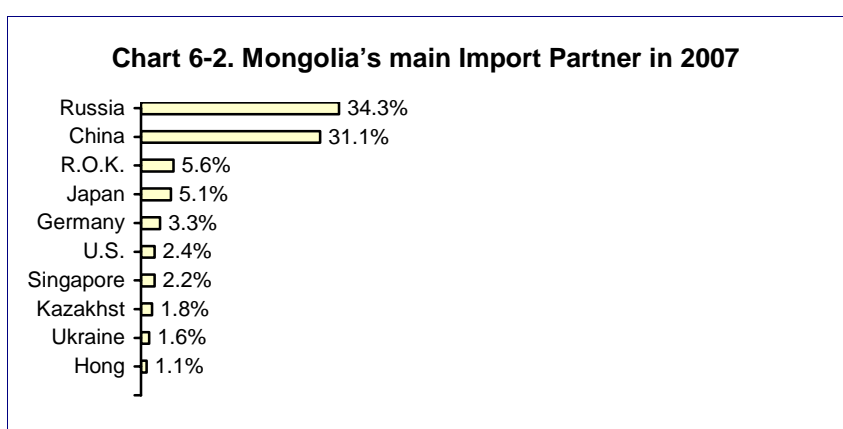
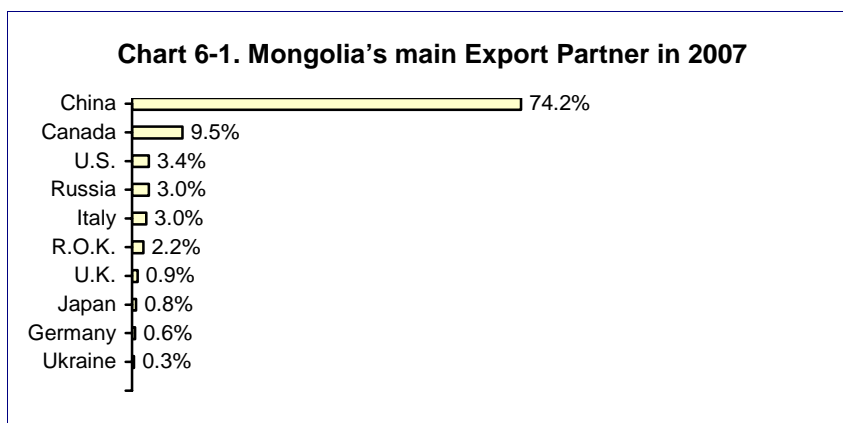
Since its transition to an open market economy Mongolia has maintained an open policy and ensured steps have been taken to encourage and support foreign investment and trade. The economy experienced a 22 % drop in GDP between 1990 and 1992 during the initiation of its transition but has been growing consistently well since. During the time of transition between 1994 and 1999 Mongolia experienced a mean growth rate of 3.5% and this climbed thereafter to 7.3%, 8.6%, 10.2% and 8.9% respectively in 2004, 2005, 2006, 2007 and 2008. Wholesale and retail trade has come to contribute the most to GDP followed by agriculture and then mining and manufacture. The 2006 GDP figure was US \$3.13 billion and was US\$ 3.9 billion in 2007. Of Mongolia's 30,817 active businesses registered in 2006, 97.5% of them were classified as small entities and make up 60% of Mongolia's GDP. The majority of these businesses are also in the capital of Ulaanbaatar. The informal sector provides also, however, is a large source of employment as well, especially in the capital city.

The Government of Mongolia has approved and started implementing its anti-crisis program, and in order to stabilize economy Mongolia has come to joint agreement with International Financial Institutions and has started implementing policies that taken into account both external and internal factors. Different measures have been taken to ensure stability of financial and banking sectors, and to keep economy active. In addition to activities are being implemented to make environment for more favorable for businesses and investments, to mitigate factors that hinder development of foreign and domestic investments, and to enhance justice system, initiatives are being made to increase investment and to introduce its new forms in infrastructure sector. For instance, the Government of Mongolia approved national program named "Transit Mongolia" and aimed for Mongolia as landlocked country to become transit country during period of time between 2009 and 2012. Also Mongolia tried to utilize electronic system such as a "Single electronic window" to promote efficiency by digitalizing the environment in order to significantly reduce transaction times and process costs.

Trade

Since its accession to the WTO in 1997, most of Mongolia's laws covering trade, trade-related policies, and investment have been revised, updated or newly created to enable Mongolia to meet its commitments as a member of the multilateral trading system. Mongolia's overall trade policy objectives, as stated in the Action Programme of the Government of Mongolia for 2004-2008, are to support economic growth through an active trade policy, promote the industrial, agricultural and services sectors, and increase exports. The Action Programme also aims to change Mongolia's export structure by diversifying export products and markets, and to work towards the establishment of free-trade agreements with Russia, China, and the United States. In light of the upcoming expiry of the Agreement on Textiles and Clothing, Mongolia aims to take measures to exploit new trade opportunities for these products in order to maintain its position in international markets. Mongolia also aims to intensify negotiations with the European Union, Japan, the United States, and other countries to expand the scope of Mongolian products to be covered by their Generalized System of Preferences. Mongolia has

not concluded any regional trade agreements, but Mongolia has concluded various bilateral trade-related arrangements



* **Source:** United Nations Commodity Trade Statistics Database (UN Comtrade)

Main export commodity is crude materials, inedible, except fuels, occupies 71.0% in 2007. Import is mainly comprised of machinery, transport equipment (29.5 percent) and mineral fuels, lubricants (27.0 percent) in 2007. As for Mongolia, it has wide range of mineral resources and agriculture raw materials to make significant contribution to the sustainable development of the region. However, it is important to use these resources properly to accelerate the regional cooperation. It is also important for the country with such a small market like Mongolia to develop its economy in line with economies of Northeast Asia and open a new route for further development in the Pacific region.

Chart 6-3. Export structure of Mongolia

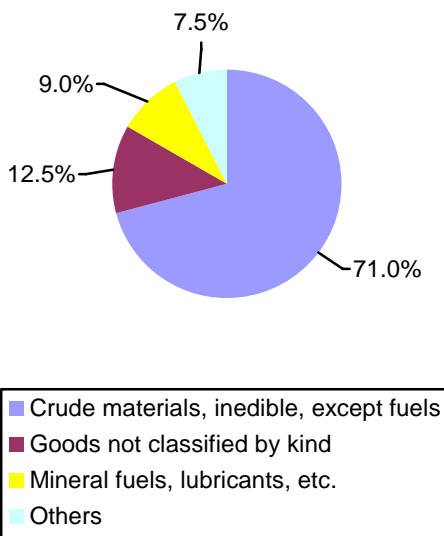
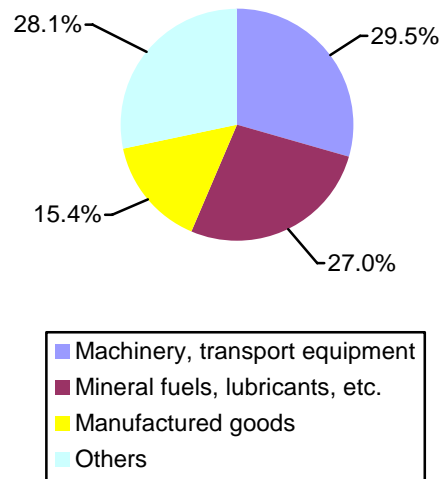


Chart 6-4. Import structure of Mongolia



*** Source:**

- United Nations Commodity Trade Statistics Database (UN Comtrade)

