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Inter-Korean Economic Cooperation and Economic Cooperation in Northeast Asia

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□ **The objective of this study is to present a way South Korea, North Korea, and the surrounding Northeast Asian region can achieve a win-win result through invigoration of regional economic cooperation by inducing participation of North Korea in the process of the Northeast Asian Economic Cooperation.**

○ North Korea can provide the countries in the region with a chance to make an investment in construction of a new infrastructure and development of resources, and, if participation of North Korea is premised, the connecting link of multilateral cooperation such as the Transcontinental Railroad Connection Project, Pipeline Natural Gas(PNG) Connection Project, and so on, can be completed.

○ Accordingly, in order to make progress in the Northeast Asian economic cooperation, the North Korean problem needs to be resolved by arranging a way for North Korea to participate in the Northeast Asian regional cooperation.

* Translated version is sourced by *Korea Focus*(www.koreafocus.or.kr).

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□ **The most distinguishing feature of North Korea's recent external economic relation is that the trade and foreign capital inflow are insignificant in size, and are almost entirely dependent on China.**

○ Though this is basically because North Korea has no other alternative to China due to the sanctions imposed on North Korea by the international community resulting from the nuclear issue, even if there is some progress in the nuclear issue, in order to invigorate and diversify overseas economic interchange and cooperation, a financing plan should be arranged first because of enormous fund required for expansion of the export market and construction of the infrastructure in North Korea.

□ **Inter-Korean economic cooperation through Northeast Asian economic cooperation can occur in three forms; trade cooperation, monetary/financial cooperation, and multilateral cooperation in the region.**

○ As to trade cooperation, South Korea may be able to persuade partner country in the FTA to designate special zones of North Korea such as Kaeseong Industrial Complex as Outward Processing Zone and South Korea may attempt to negotiate CEPA with North Korea.

– If special zones of North Korea are designated as Outward Processing Zones of South Korea, North Korea can enjoy various resulting benefits such as expansion of the export market to FTA partner country of South Korea.

– If the South-North CEPA is achieved, investment by Korean and overseas companies in the North Korean region is expected to increase thanks to the improvement in the investment environment, greatly benefiting North Korea.

○ As to monetary/financial cooperation, the establishment of A3Fund, a regional joint fund in which Northeast Asian countries participate, and a regional development finance institution like the Northeast Asia Development Corporation can be promoted, and North Korea's participation in the Northeast Asian economic cooperation can be induced by allowing North Korea to utilize these facility to finance an infrastructure project for the Northeast Asian economic cooperation.

○ As to multilateral cooperation, the Transcontinental Railroad Connection Project, the South Korea-North Korea-Russia PNG Connection Project, and the South Korea-North Korea-China Joint Development Project in the North Korean-Chinese border areas are representative multilateral cooperation projects in Northeast Asia and they are expected not only to contribute to enhancement of mutual interest of the related countries but also to bring additional benefits such as developing trust and alleviation of tension in the Korean Peninsula.

○ Though not only the bilateral cooperation between South Korea and North Korea but also the multilateral cooperation among countries including the two Koreas can be promoted only when the nuclear issue makes a progress and the South-North Korean relation is improved, those issues need to be examined in advance.

1. Linking Cooperation in Northeast Asia with Inter-Korean Cooperation

Since the 1990s, particularly after the Asian financial crisis, regional cooperation has been a prime objective in Northeast Asia. As such, the North Korean threat to political and economic stability comes to the fore and getting Pyongyang to join the effort is a pressing need. As for South Korea, it is pinning its hopes on intra-regional collaboration becoming a catalyst to inter-Korean cooperation and the ultimate goal of reunification. In spite of its growing importance, the linkage of the Inter-Korean cooperation and intra-regional cooperation has not been fully discussed so far.

This study examines how closely intra-regional collaboration in Northeast Asia and inter-Korean exchanges and cooperation are related, and proposes ways to promote inter-Korea economic cooperation by providing the North with opportunities to participate in intra-regional cooperation.

