

## The Role of Private Sector in Tumen River Development

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As we have all realized by now, the Tumen River Project represents far more than just an "enterprise zone" physically shared by three nations. Its effects would reverberate throughout the entire region in terms of business, industry, trade, politics and international relations. At the risk of sounding trite, in this project we have the unique opportunity to put aside our divisiveness in order to achieve a multilaterally beneficial outcome.

If Northeast Asia can pass this hurdle with coordination and cooperation, our place as one of the great economic regions will be internationally recognized. With this in mind, I would like to look at the vast potential for economic power in Northeast Asia from a uniquely South Korean point of view. As President of the international branch of the Lucky-Goldstar Group, I am able to shed some light on possible roles which the South Korean industry could play in the project. As I have helped to guide our enterprise group through expansive and innovative multinational operations, I will also share with you what I see as the most promising plan for the development of the Tumen River area.

It is no secret that the term "foreign investment" has become the most popular catch-phrase in international business circles over the last few years. We can all see the opportunities throughout the formerly socialist states; to ignore them would mean watching one's profits and competitiveness diminish while competitors offer the same products at lower prices. In this respect, the South Korean business community is similar to the business communities in any of the developed nations.

We have seen our competitiveness challenged as our wages have exploded. As such, we now look abroad for lower wages, investment opportunities and new markets. But in terms of regional economic cooperation, South Korea and the other Northeast Asian countries have not had the opportunity to participate in the post Cold-War world. Europe is increasingly guided by the European Economic Community; there is speculation that an expanded NAFTA will lead to increased cooperation in the Americas, while here in Asia daily headlines herald the

increasing interconnectedness of ASEAN. But where does this block arrangement leave Northeast Asia?

While increased foreign investment by Japan and South Korea is assured, is it also possible for them to work with North Korea, China, Russia and Mongolia in an organized fashion in order to achieve regional economic cooperation? While most of us realize that the complementarity of these nations should not go unharnessed, it was not until the Tumen River Development Plan that we have had the opportunity for a test case.

The early stages of the Tumen River Project, primarily infrastructural development, would probably mean vast new projects for South Korean firms. In terms of telecommunications, computer systems, electric generation, and construction, our technology is at par with what the region will demand in the near future. Due to our competitive bids and low interest rate loans for projects in developing nations, it seems likely that we could offer "sweet deals" to North Korea, Russia, China, and Mongolia. Both the presence of inexpensive North Korean and Chinese labor, and short-distance, low-cost transportation would enable the South Korean industry to offer the most cost-effective infrastructural development anywhere.

While this arrangement might seem unorthodox due to the existing political situation on the Korean Peninsula, we have already effectively confronted such a situation by using Vietnamese labor along with South Korean management on projects in Libya. Also, North Korean acceptance with conditions of such an arrangement in the Tumen River Area has already been worked out with South Korean firms. When low resource costs are added to this scenario, the efficiency of South Korean capital in the region becomes clear. Obviously, the South Korean business community is extremely intent on helping to develop the Tumen River Area, since participating in such large scale projects would be a great boon to the South Korean private sector and overall economy.

The implications of the Tumen River Project for Korea's technological production of consumer goods are also massive. Due to the low, fixed costs, the Tumen Area is an ideal sight in which to produce South Korean value added consumer goods. Not only do the river and ports offer ideal outlets for exports, but also as wages rise, it is hoped that the inhabitants will seek precisely our products for purchase. As most of you know, the South Korean consumer industry has found its niche by offering products which rival our competitors in quality while maintaining a distinct price advantage.

This fact, combined with new brand-names and product recognition in the three developing countries, would allow for more efficient market

exposure than our common single-nation ventures. As such, Korean firms look at the Tumen River Project as a means of solidifying currently expanding economic relations with China, North Korea, and Russia while creating new opportunities with Mongolia. The multinational "Ripple Effect" produced through the development of this one area could make it the broadest and most highly involved project in which Korean firms are participating.

Within South Korean business and government circles, it is often worried that the export of our consumer technology will lead to a "Boomerang Effect." In this scenario, the developing countries to which South Korea passes on its technology will capture its traditional markets and products while leaving South Korea with an outdated domestic industrial base. But the reality of restricting the exports of certain industries does not tackle the problem of losing the competitive advantage. The South Korean business community needs to do two things in order to improve upon its current market standing and prevent de-industrialization:

- 1) Export its consumer-level technology through foreign investment to take advantage of lower wage rates and economies of scale abroad. This will allow South Korean businesses to be more internationally competitive and have greater income to invest in research and development.