*** Note:**

- General Imports CIF by commodities of SITC, Rev.3
- General Exports FOB by commodities of SITC, Rev.3

Any legislation, including on trade and trade-related issues, may be initiated by a member of Parliament, the President, or the Government. Ministries and agencies of the Government prepare a draft bill for laws and regulations related to their executive jurisdiction. A draft bill is referred by the Chairperson of Parliament for submission to the relevant Standing Committee of Parliament, where it is discussed with the participation of ministries in charge. The Standing Committee on Economic Policy deals with Mongolia's main economic policy issues including trade policies. The formulation and implementation of trade policies is carried out by several ministries and agencies in consultation with representatives from the private sector. Currently, Mongolian trade policy is formulated and coordinated by the Ministry of Industry and Trade (MIT). The Ministry has the main responsibility for all issues related to trade, including trade promotion/facilitation and export development. Within the MIT, the Trade Policy and Cooperation Department is responsible for coordinating trade policy. The MIT supervises the Foreign Investment and Foreign Trade Agency (FIFTA) and the Mineral Resources and Petroleum Authority. The Customs General Administration, established under the Ministry of Finance (MOF), is responsible for enforcing the customs legislation, levying and collecting customs duties and other taxes, and preparing and submitting customs statistical data to the National Statistical Office.

Foreign Direct Investment

Between 1990 and 2006, Mongolia registered 6,165 foreign companies invested from over 93 companies equaling a total of 1.5 Billion USD. China, Canada, the USA, ROK, Japan, the UK and the Russian federation ranked as the highest foreign investors in 2006. Total FDI net

flows in 2007 reached US\$ 328 million. When dividing these figures up into sectors, the mining industry brought in the largest share followed by the trade and catering services with, light industry, banking services, production of raw livestock material and construction. Foreign direct investment has continued to focus on the mining industry with other funds going into banking and construction in 2007. During the same period, close to 70 percent of total FDI came from China. It was also the same time that Mongolia suffered from its highest inflation rate in more than a decade when consumer prices spiked by 15 percent (In 2008, inflation decreased by 9 percent). Of the growing geology, mining and petroleum industries about 47.4 percent of the total foreign investors are from China, 12.2 percent is from Canada, Korea (7.3%), Japan (5.0%), USA (3.6%) and other foreign investors.

Mongolia's stable political environment and open economic policy stand as large draw cards to foreign investors. Mongolia also has access to the significant Russian and Chinese economies and is rich in reserves of raw materials and minerals. In addition to this, the favorable legal environment and a pristine and vast natural environment make Mongolia a diverse investment place. Through active encouragement of FDI the Mongolian government aims to reach its three primary development objectives of accelerated sustainable growth, transfer and application of skills and technology and the development of an export-oriented and private sector driven economy with further expansion of internationally competitive production. Most active encouragement by the Government has been via tax incentives and legal guarantees regarding investment protection, investor rights, property ownership and also removal of unnecessary administrative barriers and procedures.

The main law governing foreign investment in Mongolia is the Foreign Investment Law.¹⁰ Under this law, wholly foreign-owned business entities are allowed; inward foreign direct investment (FDI) receives national treatment. No restriction is imposed on the size and content of FDI into Mongolia, except that the production of weapons is prohibited. Foreign nationals or companies are not allowed to own land in Mongolia; they can lease land for up to 60 years. FDI into Mongolia cannot be legally expropriated. Foreign investors can remit income, profits and payments out of Mongolia without any barriers; they are subject to a 20% withholding tax. The Foreign Investment and Foreign Trade Agency (FIFTA) are responsible for foreign investment policy formulation and implementation. Mongolia has concluded agreements on avoidance of double taxation with 31 countries. It has also signed agreements on Mutual Protection and Promotion of Investments with 34 countries.

5. DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA

Economic Overview

It is estimated that the economy of DPRK shrank by 2.3 percent in 2007 and industrial output and power production continued to decline in parallel from their highs in the 1990s. However, because of the DPRK's strategic location in East Asia, where it is surrounded by four major economies, and a young, cheap, skilled workforce, the economy has the potential to grow at 6 to 7 percent annually.

¹⁰ The Foreign Investment Law was adopted in 1991. Subsequently, the minimum amount for foreign investment was set at US \$10,000. FDI in the banking sector is covered under the Banking Law. (WTO)

Currently, heavy and light Industry dominates the DPRK economy, contributing about 39 percent to the national economy. The service sector and agriculture follow at 31 percent and 30 percent respectively. Major industries include: machine building, electric power, chemicals; mining (coal, iron ore, limestone, magnesite, graphite, copper, zinc, lead, and precious metals), metallurgy; textiles, food processing; and tourism.

International trade is currently highly restricted in the DPRK and since 2005 – when the government terminated most international aid – the country has received foreign developmental assistance mostly in the form of grants and long-term loans. These have been used to feed the population as severe flooding and draughts as well as systematic problems such as a deficient arable land, poor farming practices and lack of fuel have led to food shortages over the past decade.

To help develop its economy, the DPRK issued extensive laws and regulations designed to foster foreign investment. A few examples of these were the Foreign Investment Law, the Foreign Enterprises Law, and the Foreign Economic and Trade Zone Law. The Foreign Investment Law provided preferential treatment for investment in "sectors that require high and modern technology, sectors that produce internationally competitive goods, the sectors of natural resource development and infrastructure construction, and the sectors of scientific research and technology development." The Foreign Enterprise Law provided the basic framework for the creation of wholly foreign-owned entities that are permitted only in free economic and trade zones. These zones, similar to those in China, allow foreign enterprises involved in the high-tech manufacture of internationally competitive goods in electronics, automation, machine tool and power industries; food processing, garment and everyday consumer goods; building materials, pharmaceuticals and chemicals; construction, transportation and service sectors; and other sectors deemed necessary.

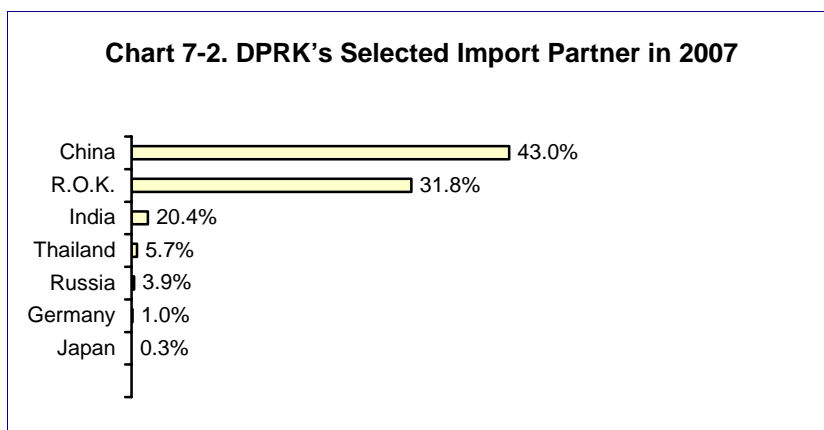
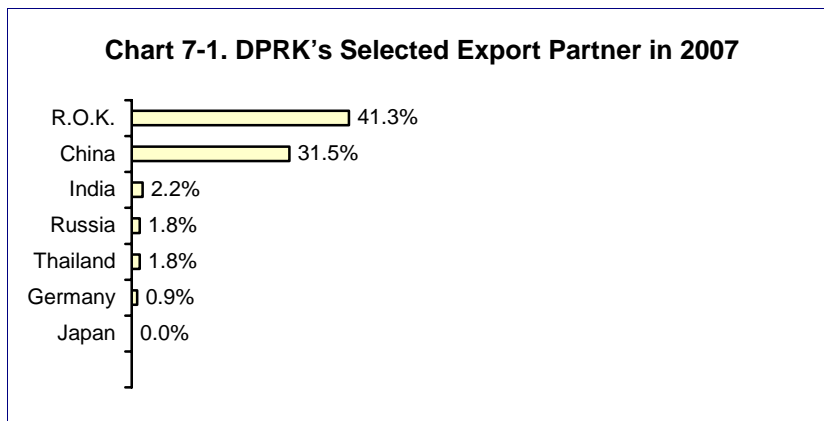
The Foreign Economic and Trade Zone Law was the DPRK's initial step to creating market-oriented development zones to attract foreign investment. So far, it has mostly been companies from neighboring countries that have invested in these zones. The Republic of Korea joined the DPRK to initiate the Kaesong Industrial Complex and China is very interested in a project near the Korean city of Sinuiju. Early this year though, South Korean personnel were removed from the Kaesong industrial complex by North Korea. It has been a symbol of North-South cooperation but this along with the conclusion of all official relations between the two countries has cast some doubt over future prospects.