2. Different Views of Intra-regional Cooperation

Until now, the overriding view has been that North Korea is a detriment to the regional collaboration. North Korea, however, could provide its neighbors with increased opportunities in infrastructure construction, resource development and investment. Furthermore, North Korea's geopolitical features could help it contribute to future intra-regional cooperation. For example, the North could act as a land bridge for trans-continental projects, such as the connection of Trans-Siberian Railway and Trans-Korean Railway, and natural gas pipelines running from Russia through North and South Korea.

North Korea has so far adopted a bipolar stance toward regional economic cooperation. On one hand, it resists opening up and reforming to join the global economy because it would mean ceding its centrally planned economy and liberalizing all economic activities, including manufacturing, trade, finance, and so on. The North also suspects the creation of economic blocs by advanced nations is a preliminary phase to globalization. Accordingly, the regime leadership warns that a full understanding of the globalization driven by advanced countries is needed and stresses the socialist system should be maintained.[1]

On the other hand, North Korea favors the economic collaboration and integration that developing countries are pursuing, regarding it as springboards to economic self-sufficiency. Its positive perspective derives from the assumption that complementary cooperation between countries with varying degrees of economic development and different geographic conditions could facilitate their rapid economic growth. In particular, economic exchanges and collaboration between countries with geographical proximity are easier and more likely.[2]

Pyongyang also has a positive attitude toward regional financial cooperation among developing countries. It pointed out the establishment of a regional fund designed to help developing countries to overcome insufficiency of funds and extensive activities of the African Development Bank(AfDB) as exemplary cases. The AfDB's activities, which have been highly regarded by the North, include credit provision, investment cooperation, and technical assistance for its member countries.[3]

In sum, Pyongyang is carrying forward practical foreign trade policies and is in favor of South-South cooperation, or collaboration among developing countries. Particularly, North Korea has been recently focusing on the Rason Free Economic and Trade Zone and the Hwanggumpyong development project. In this regard, South Korea may seek multilateral projects that include China and Russia as well as North Korea to take advantage of the existing regional cooperation framework, rather than bilateral collaboration with the North.

In addition, it is desirable to consider establishing a regional common fund and a development bank that Pyongyang could utilize for its economic development. If such regional economic cooperation projects were utilized effectively, the chances of integrating North Korea into the global community would probably increase.

1 Inbaek Chang, "Crushing Down the Machinations of Imperialists Related to Globalization of Economy is an Important Requirement for Adherence to the Economic System of Socialism," *Economic Research*, Vol. 3, Pyeongyang: Science Encyclopedia General Publishing Company, 2001.

2 Soonchul Baek, "Reinforcement of the Economic Cooperation in the Region of Southeast Asian Countries through Development of Mekong River Basin," *Economic Research*, Vol. 3, Pyeongyang: Science Encyclopedia General Publishing Company, 2001.

3 Kyungyoung Lee, "Reinforcement of Cooperation in the Financial/Monetary Field between Developing Countries in an Economic Region," *Economic Research*, Vol. 1, Pyeongyang: Science Encyclopedia General Publishing Company, 2005.

3. North Korea's External Economic Relations

Connecting regional economic cooperation in Northeast Asia to North Korea's economic exchanges and collaboration with foreign countries would have many positive consequences. Among them, Pyongyang could be expected to vigorously participate in bilateral or multilateral forms of international economic cooperation. However, the North so far has limited economic interaction with the global community. Therefore, it is necessary to examine the current conditions and characteristics of North Korea's international trade, foreign capital inflow and multilateral economic cooperation to identify the cause of North Korea's limited external economic relations.

A. External Trade

North Korea's foreign trade reached US$4.22 billion in 1990, but spiraled downward amid the collapse of the former Soviet Union and East European socialist states in 1991. Since then, annual trade hovered around $2 billion from 1991 to 2000.

