CONTENTS

PART I
NORTHEAST ASIA ECONOMIC OUTLOOK
1. Greater Tumen Initiative ........................................................................................................p.2
2. Economic Overview in Northeast Asia ..................................................................................p.4
3. Trade and Investment Conditions in Northeast Asia ..........................................................p.6

PART II
TRADE AND INVESTMENT POLICY - COUNTRY OUTLOOK
1. PEOPLE’S REPUBLIC OF CHINA
   - Economic Overview ..............................................................................................................p.8
   - Trade .....................................................................................................................................p.8
   - Foreign Direct Investment .......................................................................................................p.10
2. REPUBLIC OF KOREA
   - Economic Overview ..............................................................................................................p.12
   - Trade .....................................................................................................................................p.12
   - Foreign Direct Investment .......................................................................................................p.14
3. RUSSIAN FEDERATION
   - Economic Overview ..............................................................................................................p.16
   - Trade .....................................................................................................................................p.17
   - Foreign Direct Investment .......................................................................................................p.19
4. MONGOLIA
   - Economic Overview ..............................................................................................................p.20
   - Trade .....................................................................................................................................p.20
   - Foreign Direct Investment .......................................................................................................p.22
5. DEMOCRATIC PEOPLE’S REPUBLIC OF KOREA
   - Economic Overview ..............................................................................................................p.24
   - Trade .....................................................................................................................................p.25
   - Foreign Direct Investment .......................................................................................................p.25
6. JAPAN (OBSERVER)
   - Economic Overview ..............................................................................................................p.28
   - Trade .....................................................................................................................................p.29
   - Foreign Direct Investment .......................................................................................................p.30

PART III
1. Regional Challenges and Potential Opportunities .................................................................p.32
2. Economy forecasting of Northeast Asia ................................................................................p.33

ABBREVIATION .........................................................................................................................p.36
REFERENCES .............................................................................................................................p.37
**Greater Tumen Initiative**

The Greater Tumen Initiative (GTI) (originally known as the Tumen River Area Development Programme - TRADP), is an intergovernmental cooperation mechanism in North-East Asia, supported by the United Nations Development Programme (UNDP), with a membership of five countries: People’s Republic of China, Democratic People’s Republic of Korea, Republic of Korea, Mongolia and Russian Federation. Japan participates in GTI events as an observer.

Since its creation, GTI has remained a unique intergovernmental platform for economic cooperation, fostering peace, harmonization, stability and sustainable development in North-East Asia. Moreover, it is playing a significant role in expanding policy dialogues and strengthening business-friendly environments in the region and contributing therefore to the raising of living standards through development of interregional infrastructure and the promotion of trade and investments.

Northeast Asia is the vast geographic ensemble that stretches from Mongolia in the West to the Pacific coasts of Russia and the Korean Peninsula in the East and encompasses North East China. The geographical coverage of the Greater Tumen Initiative itself involves the three Northeast provinces (Jilin, Heilongjiang, & Liaoning) and Inner Mongolia of China; the Rajin-Sonbong Economic and Trade Zone of the Democratic People’s of Korea; the Eastern Provinces of Mongolia; the Eastern port cities of Republic of Korea and the Primorsky Territory in the Russian Federation.

This region possesses enormous potential for investment and job opportunities with its skilled, educated and low-cost labor pool. The Tumen River ties this region together at the crossroads of vital trade, transport and energy routes. Rich in gas, oil and minerals, the Greater Tumen Region has easy access to affluent markets in the GTI five member countries and Japan, representing over 500 million consumers. The huge economic potential of the Tumen River region can only be fully harnessed through dynamic cooperation among its neighbours and sharing of resources. Northeast Asia is abundant in resources, land and market potential, which is essential to investors.

The core decision-making institution of GTI is the Consultative Commission composed of government representatives from all five GTI member countries. The role of the Consultative Commission is to foster support for the development of North-East Asia and the Tumen River Economic Development Area in particular. Moreover, it promotes mutual understanding as well as economic, environmental and technical cooperation among the peoples and countries of the Greater Tumen Region. GTI program provides great motivation for developing investment perspectives in Northeast Asia and using unidentified resources.

Inspite of the difficult global environment in times of the financial crisis and economic recession, as a whole, the region is placed in a rather dynamic framework of change and new economic opportunities. The state of play within the countries of the Tumen Initiative will have decisive impact on the way in which regional or local actors will be able to use the momentum created by economic growth, increasing prosperity and political change.

Summarizing the results of the GTI activities over the last 14 years, we can see that the GTI has achieved important results in implementing the agreements signed by the participating governments, especially with regards to expanding policy dialogues and strengthening business-friendly environments in the region. Concrete results have been achieved in the meantime by way of the development of interregional infrastructure and promotion of trade and investments, contributing thus to improving living standards and sustainable development in the region.
PART I
NORTHEAST ASIA ECONOMIC OUTLOOK

Economic Overview in Northeast Asia

The severe impact of global financial crisis has affected the international market as well as Northeast Asian countries; UNCTAD reported that the world economy is currently facing a severe global crisis that spilled from financial sector to the real economy in the last quarter of 2008, leading to steep falls in industrial production and a rapid decrease in international trade, and to a slowdown in foreign direct investments and potentially in development assistance. GDP in emerging Asia excluding China and India plummeted by no less than 15 percent on a seasonally adjusted annualized basis in the last quarter of 2008, and a further decline is expected for the first quarter of 2009. Access to cheap capital and high international consumer demand has been key drivers behind investment in Northeast Asian economies in recent years. These two pillars no longer stand and as such a certain amount of short-term pain is commonly agreed.