Trade

The DPRK's two largest trading partners in recent years have been the ROK and China followed by India, Thailand and Russia in 2007. In July 2002, DPRK announced partial marketisation measures, allowing state-set prices for selected commodities to adjust near their market levels, while wages in priority sectors were boosted. In spring 2003 the authorities relaxed restrictions on farmers' markets, giving ordinary citizens limited freedom to buy and sell a range of food and manufactured goods.

The establishment of the Kaesong Industrial Zone, just north of the DMZ and only 50 kilometres from Seoul was seemingly a sign of improving relations between the DPRK and ROK. The zone, run by the Hyundai Asan Corporation is a production and re-export platform for ROK's small and medium enterprises, employing several thousand North Koreans. A rail

link connecting Seoul to the zone started to operate in December 2007. The zone is a source of hard currency for the DPRK weather further expansion will take place remains to be seen. The DPRK still have supply-demand imbalances and have not substantially been altered as of yet by these progressive but experimental measures.



* **Source:** Congressional Research Service report "The North Korean Economy: Leverage and Policy Analysis" (August 26, 2008)

Foreign Direct Investment

Kaesong Industrial Complex

The DPRK started experimenting with market system in 2002 with the opening of the Kaesong Industrial Complex. Located near the Demilitarized Zone, Kaesong allowed joint ventures between both Koreas and helped boost trade between the two sides over US \$1 billion for the first time in 2005. As of September 2008, 79 firms from the ROK were manufacturing goods in the KIC, employing more than 33,000 DPRK workers. Most of the goods produced are sold in the South; a small quantity is being exported to foreign markets. The DPRK recently expelled Republic of Korea personnel from Kaesong, which had become a symbol of North-South cooperation, throwing the future of the zone into doubt.

Wi Hwa Island Free Trade Zone

The DPRK plans to develop Wi Hwa Island in the Yalu River, which separates the country and China, into a free trade zone for which Chinese will not need visas, the Yomiuri Shimbun

recently reported sources following China-DPRK relations as saying. Part of the DPRK city of Sinuiju, Wi Hwa Island is approximately 15.5 square kilometers in size. The Yomiuri Shimbun reported that Pyongyang plans to set up trade exhibition facilities on the island and allow Chinese to visit the island without visas. On the island, Chinese will be able to freely buy and sell daily necessities, food and other goods. The island sits near the Chinese city of Dandong in Liaoning Province. Wi Hwa Island is part of the North Korean city of Sinuiju and is part of the Special Economic Zone that the DPRK launched in 2002 as a means for the country to slowly open up to the outside world. It was based in part on China's model of SEZs that Deng Xiaoping launched in Shenzhen in 1979. As Jo-chung Uuigyo, or the China-North Korea Friendship Bridge that connects China's Dandong and Sinuiju, has deteriorated, China plans to build a new bridge. Wi Hwa Island is located inside a special economic zone that North Korea proudly launched in 2002 to open itself up to the rest of the world. But the zone ultimately flopped. The latest free trade zone plan can be seen an extension of the previous one. According to Chinese statistics, the total value of trade between China and North Korea from January to October last year was 2.12 billion dollars, up 31.7 percent from a year earlier. Late last year, North Korea opened in Dandong a branch office of its consulate general in Shenyang to stimulate border trade with China.

Khasan-Rajin Railway Project

After several years of talk's and various obstacles to negotiate around progression of the Khasan (Russia) –Rajin (DPRK) Railway project is underway. Success would ultimately mean greater trade volumes, quicker and cheaper trade between the Koreas and Europe as well as socio-economic upliftment for the North East Asian area. Successive negotiation eventually leads to the official launch of project the 4th of October 2008 by Vladimir Yakunin, CEO of the Russian Railways and the North Korean Minister of Railways Jon Kil-su. Some 50 km north east of the Rajin port, Russia has started reparations on the track to link this Special Economic Zone to its town of Khasan. China takes similarly speedy steps to develop an automotive highway to Rajin in the hopes of diverting some of the growing trade to its own borders. The project also includes modernization of the Rajin port itself. For the implementation of the project, the joint venture "RasonConTrans" was set up in 2008 for a term of 49 years, with the Russian Railways Trading House holding 70% of the registered capital and the port of Rajin the remaining 30%. A planned total of 10 stations, 2 tunnels, and over 40 bridges were expected to start transporting containers to Rajin Port by the end of 2009. Whether or not this target is met remains to be seen. The second part of the project involves construction of container terminal at Rajin port – to be built on 20 hectares of port territory owned by the joint venture North Korean authorities signed an agreement to open Rajin port to foreign trade. The project will enhance Russia's import and export capability in the Sea of Japan where South Korean and Japanese goods enter Russia's Far East. Russia's rail will need to be renovated though if it is to realize the full potential in a transcontinental link to Europe. For North Korea the rail link will provide raw materials, food stuffs and manufactured goods to undersupplied industries and impoverished population thus providing long-term stability. It will provide the opportunity to develop the strategically located port for world trade and to refurbish its dilapidated rail system.

6. JAPAN

Economic Overview

Japan reported a sharp decline in GDP recently, and it's worse than the US. Among the three major economic players (US, Europe and Japan), Japan was the only entity which reported an annualized growth rate of minus 0.6%. In particular, the country posted a minus 12% annualized growth rate in the fourth quarter of 2008. In particular, the fall of in external demand was a major stumbling block to Japan's economy. For instance, out of 12 percentage points of contraction in the fourth quarter of 2008, the decrease in Japan's exports alone was responsible for its 10 percentage points contraction. OECD sharply cut its forecast for Japan's real economic growth rate in 2009 to minus 6.6 percent from the previous year, much bigger than for the US and the Euro-zone economies (-4.3 percent).¹¹ Worse than the forecast, official statistics show the Japanese GDP dropped by a staggering rate of 15.2 percent a year in the first quarter of 2009, a record since World War II. Japan has been hit hard by the global downturn because it relied on consumers abroad to buy its cars and electronics.

