

# RESEARCH ON ECONOMY AND TRADE COOPERATION BETWEEN DANDONG CITY AND D.P.R. KOREA

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## 1. General character of Dandong's economy development

Dandong city, which locates in the east edge of economy open area of East-Liaoning peninsula in China, faces Korea peninsula by Yalu River. The population is 2.4 millions, including 710 thousand urban population. The city area is 14910 square kilometer. Dandong is a border city with the character of along border, along river and along coast, which light industry takes a main part in the old industry base of Liaoning province.

### 1) Natural resources

The natural resources are abundant in Dandong. 56 kinds of mineral resources have been found in this area. The reserve of boron takes the first place in China, which occupies 94 % of the total reserve of China. The amount is more than 0.3 billion. The reserves of andalusite, lead-zinc, marble take the primary place in China. The reserve of magnesite is 0.6 billion tons, kaolin is over 20 million tons. The rate of forest cover is 61.6%, and the timbering reserve amount is 3.5 million cubic meters. Water resource is affluent, the overall amount is 9.03 billion cubic meters, and water quality is fine. The total water hardness, PH value, biological sarcode and diaphaneity are superior to the international standard. The rich natural resources make it suitable for Dandong city to develop the industry, such as electricity, papermaking, textile, mine exploiting and processing .

And what's more, Dandong city has abundant tourism resource. There are 125 places of scenic areas, forest parks, nature preserves and antique protection units. They cover 1500 square meters, occupying 10% of the whole city area, which is 16 times of Chinese average level. Among the 125 places, seven of them belong to national grade, 13 of them belong to provincial grade and all is helpful for tourism.

### 2) Industry base

Dandong has developed its economy rapidly. The annual increase rate of GDP is 13.6 % during 20 years from 1980 to 2000. As for the industrial structure, the rate of primary industry is rising slowly, the secondary is dropping and the tertiary is increasing rapidly. The ratio of three industries is 19.5:36.4:44.1 in 2000, comparing to that of 1996's 18.2:42.1:39.6. The annual increase rate of primary industry is 1.7%, and that of tertiary industry is 2.7 %, while the decrease rate of the secondary industry is 3.8 %.

As for the industry, Dandong city has a better foundation, but it faces the problem on how to adjust the industrial structure for the reason that the state-owned enterprises have a common low economic efficient in recent years. At present, the main industries of Dandong are light industry, textile, electricity, chemical engineering and machinery. At present, the main problems are the following two: Firstly, the basic industry market is now withering and the production capacity is dropping. Dandong's papermaking and textile which developed on the basis of local resources have reduced its export, which are the result of keen market competition and shrink in USA and Southeast Asia; Secondly, leading industry is not prominent and the industry relevance rate is low. Though in Dandong there are many industry sectors and the industrial categories are complete, the sorts of industrial products are amount to several thousand, it lacks of the leading industries which can drive the development of the regional economy. The former industry system constituted by watch manufacturing, chemical fiber, textile and electricity has been impacted greatly. So it is necessary for Dandong city to reinforce the economical cooperation with Korea and bring in the technology and capital to rebuild the state-owned enterprises.

### 3) International trade

Dandong has developed its international trade rapidly. Its export amount was only \$18.59 million in 1989 when Dandong city was set up as one of economy open area of East-Liaoning peninsula. The amount added up to 606.56 million by the end of 2000. The annual increasing rate is 37.3%, which lies the third place among 14 cities of Liaoning province. Dandong exports its merchandise to 83 countries, and Japan, D.P.R.Korea, Holland and Korea are the main trading mates. The export amount to Japan, Poland and Korea is \$355.6 million, \$75.39 million, \$38.47 million respectively in 2000. Compared with Japan and Poland, Dandong has great potential to develop bilateral trade with Korea. TV set is the main export product, which amounts to \$132.52 million in 2000 and take 20.2% in total export amount. The export rate is 20.2%. The homologous number of motor acoustics, fishery products, wearing, electronic devices, textile, stainless-steel dinnerware ,food, plastic product is \$78.46 million, 13.0% , \$45.17 million, 7.4%, \$32.45 million, 5.7%, \$17.10 million, 2.8%, \$16.37 million, 2.7%, \$13.38 million, 2.2%, \$12.24 million, 2.0%, \$12.0 million, 1.9% respectively in 2000. The rate of total value of these 10 export products is 79.4%.

