

# Economy and Trade Cooperation between Dandong, China and D. P. R. Korea

단둥, 중국, 북한의 경제 및 무역협력에 관한 연구

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**Abstract** : The further economy and trade cooperation between China and the Korean Peninsula should be carried out due to the process of globalization. Being the biggest border city and one of the windows of opening outside policy, Dandong plays a very important role in the economy and trade cooperation between China and D.P.R.K. With the tendency of regional economy cooperation among countries of Northeast Asia, Dandong should also act as a bridge in the economy and trade cooperation between R.O.K and D.P.R.K.

**Key Words** : Korean Peninsula, Dandong, D.P.R.K, R.O.K, Economy and trade cooperation, Territorial relation, Border trade

**요약** : 요동반도 경제 개방 지역의 동쪽 경계에 위치한 단둥시(Dandong city)는 한반도, 중국, 유라시아 대륙을 연결하는 주요한 관문이다. 단둥시는 중국과 북한의 경제 및 무역에서 항상 중요한 역할을 담당했는데, 최근 중국의 개방 정책이 수행되고 동북아 지역에서 경제 협력이 강화되면서 더욱 중요성이 커졌다. 한반도에서 평화가 정착되고 북한의 개방이 진행됨에 따라 단둥과 북한의 경제 및 무역 협력이 보다 큰 진전을 이룰 것으로 예상된다.

**주요어** : 한반도, 단둥, 북한, 남한, 경제 및 무역 협력, 영역 관계, 국경 무역

## 1. Introduction

Dandong city, locating in the east edge of economic open area of East-Liaoning Peninsula in China and facing Korean Peninsula by Yalu River, is the main continental passage connecting Korean Peninsula, China and European-Asian continent(See Fig. 1). Dandong city is always playing the key role in the economy and trade interaction between China and D.P.R.K, especially with the reform and opening up to the outside policy in China and the regional economic cooperation in Northeast Asia recently promoting greatly the economy and trade cooperation between them. There will be a further development in economy and trade cooperation between

Dandong and D.P.R.K with the trend of regional peace in Korean Peninsula and opening up to the outside in D.P.R.K in the future.

## 2. Foundation of Economic Cooperation between Dandong and D.P.R.K

### 1) Cultural background

In fact, the similar cultural background accelerates the development of trade cooperation greatly. Both China and D.P.R.Korea belong to oriental culture. Confucianism spread to Korean Peninsula in A.D.194 and was acknowledged in Korean

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Figure 1. Location of Dandong

Peninsula. Since then it has been always the key part of peninsula cultures. From the history of peninsula culture it could be said that Confucianism formed the basic framework of traditional culture. Dandong is one of gathering areas of Chinese Korean Nationality. The Chinese people living in D.P.R.K amount to more than 8000. With the deepgoing opening up to outside and improving of investment environment, the intercourse of visiting relatives, tourism and civil business activities between Dandong and D.P.R.K will increase greatly. The statistics indicates that annually more than 3 000 overseas Chinese from D.P.R.K return to live in Dandong. They strengthen communication and cooperation and become the main human resources in trade cooperation between Dandong and D.P.R.K.

## 2) Territorial relation on the basis of Northeast Asia's cooperation

After the Cold War, especially after the market reform of China and Russia, antinomy and conflicts of institution and ideology were eliminated in the Northeast Asia countries, and the improvement of

international relations lay a foundation for the economic cooperation. With the D.P.R.K's flexible diplomatic strategies and economic recovery and junction with world economy, Northeast Asian countries will develop the comprehensive cooperation to follow the tendency of globalization and regional economic grouping, which will accelerate mutual trade between Dandong and D.P.R.K. Both of them are in the center of Northeast Asia and the main continental passage connecting Korean peninsula, China and European-Asian continent. The planning of railway building of Korean Peninsula West Corridor (Shenyang~Dandong~Sinuiju~pyongyang~Seoul~Busan) will be beneficial to the economic connection between Dandong and Korean peninsula.

## 3) Gradient in economic development level between China and D.P.R.K

As the international trade theory indicates, the difference in endowment of product element and ability of grasping the historical opportunity during the economic development in the world, has led to the

difference in economic development and the gradient in economic structure called Echelon Division of Labor. The countries with the Echelon Division of Labor have strong complementary and demands in economic cooperation. Since Chinese policy of reform and opening up to the outside in the latter 1970s, economy developed rapidly, the annual GDP increase by percent 10. Even in the sluggish year of 2001 its GDP amounted to 7.3%. China is now the 6th economic large country in the world, especially in manufacture, service and high-tech industry, China has her own industrial base. While, since the nature disaster in the middle of 1990s, the economic development in D.P.R.K has almost been a dead state. Gradient in economy level between the two countries has built the base for their product elements flow. Thus, Dandong being the foreland in the economy and trade cooperation between China and D.P.R.K, should contribute to each other.