The crisis has translated into a sharp decline in FDI inflows, both for developed and developing countries. UNCTAD estimates that global FDI inflows declined by 15 percent in 2008. Asia’s exceptional integration with the global economy is one of the parts of this severe impact. Much of Asia relies heavily on technologically sophisticated manufacturing exports, products for which demand has collapsed. At the same time, Asia’s financial ties with the rest of the world have deepened over the past decade, exposing the region to the forces of global deleveraging. As the global economy revives in 2010, so too will Asia. But the recovery is likely to be tepid—and not only because the global economy will remain weak; historical experience shows that investment tends to recover slowly from downturns, especially those that involve financial stress.

However, Northeast Asia has huge potential possibility to grow; apart from the Far Eastern Russia, Northeast Asia as a whole have gained a growing share in the global economy every year accounting for almost 18% of the global economy in 2008, which is one of the top three economic zones in the world. And on a positive note, many of these economies have high savings and moderate debt which will give them far more flexibility when it comes to stimulus packages and policies. Over all long term prospects in Asia’s emerging economies remain good thanks to the structural reform that has been evident in the last decade as well as better macroeconomic policies.

In this regards, the regional cooperation and partnership are more required to improve the investment environment and easy market access in Northeast Asia and attract more investment from within and outside the region to strengthen the economic conditions in response to the financial crisis and potential threats, as Northeast Asia’s growth path will continue to run parallel to the global economy. Integration of Northeast Asia increased economic and political cooperation, have proven to be a unique opportunity for these regions. To realize the common interest of the member countries and to achieve sustainable economic development, economic integration and international mechanism for cooperation should be established.
Trade and Investment Conditions in Northeast Asia

The global economy is projected to shrink by 1.3 percent in 2009, with a slow recovery expected to take hold next year, according to the IMF’s April World Economic Outlook (WEO). Although the U.S. economy may have suffered most from intensified financial strains and the continued fall in the housing sector, Western Europe and advanced Asia have been hit hard by the collapse in global trade, as well as by rising financial problems of their own and housing corrections in some national markets.

Emerging economies too are suffering badly and contracted 4 percent in the fourth quarter of 2008 in the aggregate. The damage is being inflicted through both financial and trade channels, particularly to east Asian countries that rely heavily on manufacturing exports and the emerging European and Commonwealth of Independent States (CIS) economies, which have depended on strong capital inflows to fuel growth.

Northeast Asian countries are highly dependent on trade; the region’s share in international trade increased from over 18% in 1995 to 19.2% in 2007, which is higher than NAFTA’s 16.2% and lower than EU’s 34.1%. The Intra-regional trade is more important; the proportion of intra-regional trade to international trade, or intra-regional trade dependency rate of Northeast Asian economies has increased every year and recently amounted to 35%.

In this circumstances, an international investment and trade framework and cooperation among Northeast Asian region remains an important goal. A collective effort could significantly contribute to making the existing system of international investment rules and trade facilitations function more effectively and efficiently, and making it more conducive to growth and development in the region. Not only the government but also the public sector should make conscious efforts to create conditions where international trade can be facilitated at the private level for stable growth.

Increased investment in the region has promoted production networking among countries, and the expansion of FDI has been accelerating a vertical division of labor by which Northeast Asia is characterized. Market integration and trade liberalization contribute both expanding mutual benefits and strengthening regional economy. To attract foreign investment and achieve successful sustainable development, improvement of infrastructure and domestic laws and regulations should be reformed according to the international standards. All these significant efforts will deliver win-win results to both the region and foreign investors. Ingredients for a good investment climate are stable exchange rates, steady economic growth, privatized infrastructure services, high literacy rates, extensive access to the internet, liberalized trade and stable and transparent political institutions and procedures. Although Northeast Asia has tried to facilitate the trade and accelerate the free movement, various types of non-tariff measures are still distorting the market, which obstruct the low of services including finance and free movement of goods and capital. In order to advance market integration and expand market share, close policy cooperation within the regional framework should be adopted. No FTA between Northeast Asian countries till now.

* Source: WTO Secretariat

* Note: - Congressional Research Service report “The North Korean Economy: Leverage and Policy Analysis” (August 26, 2008) for DPRK figures

WTO Secretariat

* Source: United Nations Statistics Division (UNSD) annual totals table (ATT) for China, ROK, Russia, Mongolia and Japan figures.

- General Imports CIF by country of origin
- General Exports FOB by country of last known destination

* Source: UNCTAD – World Investment Report (September, 2008)

4. IMF: Global economy contracts, with slow recovery next year (April 22, 2009)
Economic Overview

Trade

The overall aim of China’s trade policy is to accelerate the opening of its economy to the outside world to introduce foreign technology and know-how, develop foreign trade, and promote sound economic development. China aims to further strengthen the multilateral trading system; at the same time, it has been intensifying its pursuit of bilateral/ regional free-trade agreements with some of its trading partners. China has continued to place high emphasis on the multilateral trading system. China has recently been moving towards achieving a level playing field for foreign and domestic investors in China. During the past two years, China has continued to take steps to improve transparency, and the Government recently adopted various measures to enhance transparency in the public sector.

China now attaches greater importance to equipment manufacturing. China still relies heavily on imported equipment in spite of the fact that it is the giant in world manufacturing. According to the Ministry of Science and Technology, two-thirds of China’s fixed investment in equipment is imported. High-end equipment used in integrated circuits, petrochemicals, automobiles and textiles are still dominated by foreign companies. As the country develops further a natural progression is to expand its equipment manufacturing base at home. General speaking, China has offered a favorable investment climate for a diverse range of investors from all over the world to invest, manufacture and manage in.