However, the world's second largest economy is forecast to grow modestly. Firms are benefiting from increasing demand from China where the Government is spending nearly \$600 billion, some of it on infrastructure. And massive stimulus measures including cash handouts are starting to have an effect. Besides, the Japanese government has announced a series of policies to deal with the crisis. It amended the Act on Special Measures for Strengthening Financial Functions to build a solid defense line to protect financial institutions that have not yet been battered severely. Experts argue that the effects of the policies have become gradually evident since the new financial year began on April 1st 2009. Some of them hope government stimulus plans such as tax cuts for eco-friendly cars and discounts on home appliances would work. The global financial crisis has only had a slight impact on the Japanese financial sector, and none of the country's financial institutions has gone bust. Japan's unemployment rate was 4.8 percent in March, 2009 compared with 9 percent in the US. With relatively stronger capability to deal with crises, Japanese firms are trying out innovations to move forward. And it's here that Japan's advanced energy saving and environmentally friendly technology could play a positive role.

In the long run, however, the greatest problem for the Japanese economy will be demography, especially its low birth rate and aging population. Since young and middle-aged people have the lion's share in production and consumption, the efforts of the Japanese government to stimulate domestic demand will not be very effective given this demographic background. More and more people realized that the only remedy for the Japanese economy is to invigorate itself from the growth of the whole Asian economy.¹²

In terms of investment, Korea and Japan investment in China between 2004 and 2007 was between US \$3 billion and US \$6 billion reaching almost US \$20 in total for the four years (Korea spent US \$18.99 billion and Japan did US \$19.64 billion).¹³ Chinese investment in Japan to the mid-sized manufacturing industry and etc. is at a beginning stage.

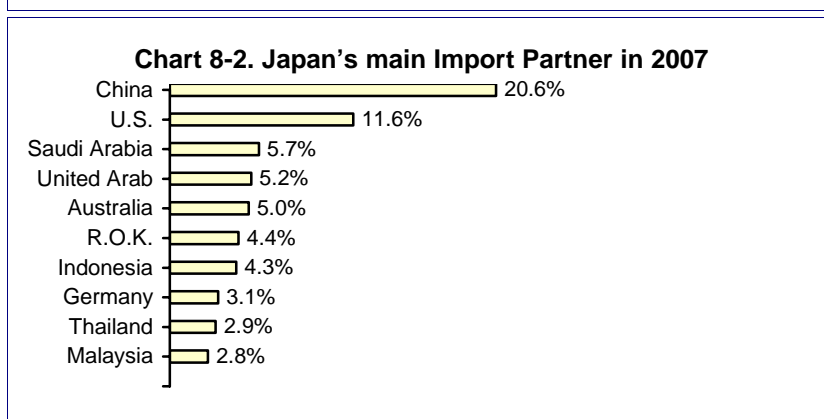
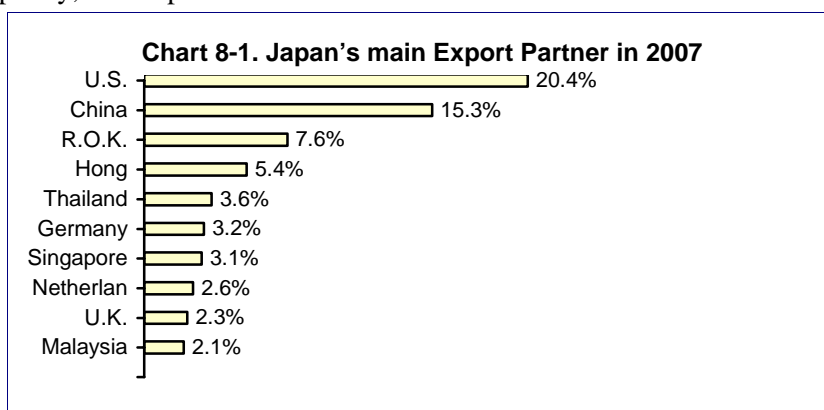
¹¹ Institute of World Economics & Politics, Chinese Academy of Social Science.

¹² China Daily, June 5th, 2009

¹³ Institute of International Relations & Areas Studies, Ritsumeikan Univ.

Trade

Japan's trade policy priorities include strengthening the multilateral trading system. Japan's overall objective is to ensure long-term prosperity and growth by promoting business activities in Japan and at an international level. Nonetheless, Japan is of the view that its regional and bilateral free-trade agreements complement trade liberalization at the multilateral level. Japan grants preferential treatment to products from certain developing and least developed countries under its Generalized System of Preference (GSP) scheme. The current GSP scheme, which is valid until 2011, extends to 141 countries and 14 territories. On 1 April 2007, Japan expanded the preferential (i.e. tariff-free and quota-free) treatment granted to 49 least developed countries (LDCs), covering 98% of all tariff lines. The main beneficiaries of Japan's GSP include China, Thailand, Indonesia, the Philippines, and Viet Nam. The GSP scheme excludes many agricultural products and some industrial products. Concurrently, Japan has been intensifying its pursuit of bilateral/regional arrangements involving free-trade agreements; the authorities state that this is not just in areas covered by existing WTO Agreements, but also in areas like trade facilitation, investment, movement of natural persons, competition policy, and improvement of the business environment.



* Source: United Nations Commodity Trade Statistics Database (UN Comtrade)

Japan is the world's largest maker of machinery and transport equipment, much of the output of which is exported to countries such as the US, China and ROK. Japan buys Mineral fuels, lubricants and other raw materials from mostly Middle East and Australia and uses these resources to make high technology items. Japan and the United States are very important trading partners, and China is now becoming major partner.

Chart 8-3. Export structure of Japan

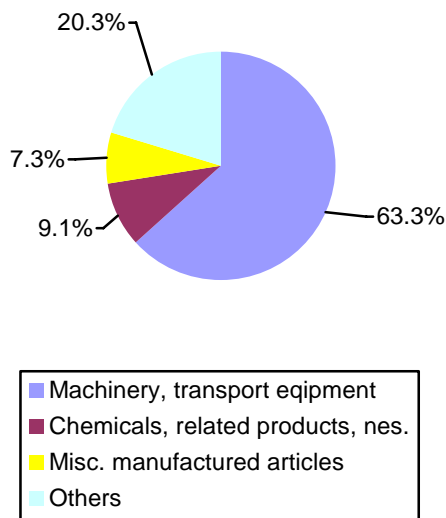
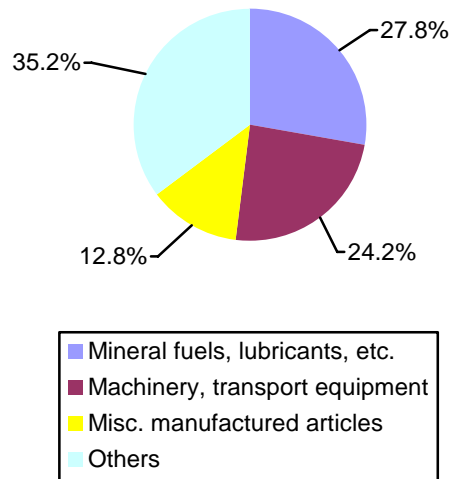


Chart 8-4. Import structure of Japan



*** Source:**

- United Nations Commodity Trade Statistics Database (UN Comtrade)

*** Note:**

- General Imports CIF by commodities of SITC, Rev.3

- General Exports FOB by commodities of SITC, Rev.3

Trade-related issues remain the responsibility of a number of ministries, including Foreign Affairs (MOFA), and Economy, Trade, and Industry (METI). Other ministries and agencies with responsibility for sectoral issues are also involved in trade policy formulation and implementation.

