

Material for the Book's Web Site

Chapter 5

Page 110 in the book:

As of 1996, metal making had accounted for the largest single-industry share of South Korean cumulative investment in China (Kim and Kwon, 1998). Two South Korean companies (Korea Steel Pipe Co. and Pohang Iron and Steel Co.) established capital-intensive ventures to make steel pipes and other steel products. Kia Industrial Co. agreed with a Chinese state-owned enterprise to manufacture passenger cars, minibuses, and trucks. In 1996, China and South Korea agreed to set up one of the largest Chinese-foreign joint ventures to manufacture automotive parts, with the South Korean partner (Daewoo) putting down US\$780 million or 80% of the total equity (X. Chen, 1998).

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Of the 26 China-South Korean joint ventures in operation as of October 1990, 15 (57.7%) were located in the major Chinese cities (Dalian, Tianjin, Qingdao, Yantai) rimming the Bohai Bay. By February 1992, South Korea ranked second behind only Hong Kong in investing in Qingdao, accounting for 13.8% of the ventures and 12.6% of the capital. Tianjin attracted 7% of South Korean-invested ventures in China by 1991 (X. Chen, 1998). South Korean investors' preference for these locations has persisted through the 1990s. As of 1997, the three cities of Qingdao, Yantai, and Weihai in Shandong hosted 2,190 South Korean ventures, capitalized at US\$3.4 billion, which accounted for over half of the total South Korean investment in China (Kim and Kwon, 1998). In 1997, South Korea even surpassed Hong Kong as the largest overseas investor in Qingdao in the

number of new projects, contracted capital, and the amount of cumulative utilized capital (W. Kim, 2000). According to survey results in Kim and Kwon (1998), 56.1% of the South Korean firms rated the investment environment of Shandong's coastal area a **lot better** than the inland region of the province, while 42.1% rated it **better**.

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North Korea's Attempt to Set up a Border SAR: A Non-Starter Fiasco

As the BYSS has taken shape through the participation of China's Liaoning and Shandong provinces, South Korea's west coast, and the Kyushu region of Japan, nobody expected any involvement of any part of the autarchic North Korea, even though its west coast sits on the Yellow Sea and borders Liaoning to the north and South Korea to the south. On the other hand, given the long-standing, strong relationship between China and North Korea, it is not surprising that they have maintained bilateral and border trade, much of which goes through Liaoning's border city or crossing point of Dandong (see map 5.1 in the book). In 1998 and 1999, slightly over 50% of the China-North Korea trade passed through Dandong. Of the total border trade between the two countries, 57.3% took place at Dandong. Border trade at Dandong also accounted for about one-third of the total China-North Korea trade through this border city.¹ More recently, Dandong also has become an increasingly popular entry point for local and other Liaoning residents to visit North Korea as tourists. With the attractions of staged North Korean folk dances and more tour routes opening up, the number of Chinese visitors hit a record high in the first half of 2002. During the peak summer season, there is often a

long queue of tour buses from China to cross the Yalu border bridge to enter North Korea at its border city of Sinuiju.²

This unintentional and tangential involvement of North Korea took an interesting turn in September 2002 when the Communist regime announced that it would establish a new special administrative region (SAR) on 90 sq km of land at Sinuiju on the Yalu River, opposite the Chinese border city of Dandong. The official claim was that this SAR would be built up as an international financial, commercial, industrial and tourism hub, a sort of “Hong Kong of North Korea.” The proximity of Sinuiju to China has made it more prosperous than other parts of poverty stricken North Korea, even though it was and still is a poor, undeveloped industrial and agricultural city, with poor roads, power supply and other infrastructure. To prepare for achieving the ambitious goal of building a capitalist enclave, it would seek private capital from China, South Korea, Japan, and the West. The central government planned to relocate 200,000 local residents and move in 500,000 others with technical and administrative skills over the next few years (Sandhu, 2003). There was even a plan to operate the zone with its own economic and legal system free of central government interference for a period of 50 years, an identical reference to the blue print for the governance of Hong Kong at transition to Chinese rule in 1997. The most amazing part of this was that the North Korean government tapped Mr. Yang Bin, one of China’s richest entrepreneurs, to become the chief executive of the new zone because of his business and personal ties with the top North Korean officials. However, about two weeks later, Yang was put under house arrest by the Chinese government for alleged tax evasion and illegal land use, and the North Korean

government quickly removed him from his post under pressure from China, while the plan for building the SAR was left adrift.³

