# Part IV: Alternative Approaches to Regional Cooperation and Their Advantages and Disadvantages

# 8 Free Economic Zones in the Northeast Asia Region

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## INTRODUCTION

The use of free economic and trade zones to promote economic development in selected regions has occurred for the last 20—30 years, but recently the use of these zones has become much more common, especially in Asia. While zones are generally used by developing countries seeking to concentrate investment and infrastructure in a particular area, developed nations have also used them selectively to help stimulate development in previously neglected regions. For the last 10 years or so, Southeast Asia has seen a boom in zones, but more recently, as economic liberalization has spread even to Socialist and formerly Socialist countries, Northeast Asia is also getting a fair share. Notably, free economic zones (FEZs) have been proposed and/or approved in China, North Korea, and Russia, as well as in a regional plan linking the three countries.

**What is a FEZ**

The major types of FEZs will be described later, but a brief definition is useful here. A FEZ is a specifically designated land area in which a government provides legal treatment different from other parts of the country. This special treatment includes, but is not limited to, lower customs duties, reduced income and property taxes, liberal employment laws, and special provisions on foreign investment. Typically, governments make special efforts to provide strong infrastructure to attract investors to the FEZ.

**FEZs in Northeast Asia**

*Russia*

The Russian Federation designated 11 FEZs in 1990, spread throughout the country. Given the political and economic turmoil which Russia has experienced during the past few years however, most of these are only FEZs in name—foreign investors have been hesitant actually to commit much money to Russia except in certain sectors in which foreign currency profits are relatively easy to obtain, such as natural resources. Four of the 11 are in the Russian Far East: Chita, in East Siberia near the Mongolia border; Jewish AO, near the China border; Sakhalin, north of Japan; and Nakhodka, in Primorye Region, east of Vladivostok.

The Primorye government has been actively promoting the "Greater Vladivostok Free Economic Zone," a large area of southern Primorye stretching from the east near Vostochny to the west at Khasan, bordering on North Korea and China. A study conducted by the Engineering Consulting Firms Association of Japan, under the auspices of UNIDO, was completed in December 1991, but the plan to designate the area as a FEZ has not yet been approved by the Russia Federation. Economic troubles and increased independence from Moscow seem to have increased competition among the major centers in the Russian Far East—Vladivostok, Nakhodka, Sakhalin, and Khabarovsk—for trade and foreign investment.

*China*

China has created four FEZs in the Northeast: Suifenhe, on the Russian border along the Trans—Siberian Railway; Hunchun, in the Tumen River area; Manshuri near Mongolia; and Kokuka near Amur River.

*Democratic People's Republic of Korea*

North Korea has been fairly active in pushing its Rajin—Sonbong Free Economic and Trade Zone, a 621 square kilometer area in the Tumen River Delta, along the borders with China and Russia.

*Tumen River development programme*

The UNDP has been promoting a regional FEZ comprising the common border areas of China, North Korea, and Russia. While the actual geographical borders have not been determined yet, the possibilities include three separate zones with some sort of administrative link, contiguous zones in the Tumen River Delta, a large zone extending from Chongjin in North Korea to Yanji in China, and all the way east to Vladivostok in Russia.

## TYPES OF FREE ECONOMIC ZONES

Free economic zones have become increasingly common over the last several years, not only in developing but also in developed countries as well, as a means of concentrating infrastructure development and promoting investment. Choosing the type of free economic zone which is most suitable to a particular area depends on a number of factors, including geography, existing and potential infrastructure development, and degree of industrialization, services, and legal/institutional systems. The following are the major characteristics for the most common FEZs.

**Free Port and Free Trade Zone (Hong Kong and Singapore)**

This type is characteristically located in well-developed, small countries surrounded by large foreign markets. Import and export duties are minimal or zero, and a substantial service sector is available to support international business transactions, such as shipping, banking, and insurance.

**Free Economic Zone (Shenzhen and Batam)**

These are designated areas of large countries, in which preferential tax and other incentives are granted to stimulate regional development. Professional services are also encouraged to support manufacturing in the zone.

**Export Processing Zone (South Korea, Taiwan, and ASEAN)**

Generally located in areas with a large supply of skilled labor, this type of system allows duty-free import of items necessary for the production of exports.

**Free Trade Zone (Panama and Abu Dhabi)**

With a major transportation hub located near a major market, all goods designated for re-export are allowed entry free of duty.

**Import Processing Zone (U.S.)**

Duties on materials to be used for further processing are exempted until finished goods are taken out of the zone for sale. This type of zone is located in several U.S. states with major markets spread over a wide area. This type of zone enables users to bring in goods in large quantities, reducing transportation costs, and delays payment of customs duties until goods are actually sold.

**Import/Export Processing Zone (China and ASEAN)**

All goods enter the zone duty free. Only goods sold domestically incur a duty upon leaving the zone. This strategy is used to concentrate economic activity in areas with great availability of workers.

# NECESSARY CONDITIONS AND OBJECTIVES FOR SUCCESSFUL FEZ

FEZs have been created not only in Asia, but also all over the world. Only a few have been successful however. The main factors in a successful FEZ are the ability to attract domestic as well as foreign investment and to secure public finance and/or ODA to construct necessary infrastructure.