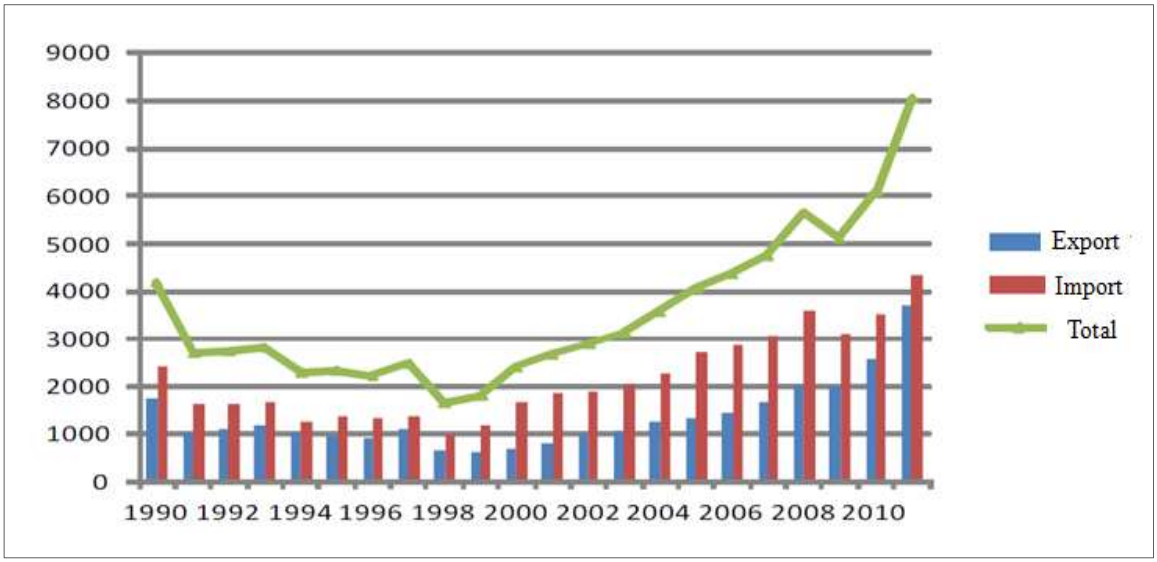
With the beginning of the new millennium, the amount of trade skyrocketed due to increased activity with China and South Korea: it surpassed $3 billion in 2001 and reached $4.684 billion in 2005, surpassing the $4 billion mark in 15 years since 1990. In the aftermath of the global financial crisis Pyongyang saw its trade figure temporarily fell in 2009, but it rose again to $8.03 billion, up 31.9 percent year-on-year, in 2011(Refer to Figure 1).

In the beginning of the 2000s, South Korea, China and Japan accounted for more than 60 percent of North Korea's foreign trade. North Korea's trade dependence on South Korea and China further increased after Japan's trade sanction against North Korea, due to the North's abduction of Japanese citizens, nearly halted its trade with Japan in the mid-2000s. In North Korea's total trade, China and South Korea accounted for 70.1 percent and 21.3 percent, respectively, in 2011, representing a combined share of 91.4 percent(Refer to Table 1).

Meanwhile, apart from trade through the Kaesong Industrial Complex in North Korea, inter-Korean trade has practically stopped since 2011 due to sanctions that followed the North's torpedo sinking of the South Korean Navy's patrol boat Cheonan and shelling of

[Figure 1] Trends in North Korea's Exports and Imports by Year

(Unit: US$ million)



Source: KOTRA.

Table 1: North Korea's Foreign Trade: Share of South Korea, China and Japan

(Unit: %)

	China	Korea	Japan	Total (Korea, China & Japan)
2000	20.4	20.5	19.4	60.3
2001	27.6	15.1	17.8	60.5
2002	25.4	22.1	12.7	60.2
2003	32.8	23.2	8.5	64.5
2004	39.0	19.6	7.1	65.7
2005	38.9	26.0	4.8	69.7
2006	39.1	31.1	2.8	73.0
2007	41.7	38.9	0.2	80.8
2008	49.5	32.3	0.1	81.9
2009	52.6	33.0	0.1	85.7
2010	56.9	31.4	0.0	88.3
2011	70.1	21.3	0.0	91.4

Source: KOTRA; Statistics of Korea, "North Korea Statistics."