Foreign Direct Investment

Inward FDI in Japan remains substantially lower than outward FDI, and is relatively low compared with that in other large OECD economies. Taking the year of 2007 as an example, inward FDI was US\$ 22,549 million, while outward FDI flow was \$73,549. Against this background, Japan has continued to take measures to make itself an attractive investment destination for foreign firms; in March 2006, it set a new goal of doubling the share of FDI in GDP by 2010. The authorities consider that FDI brings benefits to Japan by, for example, creating new management resources, such as personnel, capital, and sales networks and bringing in new technologies; creating employment opportunities; and increasing benefits to consumers by providing wider choices and better quality of goods and services resulting from intensified competition introduced by FDI.

The regulatory regime on inward and outward FDI is governed mainly by the Foreign Exchange and Foreign Trade Act, together with relevant cabinet and ministerial ordinances. There are no tax measures aimed specifically at FDI promotion (excluding provisions of tax treaties). The authorities maintain that no estimates are available for tax revenue forgone through measures to promote FDI, partly because some tax measures with other objectives may also contribute to increasing FDI. No financial measures have been introduced specifically to promote FDI in Japan. Japan's current measures, aimed at removing obstacles

to FDI, appear to be associated largely with institutional reforms, such as those of regulations on cross-border mergers and acquisitions as well as movement of natural persons, improvement in infrastructure related to logistics and R&D, improvement in medical care and education for foreigners, and seminars and sales campaigns by ministers and local government leaders to invite FDI into Japan.

PART II

1. Regional Challenges and Potential Opportunities

Countries in the region have different national situations, regulations, political systems and levels of development. It is crucial and critical for the region to intensify inter-governmental cooperation to increase the mutual trust and promote mutual understanding. To remove the investment barriers to facilitate capital flows and direct investment, cooperation in this region should be institutionalized and policy dialogue and coordination should be strengthened. In addition, micro-policy guidance is required for regional investment cooperation to upgrade the current information sharing facilities for better business service.

Steering economic transformation and to some degree also political transformation is an important indicator of coming economic opportunities. Issues of sustainability, of social fairness, welfare policies or equal opportunities are part of the challenges of Northeast Asia nations. Social policies and welfare systems are quite advanced in the region and fit within the margins of overall market economy development. The overall performance would certainly benefit from increased efforts to build the rule of law in all aspects of economic life. Economic performance is impressive in all countries, however, sustainability factors are significantly weaker. Most countries in question pursue successful macro-economic policies of currency and price stability as well as in terms of market organization. Also, protection of private property as an essential precondition for foreign direct investments is on the rise.

Nevertheless, provided with rich natural resources and a huge potential in the market, the growing prospect and importance of the North-East Asia in recent years make the Greater Tumen region more attractive to domestic, regional and international investors. Sustainable development of the Greater Tumen region can bring both member countries and external partners an opportunity to make the best use of available resources in achieving the regional economic growth and human development. Regional economic cooperation opens up great opportunities for accelerating regionally balanced economic growth, reducing poverty, and raising productivity and employment. The more active regional political and economic actors have been, the more they have joined forces across the border and the better they have coordinated their planning and dealings within their national context, the more these regions have benefitted from this change. At the same time, the closer political relations have been among the capitals of the countries involved, the more effective economic development programs have become for regional cooperation along and across borders. Proactive efforts of member countries should be made to strengthen the activities and support from both public and private sectors should be expanded.

2. Economy forecasting of Northeast Asia

Financial markets are expected to remain strained during 2009. In the advanced economies, market conditions will likely continue to be difficult until forceful policy actions are implemented to restructure the financial sector, resolve the uncertainty about losses, and break the adverse feedback loop with the slowing real economy. In emerging economies, financing conditions will likely remain acute for some time—especially for corporate sectors that have very high rollover requirements.¹⁴ Much tighter credit conditions, weaker capital inflows to middle-income countries, and a sharp reduction in global import demand are expected to be the main factors driving the slowdown in developing countries. Import demand is projected to decline by 3.4 percent in high-income countries during 2009, while net private debt and equity flows to developing countries are projected to decline from \$1 trillion in 2007 to about \$530 billion in 2009, or from 7.7 to 3 percent of developing-country GDP. As a result, investment growth in developing countries is projected to slow dramatically, rising only 3.5 percent in middle-income countries, compared with a 13.2 percent increase in 2007.¹⁵

Chart 9-1. World Economic Forecasts

Global Conditions	2006	2007e	2008f	2009f	2010f
World Trade Volume	9.8	7.5	6.2	-2.1	6.0
Consumer Prices					
G-7 Countries ^{a,b}	2.2	1.7	3.3	1.6	1.8
United States	3.3	2.6	4.5	2.5	2.8
Commodity Prices (expressed in U.S. dollars)					
Non-oil commodities	29.1	17.0	22.4	-23.2	-4.3
Oil Price (U.S. dollars per barrel) ^c	64.3	71.1	101.2	74.5	75.8
Oil Price (percent change)	20.4	10.6	42.3	-26.4	1.8
Manufactures unit export value ^d	1.6	5.5	9.0	2.1	1.3
Interest Rates					
\$, 6-month (percent)	5.2	5.3	3.3	1.9	2.5
€, 6-month (percent)	3.1	4.3	4.9	3.8	4.2
Real GDP Growth^e	2006	2007e	2008f	2009f	2010f
World	4.0	3.7	2.5	0.9	3.0
Memo item: World (PPP weights) ^f	5.0	4.9	3.6	1.9	3.9
High Income	3.0	2.6	1.3	-0.1	2.0
OECD Countries	2.9	2.4	1.2	-0.3	1.9
Euro Area	2.9	2.6	1.1	-0.6	1.6
Japan	2.4	2.1	0.5	-0.1	1.5
United States	2.8	2.0	1.4	-0.5	2.0
Non-OECD Countries	5.5	5.6	4.3	3.1	5.3
Developing Countries	7.7	7.9	6.3	4.5	6.1
East Asia and Pacific	10.1	10.5	8.5	6.7	7.8
China	11.6	11.9	9.4	7.5	8.5
Indonesia	5.5	6.3	6.0	4.4	6.0
Thailand	5.1	4.8	4.6	3.6	5.0

* **Source:** World Bank; Global Economic Prospects (2009)

¹⁴ IMF World Economic outlook (April, 2009)

¹⁵ World Bank; Global Economic Prospects (2009)

* **Note:** PPP = purchasing power parity; e = estimate; f = forecast.

^a Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

^b In local currency, aggregated using 2000 GDP Weights.

^c Simple average of Dubai, Brent, and West Texas Intermediate.

^d Unit value index of manufactured exports from major economies, expressed in U.S. dollars.

^e GDP in 2000 constant dollars; 2000 prices and market exchange rates.

^f GDP measured at 2000 purchasing power parity (PPP) weights.

Northeast Asia should brace for the sharp fall in the US consumption and create more regional demand; this will require a painful, but inevitable process for the region to maintain its growth. Under pressure to change is not only the region's under-consumption structure, but also its industrial system. The fact that Northeast Asian economies are based on international production networks, and there is no market for final goods within the region has posed the biggest threat to Northeast Asia, making it vulnerable to any external shocks. Boosting regional demand is not a choice but a must for Northeast Asian economies to survive.¹⁶

Industrialized countries excluding Japan are under pressure to change their economic structures, as the global crisis has dealt a huge blow to their financial assets, making any of their attempts to increase asset values and maintain economic growth futile. According to the ADB, the global crisis wiped a staggering US \$50 trillion off the value of financial assets in 2008 the equivalent of over one year's worth of the global GDP.