## Key Factors for FEZ

- Clear policy by central government to FEZ.
- Government-built infrastructure.
- Efficient customs, forwarding, and shipping system.
- Competitively priced skilled and unskilled labor.
- Service industries such as banking and insurance.
- High-quality housing and amenities for expatriates.
- Stable economic and political conditions.
- Strong legal/institutional systems.

Examples of FEZs which have been held back by one or more of these factors include: Batam Island, Indonesia (lack of infrastructure); Colombo, Sri Lanka (political instability); Eastern Malaysia (labor shortage); and Central Indonesia (weak supporting services).

Objectives for FEZs vary not only among different countries, but even for different regions within the same country. The following are some of the most common objectives:

- To enhance regional development.
- To promote foreign investment.
- To increase productivity through new technology.
- To develop infrastructure and labor skills.
- To experiment with new economic systems.

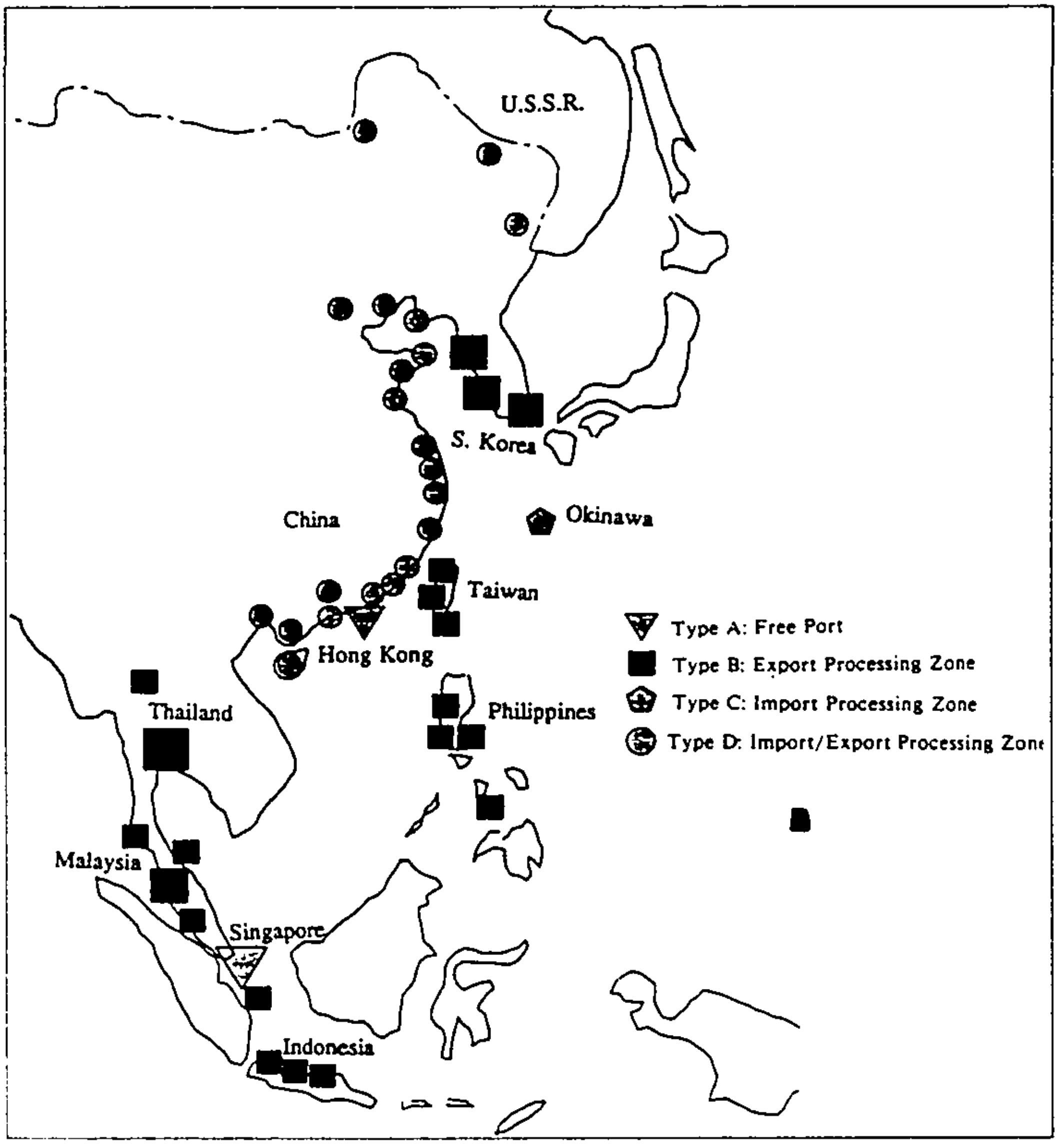
## Case Studies of Successful FEZs

*Taiwan*

Taiwan is one of the first countries to have used successfully export processing zones as a means to attract new industries, with the resulting employment and foreign exchange benefits from exporting. Taiwan's first EPZ was established at Takao in 1966, followed by Nanko and Daichu in 1971. EPZs in Taiwan now total 174 hectares with an employment of about 70,000.

In creating the EPZs, Taiwan's objectives were multiple: promotion of domestic and foreign investment, development of export industries, employment creation, and introduction of new technology.