Yeonpyeong Island. It is not an exaggeration to say that since 2011 China has become North Korea's sole trade partner(The total amount of inter-Korean trade reached $1.71 billion in 2011 and $1.97 billion in 2012, respectively. However, excluding trade through Kaesong Industrial Complex, the amount of trade was only $3.9 million in 2011 and

$800,000 in 2012).[4]

Apart from the growing dependence on China, there are two other characteristics of the North's trade since the 2000s. First, the volume of trade has been negligible. North Korea's total trade volume was equivalent to less than 1 percent of that of the South in 2011. When its trade volume is measured by the amount of real exports per capita(at 2006 constant dollar values), it is similar to that of China or of Vietnam in the early 1990s. The amount of real exports per capita recorded $65 in 2006, equivalent to only 1/11 of China and 1/7 of Vietnam. Meanwhile, the trade to GDP ratio(the ratio in relation to PPP GDP) was 13.6 percent as of 2006, considerably lower than 28.8 percent of China and 44 percent of Vietnam.[5]

Second, major export items to China are mostly composed of underground resources such as minerals, coal and iron ore, and this concentration is ever intensifying. Underground resources accounted for 52.1 percent in 2005, 59.1 percent in 2008 and 68 percent in 2012. As for the items heading for South Korea, the share of consumer goods made up 70.4 percent in 2005 and 60.8 percent in 2008. The high proportion taken up by consumer goods results from the nature of inter-Korean trade transactions; general and processing trade between Kaesong complex and South Korean companies are centered on light industry articles including apparel.

However, with inter-Korean trade activities practically suspended since 2011, North Korea's export dependence on China and the share of primary goods in its total exports to China have mushroomed; the share of essential strategic items, such as energy, grain and fertilizer made up 35.3 percent in 2005 and 28 percent in 2012, representing approximately one-third of total imports.[6]

North Korea's current trade structure is the byproduct of the collapsed Soviet bloc,

4 Though South-North trade recorded an amount of 1.71 billion in 2011 and 1.97 billion US dollars in 2012, the amount of the general trade and the trade through consignment processing excluding the transaction between Kaeseong Industrial Complex and Korean companies was mere 3.9 million in 2011 and 0.8 million US dollars in 2012.

5 Sukjin Kim, "Overseas Trade Potential of North Korea and Renovation Tasks," *Review of North Korean Economy by KDI*, KDI, May 2008.

6 Jae-ho Lee, Ildong Koh, and Sangkee Kim, *North Korean-Chino Economic Cooperation under Northeast Asian Specialization Structure*, Research Monograph 2010-08, KDI, 2010, pp.98~127; Sangkee Kim, "Evaluation and Prospect of North Korean-Chino Trade in 2012," *North Korean Economic Review*, KDI, January 2013.

which has crippled its industrial foundations, and international sanctions over Pyongyang's nuclear program, which have stifled access to foreign hard currency and export markets. In addition, the North's international credit rating dropped after its default on external debt in the 1980s. Essentially the North must start over in nurturing its export industry.

To expand external trade and boost the economy, North Korea needs to resolve political issues including its nuclear program and carry out economic reform and open up. When solutions to political issues begin to emerge, measures should be offered for North Korea to develop new export markets and invite foreign investments by utilizing the economic cooperation framework established by Northeast Asian countries. By doing so, Pyongyang could be coaxed to join the regional collaboration process taking place in Northeast Asia.

B. Foreign Capital Attraction and Multilateral Cooperation

Like other statistical data, North Korea does not release official data on the inbound flow of foreign investment. And the credibility of estimated data made public by international organizations such as the United Nations Conference on Trade and Development(UNCTAD) has been in question due to deficiency in calculation methods. Since the mid-2000s, China's Ministry of Commerce, the North's largest investor, has released statistical data on its investments in the longstanding ally. However, it is widely known that a large amount of investments by Chinese governmental agencies and state-owned companies are unofficial; small-scaled investments are said to be made without the approval of the Ministry of Commerce.

Despite such shortcomings, the data regularly provided by the UNCTAD and China's Ministry of Commerce, provides a creditable account of foreign investments trend into North Korea. The inflows plummeted after the North's nuclear test and subsequent U.N. sanctions in 2006. However, China increased its investments and, of the total foreign investments in North Korea between 2007 and 2010 that amounted to $151 million, China accounted for 51.5 percent, or $78 million.

