

Special Economic Zones in the Tumen River Area

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The objective of this paper is to describe the current situation of foreign investment in the Tumen River area, with a focus on investment from Japan. In particular, the paper reviews the industrial sectors of interest to Japanese investors in the three Special Economic Zones—the Hunchun Border Economic Cooperation Zone in China, the Rajin/Sonbong Free Economic and Trade Zone in the DPRK, and the Nakhodka Free Economic Zone in Russia. The three zones are being developing independently.

THE HUNCHUN BORDER ECONOMIC COOPERATION ZONE

In this zone, 50% of the total foreign investment of US\$27 million comes from South Korea with the remainder mostly from Hong Kong and Taiwan. The three largest projects are steel-pipe production by Hyundai of South Korea (US\$20 million; under construction); house construction for foreign businesspersons by a Hong Kong company (US\$4.82 million; under construction); and underwear production for winter use by a South Korean company (US\$4.34 million; operational). Projects in garments/textiles, food processing and construction materials are increasingly drawing the attention of foreign investors.

Japanese investors are particularly interested in food processing utilizing local agricultural resources such as soy beans, potatoes, wheat, vegetables and rice, i.e., value-added processing of agricultural products. They are also interested in machinery, metal processing, wood processing, apparel and Chinese medicinal herbs. As of October 1995, there are four Japanese investments in this zone, totalling US\$6.7 million; three are in real estate development and one is in computer software and peripherals.

THE RAJIN/SONBONG FREE ECONOMIC AND TRADE ZONE

This Zone is managed by the DPRK Committee for the Promotion of External Economic Cooperation, and has been visited by more than 200 foreign missions. Among them are Siemens, General Motors, AT&T, MCI,

Coca Cola, the Stanton Group, and Lucky Goldstar. So far, 20 projects worth a total of US\$200 million have been signed of which US\$40 to 50 million has been received. Most of the concluded projects are rather small-scale and in the range of US\$1 to 2 million. One of the reasons for this is that the South Korean government does not allow domestic companies to invest more than US\$2 million in the DPRK, despite South Korean companies' keen interest in the Free Economic and Trade Zone. Also, tariff rates for imports to the Zone are very high for those countries which do not have diplomatic relations with the DPRK.

The following are some of the projects.

Banking services by ING Northeast Asia Bank (Netherlands) and Peregrine Investment Holdings (Hong Kong); each invested US\$15 million.

Pavement of transportation route from Quanhe (China) to Rajin by Hong Kong; investment of US\$7 million, to be completed in 1996.

Communication center by Thailand; investment of US\$35 million, taken over from Samsung of South Korea because of the South Korean government restriction on amount of investment.

Convention center by South Korea; investment of US\$50 million, tentative because of South Korean government restrictions on the amount of investment.

Liquor production by Euro-Asia Business Consultants (Hong Kong); investment of US\$2 million, which is 100% foreign capital; the targeted market is China.

Rajin First Hotel by Hong Kong; investment of US\$2 million, to be completed in 1996.

Heliport construction and helicopter operation between Rajin and Yanji by a UK consulting company and Euro-Asia Business Consultants, Hong Kong; investment amount undisclosed; two 20-passenger helicopters will be operating in 1996; project awaiting approval by China.

Oil reserve tanks by Shell; initial investment of US\$2 million, including pavement of necessary roads; 10 ha of land also leased.

Many Japanese companies, including big trading houses, have a strong interest in the zone and are collecting information under strict confidentiality, considering the tense relations between Japan and the DPRK. Sectors of interest to Japanese investors are food processing, wood

processing and production of parts for home appliances. There are two Japanese investments already in this zone; one is an investment in a warehouse for import/export of Russian-made fertilizer, which was concluded in July 1995. The investment amount is not disclosed, but assumed to be in the range of US\$1 to 2 million. The current project is a trial operation with an initial production of 100,000 tons to be exported to China and Southeast Asia. The other project is the processing of marine products for the Northeast Chinese market; it has an investment of US\$1 to 2 million.

THE NAKHODKA FREE ECONOMIC ZONE

This Zone is managed by the Nakhodka Free Economic Zone Administrative Committee and is Russia's only special economic zone in the Tumen River Economic Development Area. Japan has a clear lead in foreign investment in this zone with 42 investment projects, totalling US\$343,000 registered as of December 1, 1994. China is the single most important country of origin with 259 projects. Total foreign investment in the zone amounts to US\$618,000. Approximately one quarter of all investments are related to manufacturing of consumer goods and technological equipment. As an example of Japanese investment, Star Keiki Co., Ltd. established a joint venture company named Epsi International to manufacture peripherals for computers, such as printers. Although land is designated for the Free Economic Zone, no legislation or conditions have been specified. This has hindered investment although there are bonded warehouses in operation, mainly by South Korean and U.S. companies.

Managers of individual businesses in the Nakhodka Free Economic Zone oppose the Tumen River Area Development Programme because they fear the detrimental effects from increased competition once modern transportation links are fully operational in and through the Khasan district. In this context, the Tumen River Area Development Programme is seen by some as competition to the Nakhodka Free Economic Zone.

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Japanese investors have a strong interest in this region. However, Japanese investment in this area has been retarded because of its poorer infrastructure compared to other areas such as Southeast Asia.