Since 1985, foreign countries have begun to invest in Dandong, which develops rapidly. Dandong is adjacent to Korea peninsula, which makes it an attractive district for investment in Liaoning province. At the end of 2000, there are 23 countries and regions which have invested here such as Hang Kong, Japan, Korea, Taiwan, America, Thailand and Australia. There are 983 enterprises engaging in restaurant, clothes manufacturing, electronics, aquatic product processing etc. Japan has built 96 enterprises in Dandong, and the rate of total investment is 28.3%. Korea has become one of the important investors, whose total invest amount is \$45.15 million junior to Japan and Hong Kong. The number of the enterprises is 93, mainly engaging in housing, clothes manufacturing, shipping. Another thing that is worthy of being focused is that the rapid development of the trade between Dandong and Korea, which is due to the successful cooperation between Dandong and D.P.R.Korea, for example the trans-trade develops rapidly.

## 2. History and present state of the trade cooperation between Dandong and D.P.R.Korea

The history of trade between Dandong and D.P.R.Korea is long, which can be traced back to the year of 1882 when Qing Dynasty in China begun the mutual trade and opened up barter trade in Zhongjiangtai(now is the county of Dandong, called MaShi) and Lanzi island (in the border of D.P.R.Korea). The trading amount increased more quickly before 1920s~1930s when the merchandisers of the D.P.R.Korea had set up 73 companies in Dandong and in this time Dandong occupied more trade allotments than any other districts in the three provinces of Northeast of China. However, the trade between Dandong and D.P.R.Korea was forced to stop due to the Japans invasion, China' s civil war and War of the Korea Peninsula. Until the beginning of 1961 did the trade resumed. During the years of 1960s~1970s, the mutual trade operating was interrupted for the reason of China' s political movement. Dandong restarted trade with D.P.R.Korea in september,1981 by the consent of China' s government. In 1988 Dandong was arrayed to be a economical open area of East-Liaoning peninsula and the manual trade developed rapidly. At the same time China enacted a series of policies to encourage the border trade. For the sake, the trade with D.P.R.Korea developed quickly.

The trade with D.P.R.Korea has become an important part of Dandong' s international trade. The export to D.P.R.Korea occupies 25.0% of the overall export amount. The export merchandise structure has converted from small to big merchandises mainly including daily goods, clothes, food and oil products, domestic electric appliances, machinery equipment, petroleum products, pesticide and chemical fertilizer. The import goods are mainly raw material and primary products , including steel, timber, coal, reed, cocoon, liquid gas, aquatic product, mineral, nonferrous metals and native products. Dandong' s enterprises have established 8 joint ventures in D.P.R.Korea recently, including 2 department stores, 3 restaurants, 2 processing factories and 1 aquatic products industry. Dandong should make full use of the opportunities of industrial adjustment to invest directly to D.P.R.Korea with technology and equipment, because Dandong superior to D.P.R.Korea on the corresponding industries, technology and management, which is feasible in the products of daily products, food, machinery, electronics.

At present, trading with D.P.R.Korea has developed from the single barter trade to the following patterns: cash trade, barter trade, processing trade with exporting raw materials and utilizing labour force, trans-trade to Europe, U.S.A and Korea, folk trade, barter trade between fishermen. The number of agencies engaging in trade with D.P.R.Korea reaches to 120 in Dandong. At the same time, more than 100 agencies out of Dandong engage in this business due to the high profits. Furthermore, the development of trading with D.P.R.Korea accelerates the tourism development of China and D.P.R.Korea. The tourism departments have cooperated since 1988 and have built international travel routes from Dandong to Pyongyang, Myohuangsan, kaesong. Chinese tourists to D.P.R.Korea amounts to 60,000 in 2000, and agencies engaging in tourism in Dandong come up to 30.

## 3. Foundation of economical cooperation between Dandong and D.P.R.Korea

### 1) Cultural background

In fact, the similar cultural background accelerates the development of trade greatly. Both China and D.P.R.Korea belong to orient culture. Confucianism spread to Korea peninsula in A.D.194 and was acknowledged in Korea peninsula. Since then it has been always in the ruler ship of peninsula culture. From the history of peninsula culture it can be said that confucianism creates the basic framework of traditional culture.