#### **4) Complementary in trading structure**

The structure of a country's trading goods is corresponding to her economic level and the endowment of product elements. The main motivation of international trade of D.P.R.K lies in importing shortage product goods and export which services import is in the position of assistance, because of the lower industry technology and international competition. Most of exporting goods are minerals and lower value added primary commodities, such as ferrous metals and nonferrous metals, coal, fibred products, fresh fishery products. Being the biggest port of economy and trade interaction of Sino-D.P.R.K, hinterland of Dandong includes 3 provinces, Liaoning, Jilin, Heilongjiang of Northeast-China, who has solid industry base and high level technological manufacturing industry, and the output of petroleum, foodstuff, farm products takes the first place in China. On the other hand, surplus product ability make it possible to export idle manufacturing equipments to D.P.R.K, and primary products such as raw materials from D.P.R.K are just

needed by the 3 provinces of Northeast-China. So, the complementary in their trading goods can promote their economy and trade cooperation.

#### **5) Willingness of mutual cooperation**

Though the domestic economy of D.P.R.K has recovered from 1999, it still faces a great shortage of food and energy, which will even wreck its political stability. It is impossible to solve such problems in short time only depending on itself. Cooperation with peripheral countries, especially with China, the largest trade partner and with R.O.K, the same nationality, will help to its recovery. In addition, the policy of opening up to the outside which has been proved effective in economic development by the new industry countries in Asia should be adopted.

Now 13 large-size commercial enterprises from D.P.R.K with different background have set up agencies in Dandong, which suggests their strong willingness of the cooperation. The large demand of capital and technology of state owned enterprises in Northeast-China to transform traditional industries will make R.O.K and D.P.R.K as her best partners. At present on the basis of nationality unification, the wish of R.O.K of large scale of normal commercial activities with D.P.R.K will not realize for some objective limitations. The enterprises invested by R.O.K in Dandong will offer the convenience to their economic and trade cooperation with D.P.R.K, what is undoubtedly the hope of Korea government and enterprise circles.

In addition, from the report of the UNIDO(United Nations Industrial Development Organization),we can see that D.P.R.K's demand for the Hi-tech from the developed countries is not much, but most of her demand is the ripe technology and the middle or small-scale investment belonged to the semi-developed countries. So, China is the better investor obviously. It was authorized by China's State Council to set up the Border Area Development Zone in 1992 with an aim of strengthening the mutual cooperation in Dandong. The Zone develops with a high

speed, and many companies from R.O.K, Japan, America and Hongkong have invested. In addition, Dandong is an important industrial city in Northeast- China, who has a strong light industry base, and her product category is complete. Lots of these goods are shortage in D.P.R.K, which can be accepted by the market of D.P.R.K due to their low prices.

### **3. History and Present Condition of the Trade Cooperation between Dandong and D.P.R.K**

The history of trade between Dandong and D.P.R.K is long, which can be traced back to the year of 1882 in Qing Dynasty when China begun the mutual trade and opened up barter trade in Zhongjiangtai(now the county of Dandong, called MaShi) and Lanzi Island (in the border of D.P.R.K). The volume of the trade increased quickly before 1920s~1930s when the merchants of Korea had set up 73 companies in Dandong. At this time, Dandong occupied an important place in the trade in the three provinces of Northeast of China. However, the trade was forced to stop due to the Japan's invasion, China's civil war and War of the Korean Peninsula. Until the end of 1958, the delegates from Jilin and Liaoning provinces negotiated and signed Agreement on border trade with D.P.R.K's Consumption Association. At the beginning of 1961 the trade resumed. During the Cultural Revolution in China, the mutual trade was interrupted. Dandong restarted the trade in September, 1981 by the consent of China's State Council. After Dandong had been listed as one part of economical open area of East-Liaoning Peninsula in 1988, the mutual trade developed rapidly. In the 1990s China enacted a series of policies to encourage the border trade, which made the trade development quicker. Now, the cooperation has the following characters:

#### **1) The volume of trade increases rapidly and the status of Dandong in Sino-D.P.R.K's economy and trade cooperation is prominent**