Structural adjustments of Northeast Asia will be forced to be made in the global economy; export-dependent model needs to be shifted away to demand-driven structure. The economy in Northeast Asia in the form of export, has depended on excessive consumption of the US with a privilege to issue the international currency, and provided finance capital for imbalance through export. In order to promote regional demand and make fundamental changes in the under-consumption structure, regional cooperation is a must. Besides, the infrastructure, industrial infrastructure, social infrastructure and education should be improved accordingly.

In order to overcome these challenges, more FTAs and bilateral trade agreements among NE Asia and outside of world will be increased in the region, but more significant progress of economic integration, international collective action and partnership should continue for the strong economic links. Participation in Northeast Asian Cooperation will be the concrete step to promote economic development and strengthen the partnership.

Chart 9-2. Status of FTAs in the Northeast Asia Region (as of year 2008)

	Russia	Mongolia	Japan	ROK	China
Russia		-	-	BEPA – 2 nd Fusibility Studies meeting	-
Mongolia	-		-	-	-
Japan	-	-		Under considering resumption negotiations	Fusibility Studies
ROK	BEPA – 2 nd Fusibility Studies meeting	-	Under considering resumption negotiations		5 th Fusibility Studies meeting
China	-	-	Fusibility Studies	5 th Fusibility Studies meeting	

* **Source:**

- The Economic Research Institute for Northeast Asia (ERINA)

¹⁶ Institute of World Economics & Politics. Chinese Academy of Social Science.

Although the global recession is likely to be protracted, some elements of an eventual recovery can already be discerned. These include early movement toward stabilization in the housing sector in the United States; continued progress on debt workouts and a strengthening of balance sheets among both banks and households; a gradual easing of credit conditions as government rescue packages take hold and investors begin to return to heavily discounted equity markets; increases in real incomes (stemming from lower food and fuel prices) among individuals with relatively high marginal propensities to consume; and increased space for fiscal and monetary policies as inflationary pressures ease and government outlays on food and fuel subsidies decline in tandem.¹⁷ To accelerate this recovery and promote sustainable development, intraregional trade system and investment structure should be considered among the regional nations. Economic integration in Northeast Asia region is an opportunity at the critical moment.

¹⁷ World Bank; Global Economic Prospects (2009)

ABBREVIATION

APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
BEPA	Bilateral Economic Partnership Agreement
CRS	Congressional Research Service
EFTA	The European Free Trade Association
ERINA	The Economic Research Institute for Northeast Asia
FDI	Foreign Direct Investment
FIFTA	the Foreign Investment and Foreign Trade Agency (Mongolia)
GDP	Gross Domestic Product
GTI	The Greater Tumen Initiative
IMF	International Monetary Fund
JETRO	Japan External Trade Organization
METI	The Ministry of Economy, Trade, and Industry (Japan)
MIT	The Ministry of Industry and Trade (Mongolia)
MKE	The Ministry of Knowledge Economy (ROK)
MOF	The Ministry of Finance (Mongolia)
MOFA	The Ministry of Foreign Affairs (Japan)
MOFAT	The Ministry of Foreign Affairs and Trade (ROK)
MOFCOM	The Ministry of Finance and Commerce (China)
NAFTA	North American Free Trade Agreement
NDRC	The National Development and Reform Commission (China)
RMB	Renminbi (Chinese currency)
Rosstat	Federal State Statistics Service
TRADP	The Tumen River Area Development Programme
UN Comtrade	United Nations Commodity Trade Statistics Database
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
UNSD	United Nations Statistics Division
WEO	World Economic Outlook of IMF
WTO	World Trade Organization

REFERENCES

Table 1-1. Growth rate of GDP (% per year)

	2005		2006		2007		2008	
GDP (US\$ in billions)/ GDP growth (annual %) ¹⁸								
China	2,235.9	10.4%	2,657.9	11.6%	3,205.5	13.0%	4,401.6	9.0%
ROK	791.4	4.2%	888.2	5.1%	969.8	5.0%	947.0	2.2%
Russia	764.5	6.4%	990.6	7.4%	1,290.1	8.1%	1,676.6	5.6%
Mongolia	2.3	7.3%	3.13	8.6%	3.9	10.2%	5.3	8.9%
DPRK	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Japan	4,552.1	1.9%	4,376.0	2.4%	4,384.3	2.1%	4,923.8	-0.6%

* **Source:**

- World Bank – World Development Indicators database (April 2009) China, ROK, Russia, Mongolia and Japan figures of 2005-2007
- IMF – World Economic Outlook Database (April, 2009) for China, ROK, Russia, Mongolia and Japan figures of 2008

Table 2-1. Trade Volume by GTI Country per year

(\$ in billions)

		China	ROK	Russia	Mongolia	DPRK	JAPAN
Export	2002	325.6	162.5	106.7	0.5	1.2	416.7
	2003	438.2	193.8	133.7	0.6	1.2	472.0
	2004	593.3	253.8	181.6	0.9	1.4	565.8
	2005	762.0	284.4	241.4	1.1	1.6	594.9
	2006	968.9	325.5	301.6	1.5	2.4	646.7
	2007	1,217.8	371.5	352.3	1.9	1.9	714.3
	2008	1,428.7	422.0	471.8	2.6	N/A	775.9
Import	2002	295.2	152.1	46.2	0.7	2.6	337.6
	2003	412.8	178.8	57.3	0.8	2.7	383.5
	2004	561.2	224.5	75.6	1.0	3.2	455.3
	2005	666.0	261.2	98.7	1.2	3.7	515.9
	2006	791.5	309.4	137.7	1.5	3.7	579.1
	2007	956.0	356.8	191.0	2.1	3.2	622.2
	2008	1,131.6	435.3	321.2	3.6	N/A	756.1
Total	2002	620.8	314.6	152.9	1.2	3.8	754.3
	2003	851.0	372.6	191.0	1.4	3.9	855.5
	2004	1154.5	478.3	257.2	1.9	4.7	1,021.1
	2005	1428.0	545.6	340.1	2.3	5.3	1,110.8
	2006	1760.4	634.9	439.3	3.0	6.1	1,225.8
	2007	2173.8	728.3	543.3	4.0	5.1	1,336.5
	2008	2,560.3	857.3	793.0	6.2	N/A	1,532.0

* **Source:**

- United Nations Statistics Division (UNSD) annual totals table (ATT) for China, ROK, Russia, Mongolia and Japan figures; year of 2002-2007. (October 10, 2008)
- Congressional Research Service report “The North Korean Economy: Leverage and Policy Analysis” (August 26, 2008) for DPRK figures
- IMF Statistical Databases; for China, ROK, Russia and Mongolia figures; year of 2008. (May, 2009)
- Japanese Trade and Investment Statistics for Japan figures; year of 2008. (2009)

¹⁸ Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2000 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

- * Note:**
- General Imports CIF by country of origin
 - General Exports FOB by country of last known destination

Table 3-1. Foreign Direct Investment (in US\$ millions)

	2005		2006		2007	
	Inward	Outward	Inward	Outward	Inward	Outward
China	72,406	12,261	72,715	21,160	83,521	22,469
ROK	7,055	4,298	4,881	8,127	2,628	15,276
Russia	12,886	12,767	32,387	23,151	52,475	45,652
Mongolia	185	0	290	0	328	0
DPRK	N/A	N/A	N/A	N/A	N/A	N/A
Japan	2,775	45,781	-6,506	50,266	22,549	73,549

* Source: UNCTAD – World Investment Report (September, 2008)