China acceded to the WTO on 11 December 2001. It is of the view that whereas the multilateral trading system is the main channel to promote trade liberalization, regional and bilateral trade arrangements serve as new platforms and complement the multilateral system; regional/bilateral trade arrangements interact with the multilateral trading system in a mutually beneficial way. China also supports the open regionalism approach of the Asia-Pacific Economic Cooperation (APEC) forum, and participates in various other regional trade fora, such as the Asia-Europe Meeting (ASEM), the ASEAN+3, and the East Asia Summit.

Trade between China and Russia has contributed to the development of the Northeast in recent years. Trade has surpassed US$ 48 billion in 2007, after it reached a record high of US$ 33.4 billion in 2006. The two-way trade has continued to increase since 1999, with an average annual growth of 28.6 percent. ROK has been increased its portion of trade with China. ROK and China had hoped bilateral trade volume would reach 200 billion U.S. dollars by 2012. The bilateral trade and economic cooperation between China and Mongolia are steady growth over the past dozen years or so. The establishment of the good-neighborly partnership of mutual trust between the two countries in 2003 has given a strong impetus to the development of bilateral trade and economic cooperation, the scope of which has been further expanded. China has been Mongolia’s No. 1 trading partner for nine consecutive years. Closer economic ties serve the interests of both China and DPRK, the two countries are ready to make further efforts to push bilateral cooperation to a higher level.

The most important export products are machinery and transport equipment; and the most important import products are the same. China’s major industrial products are China’s main exports also. Share of manufactured goods, including textiles, garments, electronics and arms are highest in Chinese exports. Besides, important import products are raw materials. China’s trade and production structure is intermediate in Asia; less sophisticated than Japan and the first tier newly industrialized economies (NIEs) (Singapore, the Republic of Korea, Taipei, China), but in some sectors considerably more sophisticated than that of the second tier NIEs (Indonesia, Malaysia, Thailand and the Philippines5).

In recent years, China’s industry has competed internationally, and as a result, the country’s industrial development is increasingly influenced by international economic environments. On one hand, exporting becomes more difficult and export prices keep declining; on the other hand, market share of foreign products and foreign-invested enterprises’ products keeps growing. The above two factors increase the...
difficulties for the country’s domestic industry in terms of producing and selling; the state-owned enterprises are impacted particularly. In fact, textile and other light industries have slowed their growth. China is one of the leaders of cement production in the world. The pillar industries, such as the auto industry and the housing industry, in the interim of industrialization have developed by leaps and bounds. Iron and steel manufacturing are also major industries in China.

Foreign Direct Investment

In 2006, China was the third largest recipient of FDI in the world, after the United States and the United Kingdom. But the ongoing financial crisis has brought about adverse impact on China’s utilization of foreign capital impacted by worse conditions of the global FDI flows. It was decreased by 33% in January 2009 compared with January 2008. So far China is the largest host country for FDI in the NE region. In recent years, however, it has begun to increase its outward FDI, from US$ 12,261 millions in 2005 to US$ 21,160 in 2006 and US$ 22,469 millions in 2007 respectively. FDI from China goes mainly to less developed economies. Not counting Hong Kong, China in the main invests in its neighboring countries to all sides. FDI in China plays roles not only in improving the productivity but also a major factor becoming a world leading manufacturer.

China has continued to provide a business environment conducive to FDI, which, often embodying new technology, has consequently played a key role in the country’s economic development. Foreign investment has been encouraged mainly in manufacturing with particular emphasis on high value-added production. Until end 2007, China provided better than national treatment in its taxation of foreign-invested enterprises (FIEs), which were subject to enterprise income tax rate of 15% or 24% (depending on their location) compared with the standard rate of 33%. Since 1 January 2008, however, a statutory rate of 25% has been set in accordance with the Enterprise Income Tax Law, which was approved on 16 March 2007. China also encourages outward FDI, largely to upgrade technical skills and to secure supplies of key raw materials, such as petroleum and iron ore. Laws and regulations specifically related to FDI include: the Law on Chinese-Foreign Equity Joint-Ventures, Law on Chinese-Foreign Contractual Joint Ventures, Law on Foreign-Capital Enterprises, and their implementing regulations.

All foreign trade-related laws, regulations, and rules are published in the China Foreign Trade and Economic Gazette, edited and published by MOFCOM. The Ministry of Commerce (MOFCOM) has main responsibility for policy coordination and implementation in respect of all trade-related issues. Other key agencies that have an influence on trade policy include: the National Development and Reform Commission (NDRC), which is in charge of overall national economic and social development policy; and the Ministries of Finance, Agriculture, Information Industries, Communications, and Land and Resources.

* Source:
  - United Nations Commodity Trade Statistics Database (UN Comtrade)

* Note:
  - General Imports CIF by commodities of SITC, Rev.3
  - General Exports FOB by commodities of SITC, Rev.3

Chart 3-3. Export structure of China

Chart 3-4. Import structure of China

* Source:
  - United Nations Commodity Trade Statistics Database (UN Comtrade)

* Note:
  - General Imports CIF by commodities of SITC, Rev.3
  - General Exports FOB by commodities of SITC, Rev.3

6. In 2006, inflows of FDI into China were US$ 69.4 billion; those into the United States and the United Kingdom were US$ 175.4 billion and US$ 139.5 billion, respectively (UNCTAD (2007).

7. The American Chamber of Commerce People’s Republic of China (2009)
Economic Overview

With a strong emphasis on exports and labour-intensive light industry, rapid debt-financed industrial expansion has allowed Gross Domestic Product (GDP) to increase rapidly in ROK since the 1960s. During the past four decades, ROK has achieved a remarkable record of growth and integration into the high-tech modern world economy. This economic advancement of ROK resulted from government’s pro-business policies such as import restrictions, directed credit, support of specific industries, and a strong labor effort.