For Dandong, in the year of 1988, the volume of the trade was only 8 290 thousand USD, which includes 4 410 thousand USD of exporting to D.P.R.K, taking 53.1% in total volume of trade and 3 880 thousand USD of importing from D.P.R.K, taking 46.9%of total volume. In 1995, the volume of trade had reached 101 196 thousand USD, which included 77 840 thousand USD of exporting to D.P.R.K, taking 76.3% in total volume of trade and 24 120 thousand USD of importing from DP.R.K, taking23.7% in total volume of trade. The volume of trade has amounted to 201 000 thousand USD in 2001 which includes 170 800 thousand USD, taking 84.9% of total volume and 30 200 thousand USD, taking 15.1% of volume of trade. In the 14 years from 1988 to 2001, the yearly total volume of trade increases by 25%, and the exporting volume of trade has a higher increase by 29%, while the importing volume increases only by 14.7%. That is because most of D.P.R.K's exporting goods were primary commodity, such as minerals, and lower value added products. In addition, the government of D.P.R.K restricted export of resources and lack of foreign exchange, so there was an adverse balance in international trade of D.P.R.K. On the other hand, this also suggests both sides can promote trade a lot.(See Fig. 2)

In the light of D.P.R.K, the leading trade partners are the Soviet Union and China before 1990. The volume of trade between them increased annually. But in 1990s, the volume of trade decreased continuously, especially in 1991 when the Soviet Union has been disintegrated, and change of settlement of account, the volume of trade falling from 4.6 billion USD in 1990 to that of 2.6 billion USD in 1991. Then it kept the level and did not trade more (See Fig. 3).

Compared to the trend of decline of its interna-

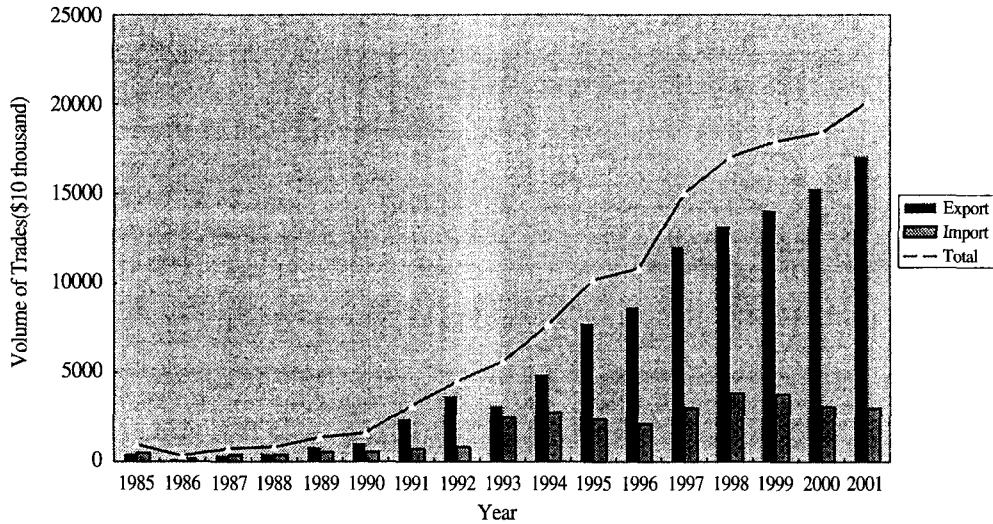


Figure 2. Dandong's Volume of Trade with DPRK from 1985 to 2001

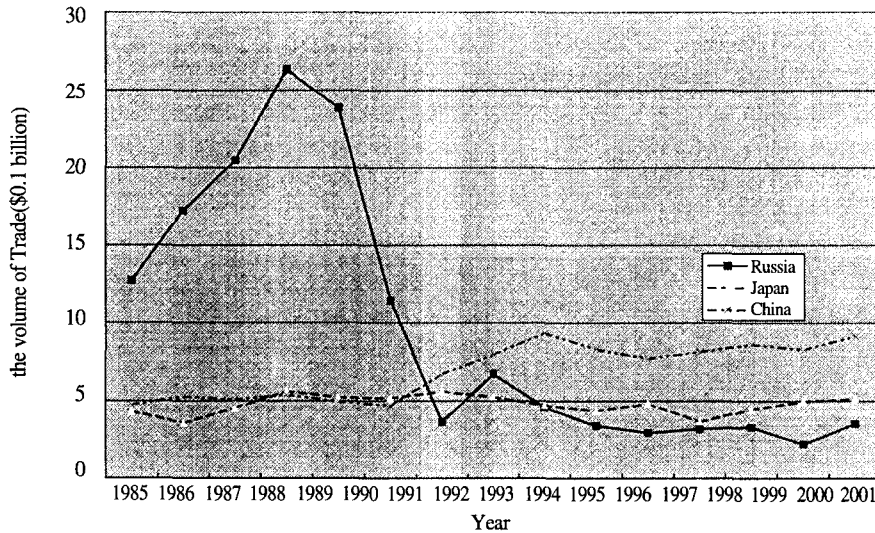


Figure 3. The Volume of DPRK with Main Trade Partners

tional trade, the rapid increase volume of trade between Dandong and D.P.R.K is more prominent. The closely trade relationship between Dandong and D.P.R.K can be seen in the increase tendency of the proportion of Dandong-D.P.R.K in Sino-D.P.R.K. As the Fig. 4 shows, the curve of D.P.R.K's international trade is just contrary to that of the proportion of Dandong-D.P.R.K in Sino-D.P.R.K. The matter of

fact is that the trade status of Dandong-D.P.R.K is prominent in recently.