To attract companies to locate in the zones, Taiwan offered exemptions in customs duties, consumption tax, and corporate income tax. The result has been the location of 270 factories in the zones in key industries such as precision machinery,

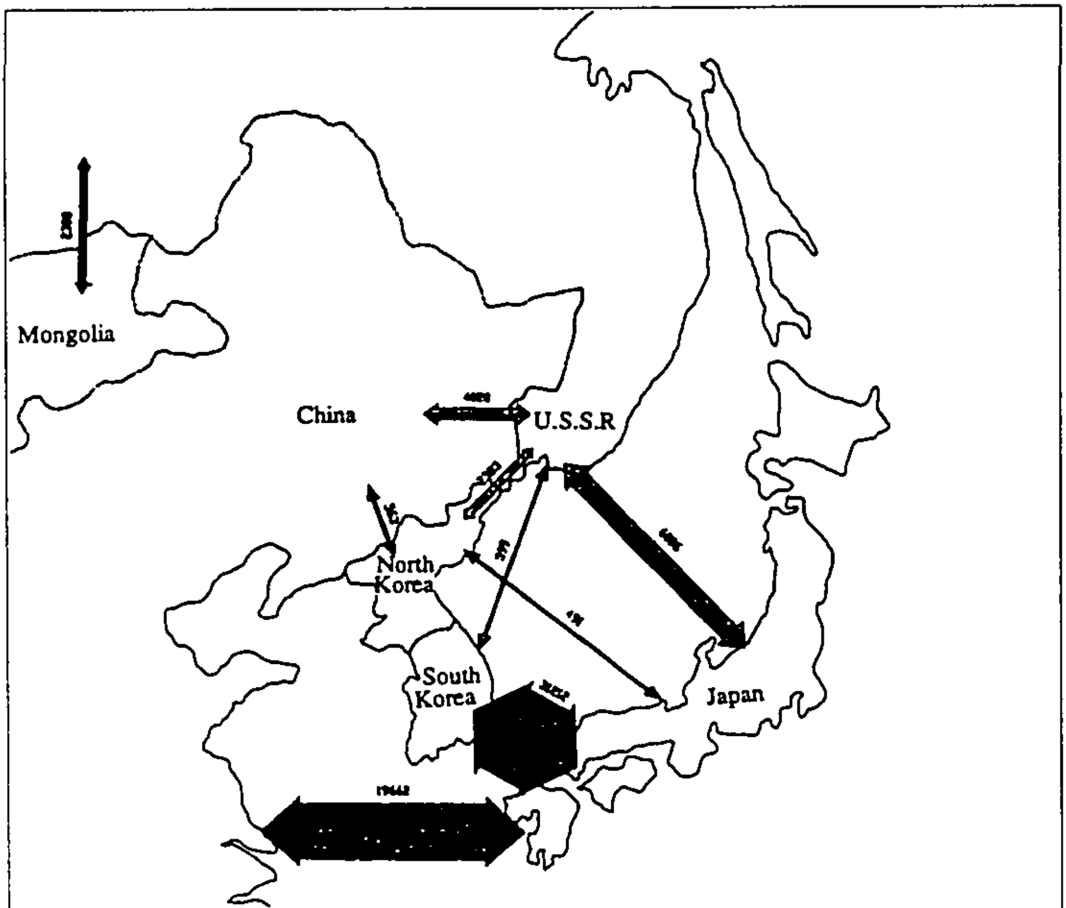



Map 8.1 Free economic zone and export processing zone in Asia

electronics and plastics. In the early stages of Taiwan's experience, EPZs provided a dominant portion of total export earnings. From 1967 through 1976, these zones produced exports worth US $2.3 billion, 70 percent of Taiwan's total exports.[1]

*Shenzhen, China*

Shenzhen can be considered as one of the world's most successful FEZs because it has been able to attract not only major manufacturing investment, but services and real estate development as well. It also served as a key test case which allowed China to experiment with market economic principles and expand eventually to other parts of the country. Shenzhen was launched in 1980 with a total of 327 square kilometers,




| Intra-Regional Trade | | | By Value U.S. $ (Millions) | | | |
|---|---|---|---|---|---|---|
| | Japan | China | S. Korea | N. Korea | Mongolia | Total |
| U.S.S.R. | 6,086 | 4,020 | 599 | 2,383 | 2,388 | 15,426 |
| Japan | | 19,662 | 31,212 | 491 | — | — |
| China | | | — | 563 | — | — |
| S. Korea | | | | — | — | — |
| N. Korea | | | | | — | — |
| Mongolia | | | | | | — |

Map 8.2 Trade in Northeast Asia

and in 10 years to 1990 had attracted 569 investment projects with a total value of US $512 million, resulting in the creation of 476,000 jobs. In 1990, the zone generated exports of US $5 billion. Shenzhen has also succeeded in the objective of encouraging overseas Chinese to contribute to economic development in their mother country.[2]

*Singapore*

Singapore's development as one of the most important regional centers in

Table 8.1 In the period between 1985 and 1990, regional trade increased 63 percent from US $40 billion to US $65 billion

| | Exports (share) | | Imports (share) | |
|---|---|---|---|---|
| Country | 1985 | 1990 | 1985 | 1990 |
| Japan | 56% | 40% | 30% | 42% |
| S. Korea | 12% | 21% | 19% | 31% |
| China | 21% | 25% | 36% | 14% |
| CIS | 7% | 11% | 10% | 9% |
| N. Korea | 2% | 2% | 3% | 3% |

Source: Taken from the Table 8.3, p. 12.