Although this progress was stunted briefly during the 1997 Asian Financial Crisis, the ROK rebounded quickly thereafter and continued integrating into the world economy. The government has promoted the import of technology and raw materials and encouraged investment and saving more than consumption. After the economic crisis in 1997, the ROK’s GDP plunged by 6.9% in 1998 and recovered by 9% in 1999-2000. Affected by the slowdown of the global economy, growth briefly fell back to 3.3% in 2001. However, led by encouraging exports and consumer spending, growth in 2002 recorded around 7% despite blunting global economy. Between 2003 and 2007, growth kept moderated to about 4-5%. In 2008, however, because of the rising oil prices, the value of the won fell down, and the economy also slowed down in the second half of 2008. Since the global economic crisis in 2008, the ROK government has taken policy measures to limit the global economic turmoil including foreign exchange market stabilisation, tax reduction and job creation.

In order to meet the challenges of globalization and unlimited competition, ROK is pursuing economic and trade diplomacy to build an advanced trading country by focusing on the creation of new growth potential, improved access to key markets (through participation in multilateral negotiations and negotiation of more FTAs) and close economic cooperation with its trading partners. To help meet the Government’s growth target, trade volume should reach US $1 trillion by 2010, making ROK one of the top eight traders.

Trade

ROK’s economy has continued to become more outward oriented, with trade in goods and services keep rising; foreign trade accounted for 71.5% of the national GDP in 2006 and 75.1% in 2007 respectively. While remaining committed to multilateralism, ROK has pursued free trade agreements (FTAs) with major trading partners or regional groups (ASEAN, Singapore, EFTA, United States) and continues or is planning negotiations with others, to establish an FTA network with large economic blocs and newly emerging markets. The ROK Government promulgated the WTO Agreement in December 1994. ROK’s general trade policy objective is to build a free economy based on market principles, and to promote international competitiveness of its businesses and economic growth through openness and reforms. Recently, ROK signed investment FTA for merchandise, services and investment with ASEAN in June, 2009, which is expected to boost trade by removing tariffs and improving transparency. They will try to increase the trade volume between the ASEAN member nations and Korea to $150 billion by 2015 through the bilateral free trade agreement and other complementary measures.

ROK regards trade with DPRK as intra-Korean commerce in accordance with the 1992 Agreement on Reconciliation, Non-aggression and Exchange and Cooperation. Such trade is therefore exempt from tariffs. Trade with DPRK still requires approval from the Minister of Unification on the kind of products traded, the type of transaction, and the settlement method.

Among the trade partners, China is the ROK’s most significant trade partner, accounting for 22.1% of its exports demand and 17.7% of its imports in 2007. Japan and the USA also have key trade relationships with the ROK.

ROK aims at diversifying the nation’s export market and import sources in order to avoid over-dependence on a few traditional trading partners, most notably the United States, China and Japan. ROK has grown increasingly dependent on the United States market for its exports, and now China took the place of majority. ROK’s dependence on Japan as its major source of imports has generated large and chronic annual trade deficits with its eastern neighbor so far. ROK pursued rapid structural transformation toward more skilled and technology-intensive production so as to upgrade its industrial structure and thus, enhance export competitiveness. This trend has been gaining momentum for several years now, ever since it became apparent in the 1970s that Korea was gradually losing its comparative advantage in labor-intensive manufactured exports.

Major export items are machinery and transport equipment sharing 58.3% of the total exports, and manufactured goods sharing 12.0% of total. ROK is highly dependent on imports of raw materials;
major import items include goods such as machinery and transport equipment and industrial raw materials such as mineral fuels and lubricants, general consumer products, and foodstuffs. ROK has established itself as one of the world’s leading shipbuilders and manufacturers of electronics, semiconductors and automobiles.

**Chart 4-3. Export structure of ROK**

```
17.6% 58.1%
10.1% 3.0%
14.5% 0.7%

Machinery, transport equipment
Manufactured goods
Misc. manufactured articles
Other
```

**Chart 4-4. Import structure of ROK**

```
28.3% 20.1%
14.6% 27.5%

Machinery, transport equipment
Mineral fuels, lubricants, etc.
Manufactured goods
Other
```

Foreign Direct Investment

In 2007, on the occasion of the 10th anniversary of the ROK’s pro-FDI policy, the government initiated a new goal of increasing high value-added investment and established an action plan to support the national effort to attract foreign companies and expand FDI related infrastructure. Inflows of foreign direct investment (FDI) are considerably lower in ROK than in most other OECD countries, the authorities recognize that FDI is of vital importance to economic growth. Taking the year of 2007 as an example, inward FDI flow was $US 2,628 millions while the outward flow was $US 15,276 millions. Comparing to this, Japan’s inward FDI flow was $US 22,549 millions, and outward FDI was $US 73,549 millions in 2007.

To increase FDI, several tax and other incentives are reserved for foreign-invested companies. Moreover, action has been taken to improve both the business and the living environment for foreign invested companies and their employees. However, FDI in a few sectors remains partially or fully restricted (television and radio broadcasting, nuclear power generation). ROK remains an important source of FDI for the rest of the world, and welcomes inward FDI as vital to the economy’s growth and providing the necessary financial and technological resources for economic restructuring and enhancing international competitiveness. FDI is seen as a means of technology and know-how transfer as well as a major contributor to export and employment growth; foreign-capital invested* companies play an increasingly vital role in the economy.

Nevertheless, ROK’s share of global inward FDI has reportedly been declining steadily since 2004. This seems to be due to the manufacturing sector’s relatively weak record in attracting FDI. The authorities indicate, inter alia, that these developments are widely observed in other parts of the world and that during the first quarter of 2008, investment by existing foreign-invested companies increased by 75.7% compared with the same period last year. ROK is committed to improving its system of incentives offered to foreign investors, and continues to revise laws and regulations designed to promote FDI and to offer tax and other benefits. The Foreign Investment Promotion Act (FIPA) permits all FDI types, which include: establishment of new businesses, purchase of shares in existing businesses, mergers and acquisitions, with at least 10% foreign ownership; and loans of five years or longer from foreign parent or affiliated companies.