Chart 4-1. China's Trade share in 2007

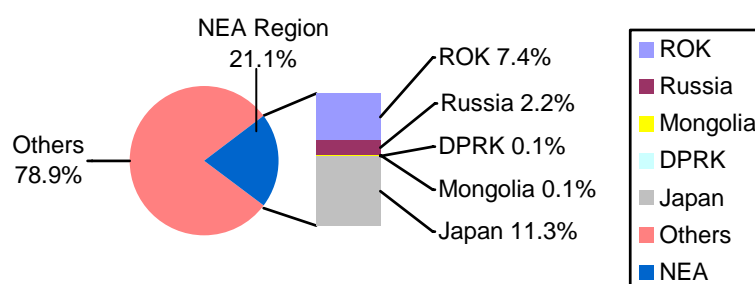


Chart 4-2. ROK's Trade share in 2007

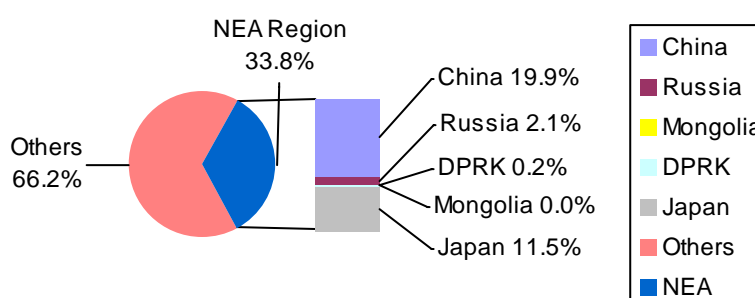


Chart 4-3. Russia's Trade share in 2007

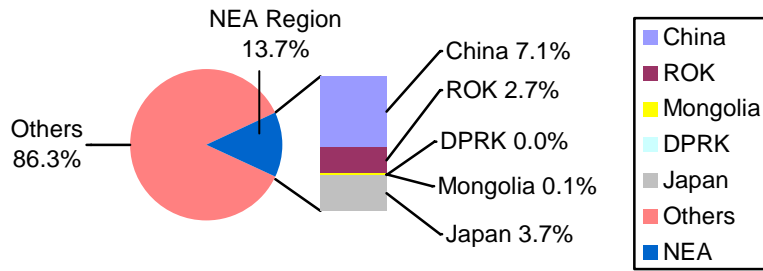


Chart 4-4. Mongolia's Trade share in 2007

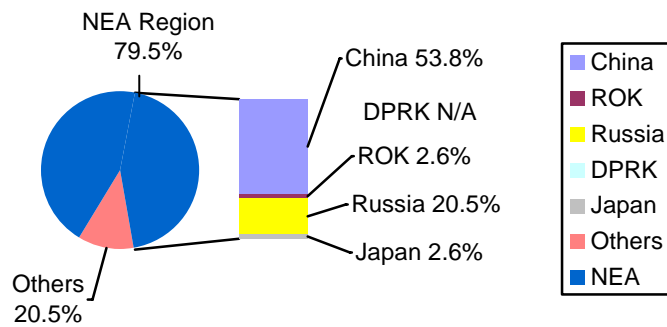


Chart 4-5. DPRK's Trade share in 2007

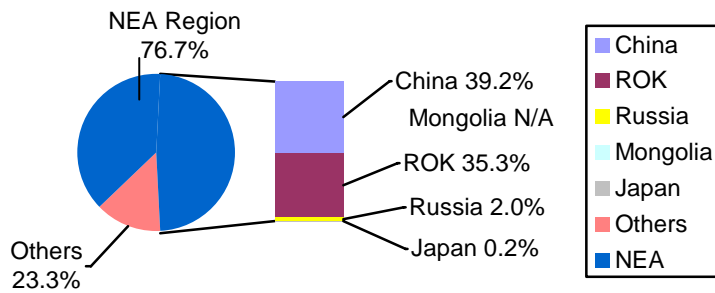
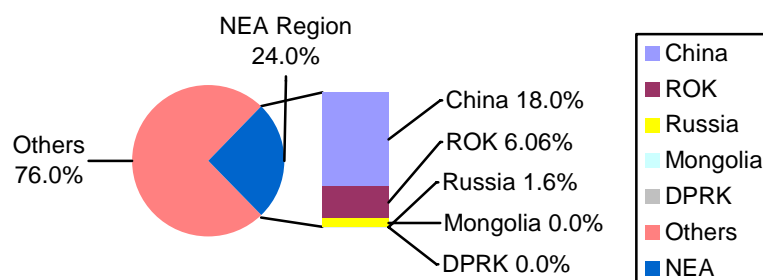


Chart 4-6. Japan's Trade share in 2007



* **Source:** United Nations Statistics Division (UNSD) annual totals table (ATT) for China, ROK, Russia and Mongolia figures.

United Nations Commodity Trade Statistics Database (UN Comtrade) for imports and exports partners
Congressional Research Service report "The North Korean Economy: Leverage and Policy Analysis"
(August 26, 2008) for DPRK figures

* **Note:** General Imports CIF by country of origin and General Exports FOB by country of last known destination

Table 5-1 Intra-Regional Export volume by Country in 2007 (US\$ in millions)

From \ To	China	ROK	Russia	Mongolia	DPRK	Japan
China	-	56,098.9	28,466.2	1,374.2	1,392.4	102,008.6
ROK	81,985.1	-	8,087.7	169.7	1,032.5	26,370.2
Russia	15,166.6	6,089.8	-	629.0	126.1	7,490.6
Mongolia	1,399.8	40.6	57.2	-	N/A	14.4
DPRK	584.0	765.0	34.0	N/A	-	0
Japan	109,270.0	54,333.5	10,769.8	153.6	9.1	-

Table 5-2 Intra-Regional Import volume by Country in 2007 (US\$ in millions)

From \ To	China	ROK	Russia	Mongolia	DPRK	Japan
China	-	103,752.0	19,688.6	682.8	581.5	133,942.7
ROK	63,025.2	-	6,977.5	20.7	765.0	56,250.1
Russia	24,406.6	8,838.3	-	48.2	33.5	12,715.8
Mongolia	658.2	118.3	726.5	-	N/A	107.4
DPRK	1,393.0	1,032.0	126.0	N/A	-	9.0
Japan	127,922.4	27,307.1	10,562.8	16.2	0.0	-

* **Source:**

- United Nations Statistics Division (UNSD) annual totals table (ATT) for China, ROK, Russia, Mongolia and Japan figures. (October 10, 2008)

- Congressional Research Service report "The North Korean Economy: Leverage and Policy Analysis"
(August 26, 2008) for DPRK figures

- Federal State Statistics Service for trade partners of Russia and Mongolia figures