Table 8.2 Trade patterns in northeast China (1990) exports (US$mils)

| | Japan | S. Korea | CIS | N. Korea | Total |
|---|---|---|---|---|---|
| Province | | | | | |
| Liaoning | 225.5 | n.a. | 14.8 | 9.6 | 240.2 |
| Jilin | 18.1 | n.a. | 16.1 | 1.9 | 34.2 |
| Heilongjiang | 17.2 | n.a. | 35.9 | 7.6 | 53.1 |
| Subtotal | 260.8 | n.a. | 66.8 | 19.1 | 327.5 |
| Imports | | | | | |
| Liaoning | 27.3 | n.a. | 1.9 | 0.4 | 29.3 |
| Jilin | 2.5 | n.a. | 3.1 | 1.3 | 5.6 |
| Heilongjiang | 4.1 | n.a. | 28.3 | n.a. | 32.4 |
| Subtotal | 33.9 | n.a. | 33.3 | 1.7 | 67.3 |

Source: Draws on Tomio Shimokura, Beginning of Northeast Asia Economic Cooperation (in Japanese), Asia Keizai Kenkyusho, 1992, p. 41—42.

Southeast Asia is inlarge part a result of foreign investment. The city-state, which can be considered as a FEZ because of its limited restrictions and low duties and taxes, is competitive in manufacturing, trade, shipping, and finance. Infrastructure is constantly being modernized, yet operating costs are relatively low compared to other countries in the region. Since 1985, Singapore has made extra efforts to foster research and development and move upscale to higher valued-added manufacturing, trade and services such as finance, through special incentives and subsidies. These, plus its excellent location and airport, have resulted in consistently high levels of foreign investment.

Table 8.3 Trade in Northeast Asia

<1985>

| | | Total Exports (C) | Total Inner Region Exports (D) | (D)/(C) (%) | Imports Country | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Japan | Korea | China | USSR | N. Korea |
| Total Imports (A) | | | | | 130,516 | 31,667 | 42,480 | 90.023 | 1,542 |
| Total Inner Region Imports (B) | | | | | 12,293 | 7,768 | 14,419 | 4,294 | 1,275 |
| (B)/(A) (%) | | | | | 9.4 | 24.5 | 33.9 | 4.8 | 82.7 |
| Exports Country | Japan | 177,189 | 22,770 | 12.9 | — | 7,159 | 12,590 | 2,772 | 249 |
| | Korea | 30,972 | 4,827 | 15.6 | 4,144 | — | 683 | n.a. | n.a. |
| | China | 27,329 | 8,419 | 30.8 | 6,534 | 609 | — | 1,037 | 239 |
| | USSR | 37,281 | 3,149 | 3.6 | 1,438 | n.a. | 924 | — | 787 |
| | N. Korea | 1,082 | 885 | 81.8 | 177 | n.a. | 223 | 485 | — |

<1990>

| | | Total Exports (C) | Total Inner Region Exports (D) | (D)/(C) (%) | Imports Country | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Japan | Korea | China | USSR | N. Korea |
| Total Imports (A) | | | | | 235,307 | 71,359 | 60,217 | 131,333 | 2,920 |
| Total Inner Region Imports (B) | | | | | 27,468 | 20,157 | 9,757 | 5,950 | 2,133 |
| (B)/(A) (%) | | | | | 11.7 | 28.2 | 16.2 | 4.5 | 73.1 |
| Exports Country | Japan | 287,678 | 26,383 | 9.2 | – | 17,499 | 6,145 | 2,563 | 176 |
| | Korea | 63,225 | 13,852 | 21.9 | 11,743 | — | 1,585 | 519 | 5 |
| | China | 71,746 | 16,466 | 23.0 | 12,057 | 2,268 | — | 1,774 | 367 |
| | USSR | 109,172 | 7,211 | 6.6 | 3,370 | 370 | 1,886 | — | 1,585 |
| | N. Korea | 1,857 | 1,554 | 83.7 | 298 | 20 | 142 | 1,094 | — |

Source: -United Nations, Monthly Bulletin of Statistics, Vol. XIV, No. 3, March, 1991.

-IMF, Direction of Trade Statistics (yearbook), various issues.

-Economist Intelligence Unit, USSR Country Profile: 1991—92, Sept., 1991.

In addition to the above three cases, other countries, such as Hong Kong, South Korea, Thailand, Malaysia, and Indonesia have successfully used the FEZ concept to a certain extent. It can be a particularly good tool in large countries suffering from poor infrastructure and government restrictions because of the ability to concentrate resources in a limited area.

## EXISTING CONDITIONS AND PROPOSED PLANS IN NORTHEAST ASIA

### Regional Trade Patterns

Japan, South Korea and China play the dominant role in regional trade, but there have been some interesting changes in the post-cold war environment, such as newfound trading relationships between South Korea and China, CIS and North Korea, and increased trade between China and CIS.