Trade policy formulation and implementation involves several ministries: the Ministry of Foreign Affairs and Trade (MOFAT) has primary responsibility for international trade negotiations, including FTAs, and formulation and implementation of trade policies. In 2008, the Ministry of Commerce, Industry and Energy, which is responsible for export and import measures as well as for policies on industry, energy, and resources, was renamed as Ministry of Knowledge Economy (MKE); it now incorporates certain functions that were previously the responsibility of other ministries (i.e. Information and Communications, Science and Technology, Finance and Economy).

Trade policy formulation and implementation involves several ministries: the Ministry of Foreign Affairs and Trade (MOFAT) has primary responsibility for international trade negotiations, including FTAs, and formulation and implementation of trade policies. In 2008, the Ministry of Commerce, Industry and Energy, which is responsible for export and import measures as well as for policies on industry, energy, and resources, was renamed as Ministry of Knowledge Economy (MKE); it now incorporates certain functions that were previously the responsibility of other ministries (i.e. Information and Communications, Science and Technology, Finance and Economy).

FDI in a few sectors remains partially or fully restricted (television and radio broadcasting, nuclear power generation). ROK remains an important source of FDI for the rest of the world, and welcomes inward FDI as vital to the economy’s growth and providing the necessary financial and technological resources for economic restructuring and enhancing international competitiveness. FDI is seen as a means of technology and know-how transfer as well as a major contributor to export and employment growth; foreign-capital invested* companies play an increasingly vital role in the economy.

Nevertheless, ROK’s share of global inward FDI has reportedly been declining steadily since 2004. This seems to be due to the manufacturing sector’s relatively weak record in attracting FDI. The authorities indicate, inter alia, that these developments are widely observed in other parts of the world and that during the first quarter of 2008, investment by existing foreign-invested companies increased by 75.7% compared with the same period last year. ROK is committed to improving its system of incentives offered to foreign investors, and continues to revise laws and regulations designed to promote FDI and to offer tax and other benefits. The Foreign Investment Promotion Act (FIPA) permits all FDI types, which include: establishment of new businesses, purchase of shares in existing businesses, mergers and acquisitions, with at least 10% foreign ownership; and loans of five years or longer from foreign parent or affiliated companies.

To increase FDI, several tax and other incentives are reserved for foreign-invested companies. Moreover, action has been taken to improve both the business and the living environment for foreign invested companies and their employees. However, FDI in a few sectors remains partially or fully restricted (television and radio broadcasting, nuclear power generation). ROK remains an important source of FDI for the rest of the world, and welcomes inward FDI as vital to the economy’s growth and providing the necessary financial and technological resources for economic restructuring and enhancing international competitiveness. FDI is seen as a means of technology and know-how transfer as well as a major contributor to export and employment growth; foreign-capital invested* companies play an increasingly vital role in the economy.

Nevertheless, ROK’s share of global inward FDI has reportedly been declining steadily since 2004. This seems to be due to the manufacturing sector’s relatively weak record in attracting FDI. The authorities indicate, inter alia, that these developments are widely observed in other parts of the world and that during the first quarter of 2008, investment by existing foreign-invested companies increased by 75.7% compared with the same period last year. ROK is committed to improving its system of incentives offered to foreign investors, and continues to revise laws and regulations designed to promote FDI and to offer tax and other benefits. The Foreign Investment Promotion Act (FIPA) permits all FDI types, which include: establishment of new businesses, purchase of shares in existing businesses, mergers and acquisitions, with at least 10% foreign ownership; and loans of five years or longer from foreign parent or affiliated companies.

To increase FDI, several tax and other incentives are reserved for foreign-invested companies. Moreover, action has been taken to improve both the business and the living environment for foreign invested companies and their employees. However,
Economic Overview

Russia is the largest country on earth and constitutes more than one-ninth of the world’s land area. It includes a collection of diverse territories at different stages of their development. Russia’s economy is the tenth largest in the world and is centered on its key natural resources, oil and gas, heavy industry and more recently a growing commercial agricultural sector. Blessed with 20% of world oil and gas Russia is the global energy leader and able to fuel any industrial economy. Other chief exports are wood, wood products, metals, chemicals, weapons and military equipment.

The Russian economy underwent tremendous difficulties while converting to free market economy in the 1990’s that were to be exacerbated by lower international prices on Russia’s major export earners and loss of investor confidence ensuing from the Asian financial crisis. Russia weathered the crisis well though and regained its confidence under in the nine years leading up to 2007. Between the period of 1999 and 2007 it realized an impressive 83% growth partly due to the favorable commodity prices but also because of the important reforms that Russia was able to implement under Putin’s first term. These economic reforms took place in the areas of tax, banking labor and land codes, and tight fiscal policy. Although these developments are ongoing the achievements thus far have steadily raised investor confidence and Russia’s economic prospects.