Dandong is one of grouping location of Chinese Korea tribe. The Chinese population living in D.P.R.Korea amounts to more than 8000. With adopting the opening up policy and improving of invest environment step by step, the intercourse between Dandong and D.P.R.Korea increases greatly on visiting relatives, tourism and civil business activities. The statistics indicates that annually more than 3000 overseas Chinese from D.P.R.Korea return to Dandong for living. They strengthen mutual interrelation and cooperation and become the main humane resources in trade cooperation between Dandong and D.P.R.Korea.

### 2) Territorial relation on the basis of Northeast Asias cooperation

At the end of cold war, especially after the market reform of China and Russia eliminated antitheses and conflicts of regulations and ideology among the Northeast Asia countries, the betterment of international relations built a base for the mutual economic cooperation. With the D.P.R.Korea's flexible diplomatic strategies and economic recovery and junction with international economy, Northeast Asian countries are sure to follow the tendency of globalization and regional economic grouping to develop the overall cooperation, which will accelerate mutual trade between Dandong and D.P.R.Korea. Both Dandong and D.P.R.Korea are in the center of Northeast Asia and they are the main overland gangways connecting Korea peninsula, China and Europe-Asia continent. The construction of railway between Seoul and Sinuiju will be beneficial to the economic connection between Dandong and Korea peninsula.

### 3) Demand of the domestic economic situation in D.P.R.Korea

Though the domestic economy of D.P.R.Korea turned good from 1999, it still faces great shortage of food and energy. It is impossible to solve such problems in short time only depending on domestic power. Cooperation with peripheral countries, especially with China, the largest trade partner, will recover its economy. Also, D.P.R.Korea should follow china' open policies.

In addition, from the report of the UNIDO (Unite Nation Industry Development Organization) , we can see that the requirement of the Hi-tech from the developed countries is not much, but mainly is the ripe technology and the middle or small scale investment belonging to the semi-developed countries, China is a better investor obviously. Dandong, standing the forward position of the trade between China and D.P.R.Korea, should play an important role in mutual trade. Dandong is an important industrial city in Northeast China, whose light industry develops well and product category is complete. Lots of these goods are shortage in D.P.R.Korea, which can be accepted by the market of D.P.R.Korea due to their low prices. At present, more than 10 large-size commercial enterprises of D.P.R.Korea with different background have set up

agencies in Dandong.

#### 4) Benefit orientation of Dandong and Korea

State-owned enterprises of Dandong are reforming in technology and management now, so it is necessary for Dandong to bring in lots of technologies and capital to transform its traditional industries. Korea is the suitable partner undoubtedly. As far as Korea is concerned, it hopes to have trade and economy cooperation with D.P.R.Korea in a large scale based on the nation unity, however, the idea is limited by the objective conditions. Korea's investing in Dandong will offer the convenience to the trade and economy cooperation between Korea and D.P.R.Korea, which is just what Korea's government and enterprises want to do.

#### IV. Prospect of trade and economy cooperation between Dandong and D.P.R.Korea

In the future, the cooperation of economy and trade between Dandong and D.P.R.Korea must be influenced by the trend of the economic globalization and regionalisation in the new century. Firstly, in 21st century, the center of the whole world economy will transfer to Pacific districts. It is certain that the collaboration of economy and trade will develop between China and D.P.R.Korea, as they are the important parts of the Asia-Pacific regions. The tendency that China joins into WTO, Korea peninsula unites at peace and Korea adopts flexible diplomatic and opening up policy will promote the development of the collaboration of economy and trade between Dandong and D.P.R.Korea.

Dandong and D.P.R.Korea, being a neighbour, has economic complements and has built a solid foundation of cooperation. In the future, Dandong can carry out such tactics to further promote their trade:

Firstly, we can participate in exploiting mineral and aquatic product resources in D.P.R.Korea in the form of compensation trade.

Secondly, we should consider to unite with South Korea's enterprises to embark upon the resource exploitation, export manufacturing and the infrastructure building in the border area between China and D.P.R.Korea, because Korea's enterprises are confined in some areas in D.P.R.Korea. Meanwhile, Further measures can be carried out to develop transit trade between Korea and D.P.R.Korea.

Thirdly, the industrial structure is being adjusted in Dandong. It is possible to transfer those industries with superfluous productive capacity to D.P.R.Korea market, such as electronic industry, mechanic industry and light industry, and invest machinery, technology and managerial experience directly into D.P.R.Korea for participating in economic and trade activities.