China's northeast provinces have quite different trade patterns. Liaoning, which contains the major port of Dalian, is China's second largest exporting province after Guangdong, with levels five times those of Heilongjiang and seven times Jilin. Dalian's direct sea link access gives it a link to Japan and the rest of Asia, while the other two are land-locked, and are forced to limit most of their trade to adjacent North Korea and Russia. Considering that South Korean investment in Northeast China has been on the rise, trade has also probably grown as well, but there are no figures available to confirm such a trend. Heilongjiang, which shares a long border with Russia, has a fairly high trade reliance (67 percent). In 1990, trade between Northeast China and Russia grew sharply, reaching US $1.3 billion.

The Far East plays only a small role in Russia's overall trade, accounting for only 1.8 percent of total exports in 1988. Goods coming out of the Russian Far East are mostly forestry, fishery and coal. Volume on the "Siberian Land Bridge" operating between Asia and Europe has been fairly weak, well down from the peak during the oil crisis in the 1970s. The downtrend has continued into 1992, in large part due to the economic crisis in the CIS.

### Foreign Investment

The former Soviet Union began permitting joint ventures and fully foreign-owned companies beginning in 1987, and the number has grown rapidly, reaching about 4,000 by the end of 1991, totalling about seven billion rubles. It is estimated, however, that only about 35 percent of these companies had actually started operating, and even fewer are actually in production. Most of these projects (64 percent) are quite small, at under one million rubles, and 50 percent are in trade and services. The majority are in major western cities such as Moscow and Leningrad where the infrastructure is more developed and the population is higher. Northeast Asian investment in the CIS has been fairly small compared with Western Europe and the United States.

As of May 1991, 64 joint ventures had been established in the Russian Far East: Japan, 21; United States, 12; S. Korea, 5; China, 5; N. Korea, 3. The major sectors included forestry, wood processing, and services such as restaurants, hotels, and

Table 8.4 Investment in CIS by Asian countries in 1990

| Country | No. of Projects | Total Capital | Foreign Share |
|---|---|---|---|
| Japan | 35 | 058.8 mil ruble | 25.7 mil ruble |
| S. Korea | 3 | 000.5 | 00.2 |
| China | 25 | 046.5 | 20.2 |
| N. Korea | 11 | 036.8 | 18.1 |
| Total | 74 | 142.6 | 64.2 |

trading companies.

Foreign investors operating in the CIS have had considerable problems during the switch from a command to market economy. High inflation, lack of ruble convertibility, poor infrastructure, lack of clear laws and regulations, weak distribution system, and overall economic instability have also presented difficulties.

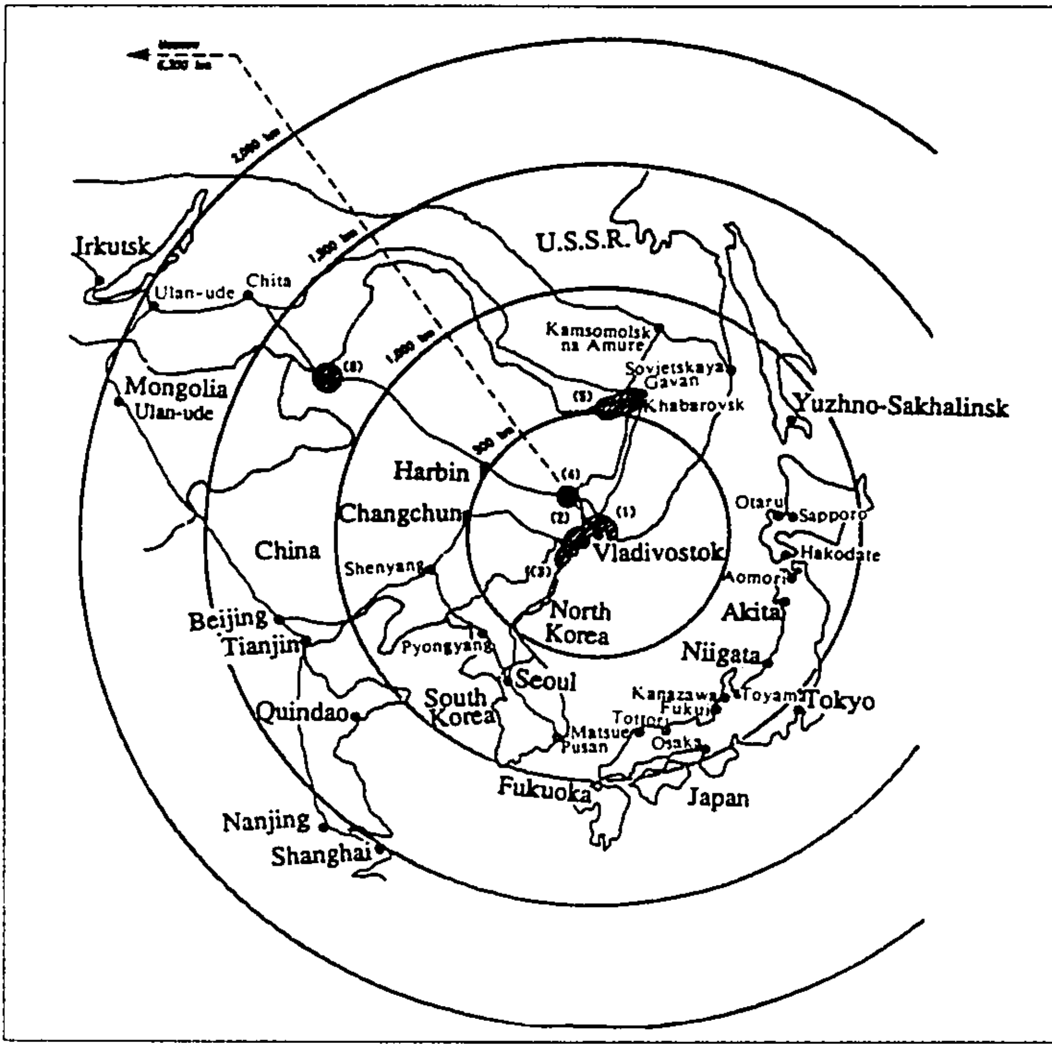
North Korea began promoting foreign investment in 1987, and also concluded an investment treaty with the Soviet Union that year. Through 1990, Japan led with 50 registered joint ventures, with 16 from the Soviet Union and 5 from other Socialist countries. Nearly all of the Japanese investments were made by ethnic Koreans living in Japan.