Around 2000, China began encouraging local companies to invest overseas. In line with Beijing's overseas investment policy, Chinese corporate investments in North Korea have covered a wide range, including industrial infrastructure, distribution and manufacturing.

Woo Yeong-ja, a research fellow at the Chinese Academy of Social Sciences in Liaoning

Table 2: North Korea's Inbound Foreign Investment

(Unit: US$1million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Overseas → North Korea	158	197	50	−105	67	44	2	38	55

Source: UNCTAD.

Table 3: China's Investment in North Korea

(Unit: US$1million, %)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
China → North Korea	1.5	1.12	14.1	6.5	11.1	18.5	41.2	5.9	12.1
China's Share	–	0.7	35.3	13.0	–	27.5	93.7	–	31.8

Source: Ministry of Commerce of the People's Republic of China, *Annals of the Chinese Ministry of Commerce*, 2011.

Province who examined China's investments in North Korea, including unofficial transactions, reported that China invested in North Korea more than $53.69 million in 2005 and $58.74 million in the first half of 2006. The figures amount to about 10 times more than official statistics.[7]

Although China's investments in North Korea, with unofficial investments included, are said to reach $100 million annually, the amount pales in comparison to foreign investments in other developing countries. For instance, while pushing ahead with economic reform and openness, Vietnam aggressively wooed foreign investors and attracted annual investments of $760 million between 1991 and 1995 and $1.773 billion between 1996 and 2000, respectively.[8]

Two factors explain North Korea's failure to draw foreign investment and its heavy dependence on China: 1) an unfavorable economic and investment environment such as a backward industrial infrastructure, inadequate legal institutions and a rigid bureaucratic system; and 2) great investment risks resulting from sanctions imposed by the international community for its nuclear program.[9] The North's total dependence on China for economic

7 Youngja Woo, "Actual Condition and Prospect of Investment by Chinese Companies for North Korea," *Unification Education Research*, Vol. 6, Unification Education Research Center, 2007.

8 UNCTAD, *World Investment Report*.

9 Hyungkon Chung *et al.*, *Change in the Investment Invitation Policy of North Korea and Direction of South-North Economic Cooperation*, Korea Institute for International Economic Policy, 2011.

exchanges and cooperation is undesirable not only for North Korea itself, but also for South Korea, which needs to build far closer economic ties with the North to achieve the ultimate goal of creating a unified Korea in the future.

Among the economic cooperation projects in which North Korea is involved, two cases deserve attention from the perspective of Northeast Asian regional collaboration: the Tumen River Area Development Program(TRADP) and the related Rason special economic zone development.

The TRADP, symbolic of the region's economic cooperation efforts, began in the early 1990s in the form of multilateral collaboration involving the two Koreas, China, Russia and Mongolia. It was regarded as a highly feasible project because all of the parties involved were strongly motivated. North Korea needed to prop up its economy in the wake of the Soviet bloc's demise. China wanted to narrow the economic development gap between the Maritime Province and inland areas. And all of East Asia was searching for ways to escape economic doldrums.

However, the TRADP failed to achieve any tangible progress. At the turn of the century, China and Russia announced their separate, competitive investment plans, but without success. In 2005, the TRADP was converted into the Greater Tumen Initiative (GTI) to expand the development area but it failed to make any headway. As for the Rason special zone development project, both multilateral and independent efforts were also fruitless.

The failure of the TRADP can be traced to the absence of specific means to raise necessary funds in the first place, and the failure to attract inbound foreign investments. The same applies to the Rason special zone project, plus it was hobbled by the North's unfavorable political and economic environment for foreign investors and excessive dependence on offshore investments for infrastructure construction, the first priority to induce investments. The exclusion of South Korean firms that expressed great interest in the development of the area, also served as a negative factor.

In conclusion, the unsatisfactory outcomes of North Korea's economic cooperation at bilateral and multilateral levels and excessive dependence on China for international economic collaboration were the result of the North's failure to draw much needed foreign investments due to political issues, including the North's nuclear ambitions.

Even if these political issues are addressed, however, other obstacles will still remain such as a hostile investment environment and a lack of funds to construct infrastructure,

a prerequisite for the attraction of foreign money. Therefore, there is a slim chance that North Korea will see foreign investment inflows other than those from China and South Korea for some time to come. In addition, North Korea will likely prevent any South Korean companies from exclusively participating in the development of the North Korea–China borderland areas as it did in the Rason development project.