- 2) South Korea needs to import more high technology, and the Tumen River Project will provide a means by which to do so. China and Russia both have high technology hardware industries which could share specific areas of expertise with South Korea in return for investment. Also, while South Korea receives much of its technology from Japan, joint ventures between these two nations in the Tumen River Region could yield even more sharing. Once South Korea is able to develop more "cutting-edge" industries, it could then safely dedicate its domestic industries to maintaining and improving upon them.

The combination of these two effects, which the Tumen River Project would complement, will allow for optimal economic development in South Korea. As recent experiences in multilateral business ventures have shown, sharing of resources, technology, and capital are necessary for optimal development and benefit all who take part. Thus, not only South Korea, but all the nations currently pondering the Tumen River Project stand to gain through a high level of cooperation.

The question still remains as to what advantage there is to South Korean investment in the Tumen River Project as opposed to other developing regions. The Korean Business Group has experienced positive results in their recent diversification into North America, Southeast Asia,

and Eastern Europe in both joint-venture productions and wholly-owned operations. Through these experiences, we have found two overriding factors which ensure the success of an international venture. Those are as follows:

1) Location: Obviously, the closer the operations are to our bases of operations in Seoul, the greater our control of the overseas operations will be. As we find that our international ventures are the most successful when we control management, open communications and quick crisis management become a necessity. Since the Tumen River Project would represent one of the closest, most open enterprise zones to South Korea, it is one of the most promising locations for our foreign investment.

2) Cultural Background: Through our multinational experiences, we in the South Korean industry have found it far easier to ensure the success of a venture if the other party shares a similar cultural background with us. For instance, we at Lucky-Goldstar have found expectations and negotiating styles more compatible with ours when working with other East Asian companies or government agencies than with those of other regions.

The cultural factor is one of the main reasons for the strong South Korean industry support for the Tumen River Project. The people of China, Mongolia, North Korea, South Korea, Japan, and Eastern Russia all share similar customs, beliefs and ancestry even though they have often been adversaries. It is currently a predominant belief within South Korean business circles that this factor will make the Tumen River Project feasible.

When South Korean firms look ahead to the future of the Tumen River Project, they are encouraged by what they see as promising political and economic returns. Our investment can bring us closer to Northeast Asian regional cooperation, which makes the Project worth the risk. If our blueprint for the future comes to fruition, then Northeast Asia could see political and economic interdependence beyond our current estimations.

Lucky-Goldstar is currently taking part in numerous economic zone projects throughout the world. In our relatively short history of foreign investment, we have come to find certain characteristics absolutely necessary for our international success and the success of the respective zones. Our experience clearly shows that well-managed enterprise zones, bolstered by an enforced set of rules, regulations, and laws, has by far the best chances of attracting and keeping foreign investors. In sum, such a system lends security to international corporations while cutting down on "Red Tape."

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But as many of us know, there are several theoretical roads to such a promising outcome. Finding one which all involved nations are willing to accept is a potential stumbling block which absolutely must be overcome. The difficulty of developing an enforceable legal investment plan is complex enough when only one nation is involved; amongst three it is an unprecedented challenge. But as I have already stated, the potential rewards of such coordination are unprecedented. The creation of a legitimate legal body for the Tumen River Area is the first step in the long process of turning Northeast Asia into an economically integrated region.

By examining our successes and failures in other economic zones, we at Lucky-Goldstar have discussed a model for controlled development of the Tumen River Region. We see the creation of a Tumen River Management Authority as a prerequisite for sustained development. Such an authority would have the ability to manage all aspects of the Tumen River Project, acting as a facilitating promotional and regulatory organization. It would create development plans, privatize industries and delegate licenses for firms to supply infrastructural development. For international firms like ours, working with such an authority will provide us with easier entry into the Tumen River Zone by minimizing the bureaucracy and lack of accountability which plague many developing areas.

For such a plan to be effective, though, it must be given legitimacy by the governments of North Korea, China, and Russia. As such, each of these nations must be willing to sacrifice their respective power in the region in order to achieve economic growth and integration. The Tumen River Management Authority, therefore, must have more than just de facto recognition from the involved nations. With the whole-hearted legal and institutional support of each respective government, the management authority will be lent the legitimacy it needs to be effective. Without the legal framework, we all risk losing a great opportunity to disorganization and corruption.