Although this move by North Korea appeared to be a non-starter, it carried remarkably similar and even more audacious design features to the bold decentralization initiative of China to launch the Shenzhen SEZ on the border with Hong Kong back in 1979. The short-lived “governor” of the planned SAR from China, Yang Bin, promised visa-free entry for all visitors, the creation of a stock market, the use of all the world’s currencies, setting up a South Korean industrial park inside the SAR, and cordoning it off from the rest of North Korea. However, the plan was set up to fail as the new zone would not enjoy any local autonomy under rigid central control. This scenario has been the unfortunate reality of the earlier Rajin-Sonbong Special Economic and Trade Zone in North Korea’s northeast corner bordering on China; lack of local autonomy was the main factor in the slow development of the Rajin-Sonbong zone (see chapter 6 of the book). Given the unlikely prospect of real decentralization and local autonomy in North Korea, a false move like the plan to create a SAR gives no hope that any part of North Korea will become a serious participant in the growing BYSS.

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For the Incheon-Weihai and Incheon-Qingdao routes (see map 5.1), Weidong Ferry Co., a Sino-South Korean joint venture established in 1990, began operating three round-trips a week to Weihai and two round-trips a week to Qingdao starting in 1993 and later expanded the latter route to four round-trips a week. The vessel (Golden Bridge, 26,463 tons) on the Incheon-Weihai route is capable of carrying 600 passengers and 105

TEU containers, while the vessel (New Golden Bridge) on the Incheon-Qingdao route carries up to 480 passengers and 97 TEU containers. In 1996 and 2000, Weidong Ferry added two newly built and more luxurious ships to its fleet to meet the growing traffic flow between China and South Korea. Both the Incheon-Weihai and Incheon-Qingdao routes have been 80% full in passenger capacity most of the time, with 50% being sufficient to turn a profit. In the early 1990s, most of the passengers were South Koreans of ethnic Chinese background going to Shandong to start small business ventures, conduct petty trade, or visit their places of ancestry. In 1992, the number of passengers on the Incheon-Weihai route accounted for 16.3% of the total passengers through the Chinese port of Weihai (Han, 1995). South Korean businessmen gradually became the majority of the passengers, especially after the Asian financial crisis in 1997, which made the China market look more attractive.⁴ By December 2001, Weidong Ferry Co. has served 1.44 million passengers and 400,000 TEUs of freight cargo.⁵ With the Incheon-Weihai route going into service, trade between Incheon and China almost doubled from US\$275 million in 1991 to US\$517 million in 1992. With the opening of the Incheon-Tianjin and Incheon-Qingdao routes in 1991 and 1993, trade between Incheon and China grew more rapidly. It surged to US\$1.7 billion in 1997 before declining in 1998 and 1999 due to the impact of the regional financial crisis on South Korea (W. Kim, 2000).

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The Incheon International Airport was built on 13,838 acres of reclaimed land between Yeongjong and Yongyu Islands on South Korea's west coast, about 30 miles from Seoul. Upon opening, the Incheon airport's two initial independent parallel

runways were capable of handling 170,000 flights movements and carrying 27 million passengers and 1.7 million tons of cargo annually. With the number of international passengers traffic through the Seoul area projected to rise from about 26 million in 2000 to 79.1 million in 2020, which will be mostly fueled by rapid growth of Chinese travelers, the Incheon airport is continuing with a second phase of construction which will add two more runways by 2020 when it will be capable of carrying 100 million passengers annually (IIA, 2001; Larkin, 2000).