**2) Abundant trade commodities and flexible trade pattern**

The trade with D.P.R.K is an important part of Dandong's foreign trade. The export to D.P.R.K occupies 25.0% of the overall export volume. The

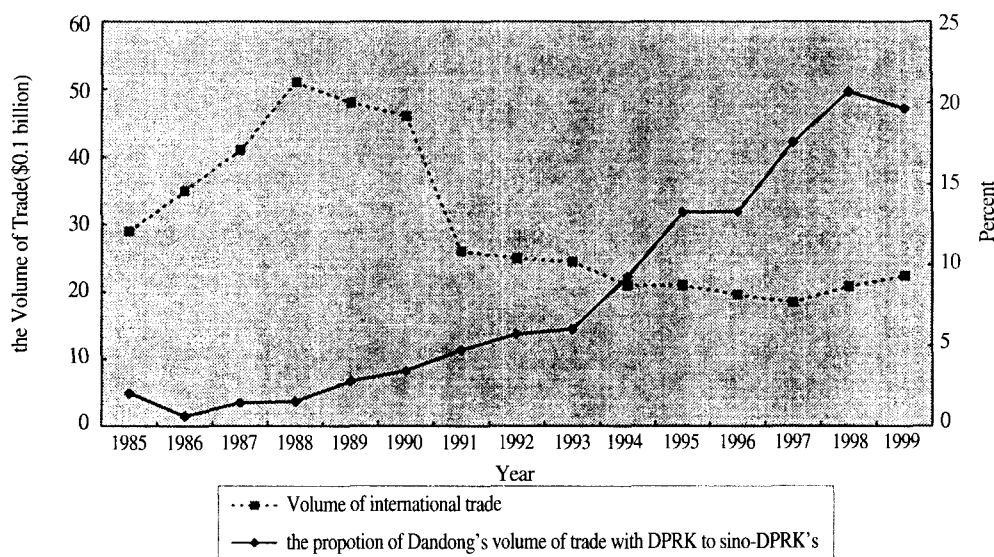


Figure 4. The Comparison between DPRK's Volume of International Trade and the Proportion of Dandong's to Sino-DPRK's

export merchandise structure has converted from small to big merchandises mainly including daily goods, clothes, food and oil products, domestic electric appliances, machinery, petroleum products, pesticide and chemical fertilizer. The import goods are mainly raw materials 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.K 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 technology and equipments directly to D.P.R.K, because Dandong is superior to D.P.R.K 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.K has developed from single pattern of barter trade to the following patterns: cash trade, barter trade, processing trade with exporting raw materials and utilizing labor force, transit trade to Europe, U.S.A and R.O.K, non-

governmental trade, barter trade between fishermen.

### 3) Considerable increase in number of agencies engaging in the trade

In 1988, when Dandong was listed as economical open area, there was only 1 agency engaging in trade with D.P.R.K in Dandong. Now the number has reached to 120. At the same time, more than 100 agencies from other provinces in China engage in this business for high profits. Traders in D.P.R.K have also shown great interest in cooperation. Now, there are over 30 D.P.R.K agencies having set up branches in Dandong, and businessmen living in Dandong are over 2 000. Most of the trade activities undertook in Dandong. Furthermore, the development of trading with D.P.R.K drives the tourism development of China and D.P.R.K. Tourism agencies have cooperated since 1988 and have opened international travel routes from Dandong to Pyongyang, Myohuansan, kaesong. Chinese tourists to D.P.R.K amounts to 60 000 in the year of 2000, and tourism agencies in Dandong come up to 30.

#### 4. Prospect of Trade and Economy Cooperation between Dandong and D.P.R.K

In the future, the cooperation of economy and trade between Dandong and D.P.R.K must be influenced by the trend of the economic globalization in the new century. 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.K, as they are the important parts of the Asia-Pacific regions. The tendency that China joins into WTO, Korean Peninsula unites at peace and D.P.R.K adopts flexible diplomatic strategy and opening up policy will promote the development of the collaboration of economy and trade between Dandong and D.P.R.K.

Dandong and D.P.R.K, being a neighbor, has economic complementary and has built a strong base of cooperation. In the future, Dandong can carry out such tactics to promote the mutual trade:

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

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

Thirdly, the industrial structure is being adjusted in Dandong. It is possible to transfer surplus product capacity to D.P.R.K's market with idle manufacturing equipment, such as electronic industry, mechanic industry and light industry, and invest machinery, technology and managerial experience directly into D.P.R.K for participating in economic and trade interaction.

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