Meanwhile, in spite of the political and economic obstacles, China has continued to invest in North Korea as long as it benefits its national interests. And since the mid–2000s, while pushing ahead with development of the three northeastern provinces, the Chinese government has tried to link the development projects of the Chang–Ji–Tu, Rason, Dandong and Hwanggumpyong areas. In this context, China's investment in North Korea will continue for years to come, centering on Rason and Hwanggumpyong projects, along with exploitation of underground resources.

Consequently, it is desirable to prepare for a possible scenario that inter–Korean relations will improve as sticky political issues are resolved. To that end, South Korea needs to persuade the North to take part in Northeast Asia's regional cooperation efforts by creating a regional common fund or a development bank, which North Korea can use to mobilize funds for infrastructure creation. South Korea also needs to seek ways to participate in multilateral development of the borderland areas between China and North Korea, eventually achieving inter–Korean cooperation while lessening the North's heavy economic dependence on China.

4. Promoting Inter–Korean Cooperation through Regional Cooperation

There are three ways to form mutually beneficial relations by allowing North Korea to use Northeast Asia's regional economic cooperation framework to revive its languishing economy and sustain collaborative activity: trade cooperation, monetary and financial cooperation, and multilateral cooperation. As of now, it is hard to imagine putting these ideas into practice. But it will become possible when political issues, including North Korea's nuclear program, have been resolved and inter–Korean relations improve subsequently.

A. Measures for Trade Cooperation

As discussed above, boosting North Korea's external trade requires securing export markets and drawing foreign investments essential to fostering its export industry. There are two ways to diversify North Korea's export routes and increase the inflow of foreign investment through regional FTAs.

First, special economic zones in North Korea, including the Kaesong Industrial Complex, must be designated as outward processing zones in South Korea–China FTA or South Korea–China–Japan FTA negotiations.[10] Outward processing is a production method in which locally produced products, half–finished goods or parts, are transferred to a third country for cheap labor and production facilities and then re–imported; an outward processing zone is an industrial park or a certain area situated beyond the border of a nation where such processing occurs.

If North Korea is designated an outward processing zone, products made by South Korean companies in the Kaesong Industrial Complex can be exported as South Korean goods to countries that agreed on the designation. As a result, North Korea can enjoy various benefits including the effect of increased exports. In addition, naming of the Kaesong Industrial Complex as an outward processing zone would help North Korea integrate into the international economic order and open up. The North will thus be able to access not only Chinese and Japanese markets but also other global markets, bypassing South Korea. Inter–Korean relations also would be expected to improve.

China already has agreed to discuss designating North Korea as South Korea's outward processing zone during South Korea–China FTA negotiations. However, to reach agreement the inter–Korean joint industrial park needs to remain in operation while negotiations are under way.

Along with intra–regional FTAs, the creation of a comprehensive economic partnership agreement(CEPA) between the two Koreas also would be mutually beneficial. First, an inter–Korean CEPA will force North Korea to match its institutions that govern external economic exchanges to those of South Korea or international regulations, which will

10 In order for the Kaeseong Industrial Complex to be acknowledged as an outward processing zone in the regional FTA negotiation, the Kaeseong Industrial Complex should not be fully stopped during the process of the negotiation.

incorporate North Korea into the global economic networks. In addition, an FTA or a CEPA will generally lead to improving investment environments in diverse dimensions: improvements in policy transparency and administrative institutions, and standardized application of regulations. An inter-Korean CEPA will also likely work for North Korea to a greater extent in that its improved investment environment will translate into greater capital inflows from South Korea and other foreign countries.

Furthermore, an inter-Korean CEPA will bring additional benefits aside from North Korea's reform and opening up and improvement of inter-Korean ties. So far, tariffs have not been imposed on inter-Korean trade transactions. Under the most-favored-nation treatment, if country X grants country Y a special favor(such as lower customs duty for one of their products), country X has to do the same to all other negotiating parties or pact members. However, the South Korean government has refuted such demands on account of distinct characteristics of inter-Korean relations.