China has a longer history of attracting foreign investment, going back to the early 1980s. Through the end of 1990, approved foreign investment projects totalled 29,049, with US $40.4 billion of total investment, US $19 billion of which had actually been committed. More than two million jobs had been created through the 14,300 companies operating through this investment.

## Greater Vladivostok Free Economic Zone

*Background*

The "Greater Vladivostok Free Economic Zone" (GVFEZ) plan was formulated in December 1991 by the Engineering Consulting Firms Association of Japan (ECFA) under the auspices of UNIDO. While the government of the Russian Federation approved the creation of 11 FEZs in 1990, including four in the Russian Far East, most, if not all, are having difficulty in attracting foreign investment. The purpose of GVFEZ is to create a plan of international stature which will open up the Russian Far East to trade and investment with Asia in what is often referred to as the "Sea of Japan Economic Zone." Since the opening of Vladivostok Port to foreign trade on January 1, 1992, and the removal of restrictions which previously prohibited both foreigners and Russians from moving into the city, there has been a rush to study economic opportunities in the Russian Far East. But the chaotic economic and political situation, including a sharp fall in the ruble, high inflation, and a lack of legal protections, has been discouraging many potential companies from operating in the region. GVFEZ is an integrated plan to create both a physical and institutional infrastructure for a FEZ based in Vladivostok which will encourage substantial development not only in the Primorye Region, but in border zones of China, North Korea, and even Mongolia as well.




FEZ in Northeast Asia

1. Greater Vladivostok Free Economic Zone
2. Hunchun Economic Zone
3. Rajin—Sonbong Free Economic Trade Zone
4. Suifenhe Economic Zone
5. Amur River Free Trade Zone
6. Manzhouli Economic Zone

Map 8.3 Distance of major Northeast Asian cities and proposed free economic trade zones

*Functions*

GVFEZ would operate as both an import and export processing zone, with some functions of a free port and service base as well, a sort of cross between Shenzhen and Hong Kong/Singapore. GVFEZ would be located in the southern Primorye Region, with an eastern border near the major port of Vostochny, extending west to the common borders with North Korea and China at the town of Khasan.

The FEZ has three major sub-zones. Vladivostok will be the headquarters of the zone, with the highest concentration of education, research and services. Nakhodka will specialize in large-scale, land-intensive manufacturing. Khasan, which does not have significant infrastructure and transportation facilities, will take advantage of its borders with China and North Korea to concentrate on light manufacturing, agriculture, fishing, and food processing through cross-border projects.

*Financing and management*

The size and complexity of GVFEZ will require creative solutions to upgrade the infrastructure and operate the zone. Given the poor state of roads, ports, and airports, a shortage of electricity and water, and overall lack of industrial development in the Russian Far East, a huge amount of public and private sector investment will be required. Although Russia's admission to the IMF and World Bank has led to new sources of international financing, large-scale infrastructure development in the Russian Far East will probably not be a high priority.

The GVFEZ plan envisioned a separate development authority which would have autonomous power to approve foreign investment, grant financial incentives, and use the zone's resources as collateral for borrowing. A draft decree outlining the transfer of resources from the Russian Federation to local authorities in Primorye was submitted to Russian President Boris Yeltsin, but he chose not to sign it, apparently fearful of the precedent it would set for loss of central control.

*Development strategy*

GVFEZ will be developed in three stages, to overcome gradually the slow pace of industrialization and lack of infrastructure. Phase I will begin with processing of resource-oriented goods for export, helping to generate foreign exchange and pay for needed infrastructure. Phase II will see production of more advanced and diversified manufactured goods, reducing dependence on imports and providing an opportunity to raise quality closer to international standards. In Phase III, manufacturing will progress to higher technology sectors for domestic use as well as export.

*Barriers to development*

While GVFEZ has the support of many regional and local authorities in Primorye, it has not received official approval from the central government in Moscow. Not only does GVFEZ need to be officially recognized as a FEZ, but without a transfer of control of resources from Moscow to Primorye, it will be difficult to obtain sufficient autonomy and financing to begin operations.