This exemplary decade of growth was initially driven predominantly by a weakened ruble and high oil prices but since 2003 domestic demand and most recently investment have played increasingly significant roles. Building up to 2007 Russia used its stabilization fund based on oil taxes to repay significant debts. Oil export earnings also allowed Russia to build up foreign reserves to $470 billion at yearend 2007. This meant Russia entered the financial crisis with strong macro economic fundamentals and has been better placed to deal with it than many other emerging markets. At the other end of the spectrum, such a high dependence on one commodity has meant the impact on Russia has been more pronounced. As the recession has set in more deeply so to the precipitous drop in production has lead to substantially lower oil prices in line with demand. Russia’s stock market decline in November 2008 can be largely attributed to the lower oil price along with the decrease in investor sentiment. Prudent fiscal management and substantial financial reserves along with a swift and coordinated government policy response proved invaluable and have helped limit the impact. Manufacturing has been responsible for fueling the industrial growth in Russia. Most recent figures show that manufacturing grew at 8.2% year on year in September 2008 which is a similar to previous years. These figures are expected to show a slow down in the last quarter of 08 and beginning of 2009 though. Russia also needs to be aware that the manufacturing base needs to be refurbished or modernized to achieve broad based economic growth.

Russia faces challenges in 2009, like the rest of the globe, in trying to deal with contractions born out of the financial crisis. Russia has had the benefit of a huge reserve to help stabilize the situation. Production has indeed fallen for the first time in a decade but authorities are in a strong position and have larger artillery of policy options than many others. It has run a current account surplus for many years, yet it has also been hit by capital outflows of late and a credit freeze. In addition, with the oil price having dropped to as low as $35 a barrel in recent weeks and expected to remain low, we are likely to see a contraction of the Russian economy in 2009. Manufacturing and in turn aggregate demand should loose the momentum carried through as production based on past orders subsides and as the economy tightens. Total investment-to-GDP remains at about 22 percent. A slowdown however is not without a positive spin-off. A rise in inflation and a simultaneous decline in employment as well as capital utilization and real wages outpacing output growth have been signs that warned of overheating. As the country is underdeveloped, once the economy has had time to address the infrastructural constraints and cool off so too could expectations of above average future growth be expected. Indeed, some of slowdown represents a welcome cooling off that will help to reduce inflation from the current high levels.

Russia is an attractive investment region with a large population that has an increasingly higher purchasing power. A large consumer base with a growing percentage of consumer disposable income has been driving expansion in retail, healthcare, financial and medical segments. This has been extremely encouraging for an economy in need of sector diversification. Most encouraging though is that markets are far from saturated. We have also seen large and positive strides taken to continue reforms within the country as well as the encouraging results of prudent and effective fiscal policy. Over the past eight years, Russia’s robust growth has reduced poverty. Real GDP per capita grew on average by about 7 percent a year between 2000 and 2007. Meanwhile, the poverty headcount rate declined from 29 percent in 2000 to 13.4 percent in 2007. This implies that approximately 30 million people appeared to have moved out of poverty during 2000–2007.

Trade

Russia is positioned to benefit easily from trade with both Europe and Asia. Most of the major export partners are European countries such as Netherlands which occupies 11.9% of total export volume, Italy of 6.4%, and Germany of 5.3%. Among the GTI member countries, China and ROK were the second and seventh most important Russian import partners respectively in 2007. Germany was Russia’s most chief import partner with the Ukraine, Japan, US and Belarus placing above ROK in this measure as well.

Chart 5.1. Russia’s main Export Partner in 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>11.9%</td>
</tr>
<tr>
<td>Italy</td>
<td>6.4%</td>
</tr>
<tr>
<td>Germany</td>
<td>5.3%</td>
</tr>
<tr>
<td>Belarus</td>
<td>4.6%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>3.5%</td>
</tr>
<tr>
<td>China</td>
<td>3.4%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>3.3%</td>
</tr>
<tr>
<td>Turkey</td>
<td>3.8%</td>
</tr>
<tr>
<td>Poland</td>
<td>3.3%</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>3.3%</td>
</tr>
</tbody>
</table>
In 2007, 61.5 percent of the total value of Russian exports was gained from mineral fuels and lubricants. The next largest contributor was manufacturing which brought in 15.4 percent of total value. Crude materials (excluding fuel), Chemicals and related products, transport equipment, which made up 45.9% of total imports. Russia’s main imports were mainly of machines and transport equipment, which made up 45.9% of total imports. Chemicals and related products, manufactured goods and food and live animals all made up close to 28.8% of the total figure in 2007. The foreign trade policy is regulated by the Ministry of Economic Development and the Ministry of Industry and Trade.

Russia has been working hard to build a diversified presence in international trade over the last years. This has been done primarily through a purposeful effort to assist domestic business in developing traditional and getting into new markets, above all for science-intensive products and high technology goods. Russia has an economy which is set to become increasingly diversified, and has a highly educated workforce which is able to provide a market for a wide range of technologically sophisticated products. There are very few countries able to offer such a broad a range of partnership opportunities or capabilities for cooperation in scientific or technical spheres. Discussions continue over Russia’s accession to the WTO. Russia continues to maintain a number of barriers to with respect to imports and negotiations surround the modification of these measures in order for them to meet internationally accepted trade policies.

Foreign Direct Investment

Foreign direct investment (FDI) flows continued to improve in 2007 to $52.5 billion compared to $32.4 billion in 2006. Until recently, few of the profits from the fuel, gas and mineral industries were not substantially reinvested in Russia. Continuing political and economic stability, however, has encouraged successful industrialists to seek investment opportunities in high-growth sectors within Russia such as agribusiness, food processing, automotive, retail and telecommunication.

After peaking in 2007 though a sudden reversal in of capital flows was witnessed. The surplus of the capital account for the first three quarters of 2008 was only US$ 0.5 billion, compared to US$ 59.3 billion in the same period of 2007. The two main factors behind this sudden change were firstly attributed to a change in investor sentiment and second, a result of unwinding of ruble positions held by foreign investors betting on further ruble appreciation. Extraction industries accounted for about half of the FDI in 2007. The fall in 2008 was largely due to decreased FDI in these particular industries. The new law governing foreign investment in companies with strategic importance has also caused a move away from extractive industries in addition to the dwindling investor sentiment. There appears to be a clear shift towards the recently more liberalized electricity sector.