Page 135 (1):

The Incheon airport charges US\$2,675 in landing fees for a 747-400 cargo plane and US\$2,800 for a 747-400 passenger plane, which is considerably lower than the rate of US\$4,674 at Chek Lap Kok International Airport in Hong Kong, the rate of US\$5,388 at the new Pudong International Airport in Shanghai, and the very high rate of US\$8,910 at the Kansai International Airport in Osaka (IIA, 2001). The Incheon airport offers around-the-clock service with a 25% discount rate for users between midnight and 4am, while the old Gimpo (formerly Kimpo) airport had to shut down between 11pm and 6am due to noise; the latter airport switched to domestic use in 2002. In 2002, the influential magazine *Business Traveller Asia-Pacific* rated Incheon International Airport the world's third-best airport after Changi Airport in Singapore and Chek Lap Kok Airport in Hong Kong. When its expansion is completed by 2020, the Incheon airport will be more than competitive against Hong Kong's Chek Lap Kok airport, Singapore's Changi airport, and Shanghai's Pudong airport in terms of overall lot size, number of runways, and cargo terminals (Ahn, 2003).

Page 135 (2):

Since the 2000 summit meeting of the two Korean leaders, South Korean investment has begun to take place in Pyongyang, Nampo, Gaesong, and other locations. However, in recent negotiations with North Korea to develop Gaesong (map 5.1), Hyundai has run into complications due to its own financial problem and organizational restructuring. These highly controlled attempts to open certain local areas, like the most recent failure to create a SAR in the border city of Sinuju (see earlier), could have contributed to some opening of the North Korean economy to its neighbors.

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The Incheon airport has already begun to develop itself into a “pentaport” with links among an airport, a seaport, a leisure port, a tele-port, and a business port in its adjacent area, as illustrated by the development of Songbo Media Valley in the city of Incheon in 2001. Being touted as the “Silicon Valley of the Far East,” the large complex is intended as the Asian base for software, multimedia, and Internet content development, as well as application-specific integrated circuit design and semiconductor design and manufacturing. There are plans to develop an international logistic complex on 1.7 million sq meters of land on Yeongjong Island. The construction of a direct high-speed train service connecting the Incheon airport to central Seoul has begun and will be operational by 2007. This concept of “plane-to-train,” which represents a crucial inter-modal link, has been efficiently implemented at Chek Lap Kok International Airport in Hong Kong, where the high-speed train is next to the departure hall. With improved

links between the Incheon seaport and airport and enhanced capacity of transferring, loading, and sorting cargo, the Incheon airport has begun to handle more sea-air cargo from China that used to be shipped to Incheon and trucked to Gimpo for onward air transport to North America and Europe. It was poised to elevate the former ranking of Gimpo International Airport as the 6th busiest cargo airport in the world in 2001 (IIA, 2001).

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¹ Statistics on China-North Korea border trade were compiled by ERINA of South Korea and supplied by Dr. Won Bae Kim from Seoul, May 26, 2002.

² Reported in *Renmin Ribao* (The People's Daily), overseas edition, July 10, 2002, p. 6

³ There was a flurry of newspaper reports in Asia and the West on this surprising move by the North Korean government to create a capitalist zone on its northern border with China. See "Chinese tycoon to run Korean SAR," "River zone no threat to Hong Kong investor," on *The South China Morning Post* Website (scmp.com), September 24, 2002; "North Korean SAR chief promises visa-free visits," on scmp.com, September 30, 2002; "N. Korea agrees to fire China-born governor of its capitalist enclave," *The Strait Times*, October 10, 2002, p. 1; "North Korea says it will build capitalist investment zone," *Chicago Tribune*, September 25, 2002, p. 3; "Doubts raised about N. Korea's free zone," *Chicago Tribune*, September 26, 2002, p. 24; "North Korea ambition mired in tycoon's woes," *Chicago Tribune*, October 6, 2002, p. 3.

⁴ The author's interview with a manager of Weidong Ferry Co. at the port of Incheon, July, 1999.

⁵ These figures were reported by Weidong Ferry Co. accessed from its Website <http://www.weidong.com/english/about/about.htm> on April 15, 2003.