**Free Economic Zones in Northeast China**

China has designated a few border cities in the Northeast as special economic zones to help to promote both domestic and foreign investment and trade. The central government has increased autonomy by local authorities, provided financial incentives, improved the infrastructure, and provided loans for development projects.

*Manzhouli economic zone*

Located in Inner Mongolia near the border with Mongolia and Russia, Manzhouli already has an established trading community which has attracted participation from 22 countries. About 70 trading companies are located there, engaged in business said to total about 4 million tons per year. The city has customs and quarantine facilities, an international passenger train station, cargo yards, oil depot, and international communication facilities. New hotels, restaurants, shops, and tourism facilities are now under construction.

*Amur River free trade zone*

An agreement permitting Chinese access via the Amur River through Russia to the Sea of Japan has led to the creation of river ports in 1992. Trade in commodities such as food, coal, wood, oil and consumer goods is estimated at around 300,000 tons per year, some of which is going to Japan. Formerly, trade with Japan had to be conducted through Dalian, adding cost and time to the shipping process.

*Suifenhe economic zone*

A new zone is now under construction in this town, which lies on the border between Heilongjiang province and Russia, near Ussuriysk.

*Hunchun economic zone*

This city of 170,000 in the Tumen River Delta was designated as a Class A free economic zone in November 1991. The local government was granted autonomy and incentives for foreign investors. A master plan for a FEZ has been formulated, including a 5.6 square kilometer industrial estate. Main manufacturing sectors include light industries such as textiles, food, construction materials, consumer products and electronics. A rail link to the nearby city of Tumen is now under construction

**Rajin—Sonbong Free Economic and Trade Zone (DPRK)**

In December 1991, the Democratic People's Republic of Korea designated a 621 square kilometer area in the Rajin—Sonbong part of the Tumen River delta as a FEZ. With this FEZ, which faces the borders with Russia and China, DPRK hopes to act as a transportation and trade gateway to Northeast Asia. The FEZ, with a population of 131,000, is home to a number of industrial enterprises, such as chemicals, ship repair, oil refinery, food processing, and a power plant. In addition to Rajin and Sonbong ports located within the FEZ, Chongjin to the south has also been designated as a free trade port. The Rajin port has a capacity of 3 million tons per year, with 8 million at Chongjin. Given the shortage of capital in DPRK and the lack of international financing, expansion plans are based on limited resources. The government does plan to increase efficiency as well as size, with the combined capacity at Rajin and Chongjin rising to 20 million tons per year, and 7—8 million tons per year of oil at the terminal at Sonbong.

*Industries*

Using existing facilities as a base, the government hopes metal, chemical, machine, shipbuilding, mining, and light industries will develop in the Rajin—

Sonbong FEZ. The DPRK is looking to foreign investors to provide technology and capital for the promotion of the zone and has asked UNIDO to help to create a plan for foreign investment promotion. The government plans to provide various financial incentives, and these are apparently in the drafting process.

## SUITABLE FREE ECONOMIC ZONE IN NORTHEAST ASIA

### Need for FEZ

The Northeast Asian region is still relatively underdeveloped, not only in physical infrastructure, but in critical areas such as banking, insurance, legal and