In 2005 the Russian government passed law on the Special Economic Zones (SEZs). These were for a period of 20 years with the aim of encouraging hi-tech industrial production business or progressive R&D zones. In November 2005, a tender was announced and the establishment of six SEZs: in Zelenograd and Dubna in the Moscow region (focused on microelectronics and nuclear technology, respectively), St. Petersburg (information technology), Tomsk (new materials), Lipetsk (appliances and electronics), and Yelabuga (auto components and petrochemicals). Subsequent tenders for additional economic zones have since announced in addition to the above mentioned.

As a whole investment in Russia remains substantial; Rosstat (Federal State Statistics Service) reports that as of October 1 2008, the accumulated foreign investment reached $US 251.3 billion. The size of investment abroad by Russia amounted at the same date amounted to $US 91.3 billion and for the first time in recent years outflows surpassed inflows. The Russian investment climate, despite the deterioration world economic environment, remains generally favorable. Russia remained the largest markets for investment for the International Finance Corporation (IFC) and the European Bank of Reconstruction and Development (EBRD). Their investment, predominantly in the private sector of the Russian economy, amounted to $US 2.8 billion and €10.5 billion respectively. Russia also top among beneficiary countries of the Multilateral Investment Guarantee Agency (MIGA).
Economic Overview

Once a former Soviet state, Mongolia shifted to a market-based economy and democracy in 1990. The Mongolian economy is considered open with free government-administered prices, exchange rates, and interest rates, in addition to a two-tier banking system and opportunities for private initiatives. Mongolia’s main economic partners are Russia and China. Mongolia exports 71.0 percent of its goods to China and imports heavily from China and Russia. A striking 80 percent of its food supplies are imported from China and Russia as well. The country is still struggling so it has come to also rely on aid from international organizations.

Since its transition to an open market economy Mongolia has maintained and open policy and ensured steps have been taken to encourage and support foreign investment and trade. The economy experienced a 22 % drop in GDP between 1990 and 1992 during the initiation of its transition but has been growing consistently well since. During the time of transition between 1994 and 1999 Mongolia experienced a mean growth rate of 3.5% and this climbed thereafter to 7.3%, 8.6%, 10.2% and 8.9% respectively in 2004, 2005, 2006, 2007 and 2008. Wholesale and retail trade has come to contribute the most to GDP followed by agriculture and then mining and manufacture. The 2006 GDP figure was US $3.13 billion and was US $3.9 billion in 2007. Of Mongolia’s 30,817 active businesses registered in 2006, 97.5% of them were classified as small entities and make up 60% of Mongolia’s GDP. Mongolia’s majority of these businesses are also in the capital city.

The Government of Mongolia has approved and started implementing its anti-crisis program, and in order to stabilize economy Mongolia has come to joint agreement with International Financial Institutions and has started implementing policies that taken into account both external and internal factors. Different measures have been taken to ensure stability of financial and banking sectors, and to keep economy active. In addition to activities are being implemented to make environment for more favorable for businesses and investments, to mitigate factors that hinder development of foreign and domestic investments, and to enhance justice system, initiatives are being made to increase investment and to introduce its new forms in infrastructure sector. For instance, the Government of Mongolia approved national program named “Transit Mongolia” and aimed for Mongolia as landlocked country to become transit country during period of time between 2009 and 2012. Also Mongolia tried to utilize electronic system such as a “Single electronic window” to promote efficiency by digitalizing the environment in order to significantly reduce transaction times and process costs.

Trade

Since its accession to the WTO in 1997, most of Mongolia’s laws covering trade, trade-related policies, and investment have been revised, updated or newly created to enable Mongolia to meet its commitments as a member of the multilateral trading system. Mongolia’s overall trade policy objectives, as stated in the Action Programme of the Government of Mongolia for 2004-2008, are to support economic growth through an active trade policy, promote the industrial, agricultural and services sectors, and increase exports. The Action Programme also aims to change Mongolia’s export structure by diversifying export products and markets, and to work towards the establishment of free-trade agreements with Russia, China, and the United States. In light of the upcoming expiry of the Agreement on Textiles and Clothing, Mongolia aims to take measures to exploit new trade opportunities for these products in order to maintain its position in international markets. Mongolia also aims to intensify negotiations with the European Union, Japan, the United States, and other countries to expand the scope of Mongolian products to be covered by their Generalized System of Preferences. Mongolia has not concluded any regional trade agreements, but Mongolia has concluded various bilateral trade-related arrangements.

Main export commodity is crude materials, inedible, except fuels, occupies 71.0% in 2007. Import is mainly comprised of machinery, transport equipment (29.5 percent) and mineral fuels, lubricants (27.0 percent) in 2007. As for Mongolia, it has wide range of mineral recourses and agriculture raw materials to make significant contribution to the sustainable development of the region. However, it is important to use these resources properly to accelerate the regional cooperation. It is also important for the country with such a small market like Mongolia to develop its economy in line with economies of Northeast Asia and open a new route for further development in the Pacific region.
Any legislation, including on trade and trade-related issues, may be initiated by a member of Parliament, the President, or the Government. Ministries and agencies of the Government prepare a draft bill for laws and regulations related to their executive jurisdiction. A draft bill is referred by the Chairperson of Parliament for submission to the relevant Standing Committee of Parliament, where it is discussed with the participation of ministries in charge. The Standing Committee on Economic Policy deals with Mongolia’s main economic policy issues including trade policies. The formulation and implementation of trade policies is carried out by several ministries and agencies in consultation with representatives from the private sector. Currently, Mongolian trade policy is formulated and coordinated by the Ministry of Industry and Trade (MIT). The Ministry has the main responsibility for all issues related to trade, including trade promotion/facilitation and export development. Within the MIT, the Trade Policy and Cooperation Department is responsible for coordinating trade policy. The MIT supervises the Foreign Investment and Foreign Trade Agency (FIFTA) and the Mineral Resources and Petroleum Authority. The Customs General Administration, established under the Ministry of Finance (MOF), is responsible for enforcing the customs legislation, levying and collecting customs duties and other taxes, and preparing and submitting customs statistical data to the National Statistical Office.