Article 3 of the South Korean Constitution stipulates that "the territory of the Republic of Korea shall consist of the Korean peninsula and its adjacent islands." This means North Korea is also part of its territory. Laws and regulations related to the development of inter-Korean relations define relations of the two Koreas not as relations between two sovereign states but as "a special relationship temporarily formed in the process of seeking unification."

Therefore, the Korean government has maintained that inter-Korean transactions should not be regarded as international trade practices but as trade between the same nation; this type of trade transactions does not need the approval of the international community. If the two Koreas agreed to form a CEPA, this would cement the South Korean government's case that customs-free treatment for goods from North Korea is a tentative measure for an area under its territorial jurisdiction.

B. Measures for Monetary and Financial Cooperation

One of the reasons behind the failures of the Tumen River area and the Rason special economic zone projects lies in North Korea's lack of funds and the subsequent effects of its heavy dependence on foreign currency for infrastructure construction essential for attracting foreign investments. Therefore, it is practical to seek ways to establish a

regional common fund and a financial institution for the development of the Northeast Asian region that North Korea can utilize when it builds infrastructures for the Rason and Hwanggumpyong areas in connection with the Chang-Ji-Tu development project.

There have been measures proposed to reinforce monetary and financial cooperation in East Asia, particularly to enhance collaboration among South Korea, Japan and China. By virtue of establishing the A3Fund and the Northeast Asia Development Corporation, the two issues of regional economic cooperation and North Korea could be connected.

Originally, the A3Fund was a plan to create a common fund primarily led by South Korea, China and Japan to supplement or replace the function of the Chiang Mai Initiative Multilateralization(CMIM) agreement. The CMIM is designed to provide emergency funds during a crisis but another equally important function is to support mega projects carried out in the Northeast Asian region.

The Northeast Asia Development Corporation[11] is a plan for South Korea, China and Japan to found a joint investment company or an affiliated firm by contributing small amounts of capital mainly through their government-run banks(such as an export-import bank or a development bank). The establishment of a joint investment company is aimed at raising funds to develop the Northeast Asian region by issuing bonds in intra-regional markets and specialize in investing in various projects, including infrastructure construction taking place within the region.

Therefore, if the A3Fund and the Northeast Asia Development Corporation are used effectively, it will become possible to provide funds for the development of under-developed areas in Northeast Asia, including the Tumen River and the Dandong-Sinuiju areas, and for infra-building projects such as connection of railroads, construction of power generating facilities, ports and roads. Accordingly, North Korea could reap benefits from such fund or entity.

Since project opportunities such as the development of local areas in North Korea and the Northeast Asian region could considerably raise the value of the A3Fund and the

11 Though various ideas such as the Northeast Asian Development Bank, Northeast Asia Development Financing Council and Northeast Asia Development Corporation, have been presented as a regional development financing institute, the feasibility of the Northeast Asia Development Corporation is presumed to be the highest because it will be led by the private sector, the amount of the capital to be contributed is small, and it will bring about fostering the asset management industry in Korea and efficient use of long term capital.

Northeast Asia Development Corporation, they will be able to facilitate regional economic collaboration efforts on the monetary and financial front. Therefore, when North Korea's nuclear issue is resolved and inter-Korean relations are improved, it would be worthwhile to consider pushing for the creation of regional financial institutions

C. Measures for Multilateral Cooperation

Among the multilateral cooperation projects taking place in the Northeast Asian region, including the Korean peninsula, the hallmark projects are the Pipeline Natural Gas(PNG) project to link gas pipelines in South Korea, North Korea and Russia; trans-continental railway connection projects; and development projects in the borderland areas between China and North Korea, in which South Korea, North Korea and China are involved.

First, trans-continental railway projects, including the Trans-Siberia Railway(TSR) and the Trans-Korea Railway(TKR), to link railroads from Japan and South Korea through Siberia or China into Europe could lead to closer inter-Korean ties and regional economic cooperation efforts. It is because, more than anything else, all countries—Japan, the two Koreas, China and Russia—through which trans-continental railroad lines are passing, share common interests in such projects. For example, linking railroad lines is needed for Japan to conduct trade with Europe, for China to develop its three northeastern provinces, and for Russia to exploit underground resources in Siberia and to perform logistics services throughout the Far East.