* **Note:**

-General Imports CIF by country of origin

-General Exports FOB by country of last known destination

Table 6-1. Main Trade Partners in 2007

(\$ in millions)

a. People's Republic of China

		Exports	Share		Imports	Share
	World	1,217,775.7		World	955,955.9	
1	USA	233,096.7	19.1%	Japan	133,942.7	14.0%
2	Hong Kong	184,436.2	15.1%	R.O.K.	103,752.0	10.9%
3	Japan	102,008.6	8.4%	USA	69,528.7	7.3%
4	R.O.K.	56,098.9	4.6%	Germany	45,383.1	4.7%
5	Germany	48,714.3	4.0%	Malaysia	28,697.1	3.0%
6	Netherlands	41,417.8	3.4%	Australia	25,843.2	2.7%
7	U.K.	31,656.3	2.6%	Philippines	23,117.8	2.4%
8	Singapore	29,620.3	2.4%	Thailand	22,664.7	2.4%
9	Russia	28,466.2	2.3%	Russia	19,688.6	2.1%
10	India	24,011.5	2.0%	Brazil	18,339.5	1.9%

b. Republic of Korea

		Exports	Share		Imports	Share
	World	371,477.1		World	356,841.0	
1	China	81,985.1	22.1%	China	63,025.2	17.7%
2	USA	45,883.9	12.4%	Japan	56,250.1	15.8%
3	Japan	26,370.2	7.1%	USA	37,392.9	10.5%
4	Hong Kong	18,654.4	5.0%	Saudi Arabia	21,163.2	5.9%
5	Singapore	11,949.5	3.2%	Germany	13,534.2	3.8%
6	Germany	11,542.5	3.1%	Australia	13,232.2	3.7%
7	Russia	8,087.7	2.2%	United Arab Emirates	12,655.9	3.5%
8	Mexico	7,482.0	2.0%	Indonesia	9,113.8	2.6%
9	UK	6,870.0	1.8%	Kuwait	8,746.8	2.5%
10	India	6,600.0	1.8%	Qatar	8,453.9	2.4%

c. Russian Federation

		Exports	Share		Imports	Share
	World	352,266.4		World	199,726.0	
1	Netherlands	41,840.7	11.9%	Germany	26,549.3	13.3%
2	Italy	22,631.1	6.4%	China	24,406.6	12.2%
3	Germany	18,604.9	5.3%	Ukraine	13,310.5	6.7%
4	Belarus	17,187.0	4.9%	Japan	12,715.8	6.4%
5	Ukraine	15,928.7	4.5%	US	9,407.7	4.7%
6	China	15,166.6	4.3%	Belarus	8,887.0	4.4%
7	Switzerland	13,857.5	3.9%	R.O.K.	8,838.3	4.4%
8	Turkey	13,392.6	3.8%	Italy	8,524.1	4.3%
9	Poland	11,784.5	3.3%	France	7,700.2	3.9%
10	Kazakhstan	11,548.8	3.3%	U.K.	5,639.6	2.8%

d. Mongolia

		Exports	Share		Imports	Share
	World	1,886.6		World	2,117.0	
1	China	1,399.8	74.2%	Russia	726.5	34.3%
2	Canada	178.5	9.5%	China	658.2	31.1%
3	US	64.5	3.4%	R.O.K.	118.3	5.6%
4	Russia	57.2	3.0%	Japan	107.4	5.1%
5	Italy	55.8	3.0%	Germany	70.7	3.3%
6	R.O.K.	40.6	2.2%	US	50.2	2.4%
7	UK	17.2	0.9%	Singapore	45.9	2.2%
8	Japan	14.4	0.8%	Kazakhstan	38.0	1.8%
9	Germany	10.4	0.6%	Ukraine	32.9	1.6%
10	Ukraine	6.6	0.3%	Hong Kong	22.9	1.1%

e. Democratic People's Republic of Korea

		Exports	Share		Imports	Share
	World	1,854.0		World	3,242.0	
1	R.O.K.	765.0	41.3%	China	1,393.0	43.0%
2	China	584.0	31.5%	R.O.K.	1,032.0	31.8%
3	India	41.0	2.2%	India	660.0	20.4%
4	Russia	34.0	1.8%	Thailand	184.0	5.7%
5	Thailand	34.0	1.8%	Russia	126.0	3.9%
6	Germany	16.0	0.9%	Germany	34.0	10.0%
7	Japan	0.0	0.0%	Japan	9.0	0.3%

f. Japan

		Exports	Share		Imports	Share
	World	714,327.0		World	622,243.3	
1	US	145,624.2	20.4%	China	127,922.4	20.6%
2	China	109,270.7	15.3%	US	72,410.0	11.6%
3	R.O.K.	54,333.5	7.6%	Saudi Arabia	35,287.0	5.7%
4	Hong Kong	38,909.4	5.4%	United Arab Emirates	32,361.8	5.2%
5	Thailand	25,612.0	3.6%	Australia	31,252.1	5.0%
6	Germany	22,636.2	3.2%	R.O.K.	27,307.1	4.4%
7	Singapore	21,839.4	3.1%	Indonesia	26,516.5	4.3%
8	Netherlands	18,561.6	2.6%	Germany	19,428.8	3.1%
9	UK	16,314.9	2.3%	Thailand	18,323.1	2.9%
10	Malaysia	15,055.8	2.1%	Malaysia	17,414.8	2.8%

*** Source:**

- United Nations Statistics Division (UNSD) annual totals table (ATT) for China, ROK, Russia, Mongolia and Japan figures.
- United Nations Commodity Trade Statistics Database (UN Comtrade) for China, ROK, Russia, Mongolia and Japan figures.
- Congressional Research Service report "The North Korean Economy: Leverage and Policy Analysis" (August 26, 2008) for DPRK figures
- Asian Development Bank (ADB) - Key Indicators for Asia and the Pacific 2008.
- Japan External Trade Organization (JETRO)

*** Note:**

- General Imports CIF by country of origin
- General Exports FOB by country of last known destination

Table 6-2 Commodity Export Structure in 2007

(In US \$ Million)

	China	R.O.K.	Russia	Mongolia	Japan
All	1,217,775.7	371,477.1	352,266.4	1,886.6	714,327.0
Food & Live animals	30,742.8	2,635.3	6,938.3	27.7	3,069.7
Beverages & Tobacco	1,396.5	682.1	685.8	0.2	461.6
Crude materials, inedible, except fuels	9,116.3	4,188.8	14,428.1	1,338.9	8,953.4
Mineral fuels, lubricants, etc.	19,950.9	24,630.9	216,515.4	170.1	9,279.8
Animal, Veg. Oils, Fats, Wax	310.7	30.2	501.6	0.1	84.7
Chemicals, related products, nes.	60,314.4	37,540.1	14,684.2	2.6	65,191.3
Manufactured goods	219,877.0	52,041.3	54,234.3	68.1	83,627.9
Machinery, transport equipment	577,751.4	216,735.9	13,253.6	18.1	451,951.8
Misc. manufactured articles	296,139.2	32,232.4	2,551.4	25.8	52,491.8
Goods not classified by kind	2,176.5	760.0	28,473.6	234.9	39,215.0

Table 6-3 Commodity Import Structure in 2007

(In US \$ Million)

	China	R.O.K.	Russia	Mongolia	Japan
All	955,955.9	356,841.0	199,726.0	2,117.0	622,243.3
Food & Live animals	11,499.6	13,629.0	20,602.1	195.3	45,475.2
Beverages & Tobacco	1,401.1	755.6	3,285.1	41.4	5,851.9
Crude materials, inedible, except fuels	117,915.3	24,071.3	5,627.0	10.2	49,538.5
Mineral fuels, lubricants, etc.	104,930.1	96,503.0	2,527.9	569.3	172,784.8
Animal, Veg. Oils, Fats, Wax	7,476.4	844.1	1,087.8	13.6	1,163.6
Chemicals, related products, nes.	107,420.5	32,336.9	20,988.0	126.5	45,521.2
Manufactured goods	102,877.3	51,929.1	25,351.9	326.4	60,475.0
Machinery, transport equipment	412,640.2	107,570.3	91,671.8	623.6	150,711.9
Misc. manufactured articles	87,330.8	27,491.3	17,471.3	210.7	79,538.9
Goods not classified by kind	2,464.7	1,710.3	11,113.2	0.0	11,182.3

* **Source:**

- United Nations Commodity Trade Statistics Database (UN Comtrade)

* **Note:**

- General Imports CIF by commodities of SITC, Rev.3

- General Exports FOB by commodities of SITC, Rev.3

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