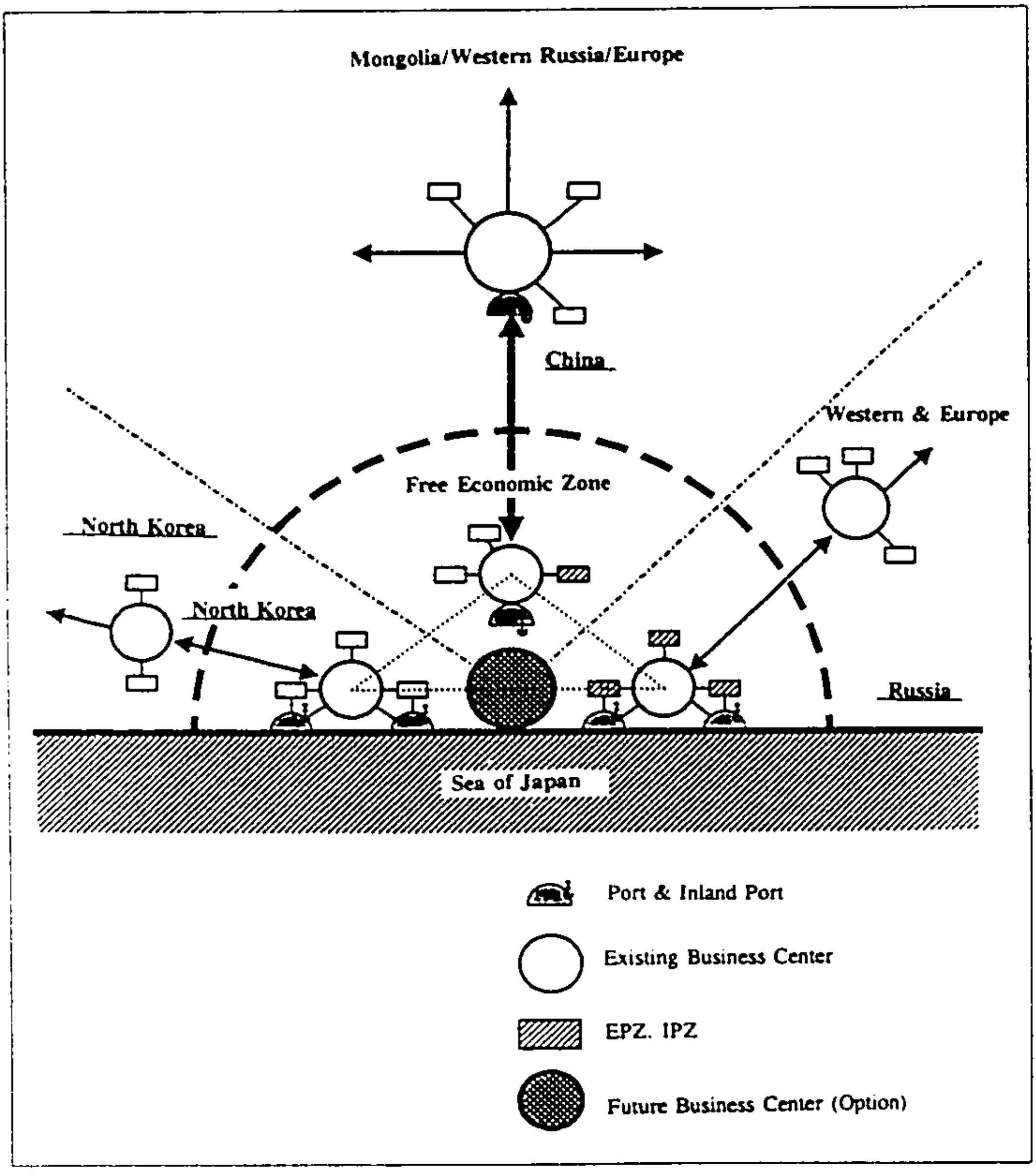



Figure 8.1 Conceptual free economic/trade zone in Northeast Asia

institutional matters, other professional services, and transportation. In addition, each country in the region is at a different level of development and has varying social and economic systems, making it difficult to create a common FEZ. While the region has a strategic location, that in itself will not guarantee to attract foreign investment and the ensuing economic development. Just as anywhere else in the world, the creation of a successful FEZ in Northeast Asia will require the following:

- Legal/institutional systems.
- Financial institutions.
- Professional services.
- Physical infrastructure.
- Economic stability.
- Political stability.
- Open economic policy.
- Official development assistance.

Generally, the Northeast Asian region is lacking in all of these. The location and existence of substantial natural resources are certainly favorable, but each country must take positive steps to create a proper environment. Given the size and complexity of the countries in the region, a FEZ is suitable because a special system can be introduced without having to make the same changes throughout an entire country.

**What Type of FEZ?—Free Economic Zone, not Export Processing Zone**

The requirements of the region are vast: natural resource processing, import substitution, export-oriented production, infrastructure improvement, and introduction of professional services. Therefore, a full-ranging free economic zone, and not a more limited export processing zone, is the best model for Northeast Asia. A key issue will be whether China, North Korea, and Russia should each pursue separate zones or combine them into a single FEZ. At the very least, the three zones should be linked by good transportation and communication systems, and the laws and regulations should be as similar as possible. The first priority should be to improve rail, road, water, air, and communication links, such as Suifennhe to Vladivostok by rail, Hunchun to Posyet, and Rajin—Sonbong to Jilin province by rail and road. This will improve trade and investment opportunities considerably. The creation of inland ports, such as at Hunchun, will increase access to the Sea of Japan and act to bolster development, just as already occurred in Malaysia and Indonesia through the establishment of "dry ports." Given the worldwide shortage of capital, this type of investments is a cost-effective way to boost development in the region.

It will be difficult to compete with established free economic and trade zones around Asia such as Hong Kong, Shenzhen, Singapore, Malaysia, and Indonesia unless Northeast Asia offers similar or more favorable laws and financial incentives. In particular, rules on land ownership/leasing, taxes, customs, immigration, foreign exchange, profit remittance, and labor movement will be critical. Harmonizing the rules among the three countries won't be easy, but everybody in the region should recognize the costs of creating three separate and widely divergent zones. Investors have a wide range of choices, not only in Asia, but all over the world, and unless favorable conditions are created, it will be difficult to attract the critical mass of investment which is needed to get the Northeast Asian FEZ moving.

**Short-Term Action**

The UNDP's Tumen River Area Development Programme has brought together all of the countries in the region to discuss and harmonize long-term plans, and this is a good process. But at the same time, short-term actions are needed as well, and each country has begun to implement plans which may create some conflicts. It is essential, therefore, that short-term, as well as long-term plans are coordinated at the earliest possible time.

The softer side of infrastructure should not be neglected as well. Business services, institutional building, education, and training will be keys to the success of whatever is created. The region is also considerably weak in these areas. While these are being improved, each country should also build on existing physical infrastructure, such as port, airports, and rails, not only in terms of rebuilding, but also improvements in efficiency.

## CONCLUSION

Northeast Asia has great potential as a free economic zone, which each country in the region has already recognized, and has begun to capitalize upon. Creating a prosperous, well-developed area will not be easy however, given current weaknesses and a late start compared to other regions. A strategic location, with existing and latent resources, does offer considerable potential which can be materialized if all parties in the region work together. Everyone should realize that such a massive development program cannot happen overnight, but in gradual stages.