As for South Korea, given that any forms of trans-continental railways could be completed only when trans-Korea railway lines are connected, railway connection projects will provide the country with opportunities to reinforce its position in the Northeast Asian region. As mentioned earlier, North Korea can also benefit considerably from these projects, including improving infrastructure, obtaining foreign currencies and enhancing external relations.

Second, the PNG project to link gas pipelines in South Korea, North Korea and Russia is the most symbolic project to promote regional cooperation in energy. This project, expected to bring a win-win situation to all three nations in terms of economic interests, is likely to generate considerable economic effects and thus has a high chance of realization. Russia, the world's biggest natural gas holder and exporter, will be able to

secure stable export routes as well as to exploit new gas fields in the Far East region; South Korea will also be able to stably import natural gas at much cheaper prices by land than by sea.

It was found that transporting natural gas through land pipelines is 30 to 70 percent cheaper than through shipping. When transit fees for Russia–Ukraine gas pipelines are applied, North Korea is expected to gain more than $100 to 150 million annually in pipeline transit fees and can expect labor income and profits from regional development by participating in the PNG project.[12]

Third, in August 2009, the Chinese government approved the "Outline of the Tumen River Area Cooperative Development Program Considering Changchun–Jilin–Tumen as Pilot Zone for Development and Opening", to take the initiative in the Tumen River development project and decided to fully support it at the state level. According to the plan devised by China's State Council, or cabinet, the Changchun, Jilin and Tumen River areas will be used as pilot zones to lead economic development and openness to push forward the "Northeast Revitalization Plan" in the three northeastern provinces, China's dilapidated industrial bases; the on-going joint development of the Tumen River area will be taken to a new level.

In response to Beijing's move, Pyongyang announced a Standing Committee prescript of the Supreme People's Assembly to raise Rason to the status of a special city on January 4, 2010. As it is impossible to independently develop the Rason area and it is difficult to draw investors from the United States or Europe due to its nuclear program, North Korea is attempting to develop the Rason area by attracting Chinese capital and corporate investments. North Korea and China are also carrying forward a plan to build infrastructures related to land and maritime traffic routes, power supplies and communication networks in the Rason area in order to realize the area's industrial development. As for traffic routes, the two nations are planning to establish open traffic networks with multiple access points.

North Korea and China are planning to develop Rajin as a hub port in the Rason area along with Sonbong, Chongjin and Ungsang ports. Former Chinese Premier Wen Jiabao agreed with visiting North Korean officials in March 2009 on China's rights to use wharf

12 As to the issues such as economic feasibility of the PNG project and North Korean risk, refer to Yoonsik Lee (2011), Sungkyu Lee(2011), and Sunghak Yoon(2011).

No. 1 of Rajin port, renovate wharfs No. 2 and No. 3, and build and use wharf No. 4. In March 2010, China's Changli Group obtained a 10-year usufruct for wharf No. 1 of Rajin port and later at the end of the same year also secured the right to develop and use wharf No. 4, No. 5 and No. 6. Meanwhile, North Korea and Russia reached an agreement on connecting railroads between the North's Rajin and Russia's Hasan regions and rebuilding Rajin port; Russia's right to use wharf No. 3 of Rajin for 50 years was also ratified.

Considering railway and gas pipeline connection projects require military and security guarantees, they will generate additional benefits such as building political trust and reducing military tension as well as economic gains. Although these projects have been discussed based on the common interests of concerned nations, no tangible progress has been made yet. This is largely because of the lack of solid trust between the two Koreas and difficulties in securing huge funds necessary for the projects.

Therefore, resolving the pending political issues, including North Korea's nuclear program, and improving inter-Korean relations are essential prerequisites for carrying forward the large-scale multilateral cooperation projects. At the same time, it is necessary to establish a regional development finance institution and a common fund to provide financial assistance to the mega projects for infrastructure construction. Also, in view of future ties between the two Koreas, South Korean companies should seek ways to participate in the development of Rajin port along with China and Russia.

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