**Foreign Direct Investment**

Between 1990 and 2006, Mongolia registered 6,165 foreign companies invested from over 93 companies equaling a total of 1.5 Billion USD. China, Canada, the USA, ROK, Japan, the UK and the Russian federation ranked as the highest foreign investors in 2006. Total FDI net flows in 2007 reached US$ 328 million. When dividing these figures up into sectors, the mining industry brought in the largest share followed by the trade and catering services with, light industry, banking services, production of raw livestock material and construction. Foreign direct investment has continued to focus on the mining industry with other funds going into banking and construction in 2007. During the same period, close to 70 percent of total FDI came from China. It was also the same time that Mongolia suffered from its highest inflation rate in more than a decade when consumer prices spiked by 15 percent (In 2008, inflation decreased by 9 percent). Of the growing geology, mining and petroleum industries about 47.4 percent of the total foreign investors are from China, 12.2 percent is from Canada, Korea (7.3%), Japan (5.0%), USA (3.6%) and other foreign investors.

Mongolia’s stable political environment and open economic policy stand as large draw cards to foreign investors. Mongolia also has access to the significant Russian and Chinese economies and is rich in reserves of raw materials and minerals. In addition to this, the favorable legal environment and a pristine and vast natural environment make Mongolia a diverse investment place. Through active encouragement of FDI the Mongolian government aims to reach its three primary development objectives of accelerated sustainable growth, transfer and application of skills and technology and the development of an export-oriented and private sector driven economy with further expansion of internationally competitive production. Most active encouragement by the Government has been via tax incentives and legal guarantees regarding investment protection, investor rights, property ownership and also removal of unnecessary administrative barriers and procedures.

The main law governing foreign investment in Mongolia is the Foreign Investment Law10. Under this law, wholly foreign-owned business entities are allowed; inward foreign direct investment (FDI) receives national treatment. No restriction is imposed on the size and content of FDI into Mongolia, except that the production of weapons is prohibited. Foreign nationals or companies are not allowed to own land in Mongolia; they can lease land for up to 60 years. FDI into Mongolia cannot be legally expropriated. Foreign investors can remit income, profits and payments out of Mongolia without any barriers; they are subject to a 20% withholding tax. The Foreign Investment and Foreign Trade Agency (FIFTA) are responsible for foreign investment policy formulation and implementation. Mongolia has concluded agreements on avoidance of double taxation with 31 countries. It has also signed agreements on Mutual Protection and Promotion of Investments with 34 countries.

---

10. The Foreign Investment Law was adopted in 1991. Subsequently, the minimum amount for foreign investment was set at US $10,000. FDI in the banking sector is covered under the Banking Law. (WTO)
Economic Overview

It is estimated that the economy of DPRK shrank by 2.3 percent in 2007 and industrial output and power production continued to decline in parallel from their highs in the 1990s. However, because of the DPRK's strategic location in East Asia, where it is surrounded by four major economies, and a young, cheap, skilled workforce, the economy has the potential to grow at 6 to 7 percent annually.

Currently, heavy and light Industry dominates the DPRK economy, contributing about 39 percent to the national economy. The service sector and agriculture follow at 31 percent and 30 percent respectively. Major industries include: machine building, electric power, chemicals; mining (coal, iron ore, limestone, magnesite, graphite, copper, zinc, lead, and precious metals), metallurgy; textiles, food processing; and tourism.

International trade is currently highly restricted in the DPRK and since 2005 – when the government terminated most international aid – the country has received foreign developmental assistance mostly in the form of grants and long-term loans. These have been used to feed the population as severe flooding and droughts as well as systematic problems such as a deficient arable land, poor farming practices and lack of fuel have led to food shortages over the past decade.

To help develop its economy, the DPRK issued extensive laws and regulations designed to foster foreign investment. A few examples of there were the Foreign Investment Law, the Foreign Enterprises Law, and the Foreign Economic and Trade Zone Law. The Foreign Investment Law provided preferential treatment for investment in “sectors that require high and modern technology, sectors that produce internationally competitive goods, the sectors of natural resource development and infrastructure construction, and the sectors of scientific research and technology development.” The Foreign Enterprise Law provided the basic framework for the creation of wholly foreign-owned entities that are permitted only in free economic and trade zones. These zones, similar to those in China, allow foreign enterprises involved in the high-tech manufacture of internationally competitive goods in electronics, automation, machine tool and power industries; food processing, garment and everyday consumer goods; building materials, pharmaceuticals and chemicals; construction, transportation and service sectors; and other sectors deemed necessary.

The Foreign Economic and Trade Zone Law was the DPRK's initial step to creating market-oriented development zones to attract foreign investment. So far, it has mostly been companies from neighboring countries that have invested in these zones. The Republic of Korea joined the DPRK to initiate the Kaesong Industrial Complex and China is very interested in a project near the Korean city of Sinuiju. Early this year though, South Korean personnel were removed from the from the Kaesong industrial complex by North Korea. It has been a symbol of North-South cooperation but this along with the conclusion of all official relations between the two countries has cast some doubt over future prospects.

Trade

The DPRK’s two largest trading partners in recent years have been the ROK and China followed by India, Thailand and Russia in 2007. In July 2002, DPRK announced partial marketisation measures, allowing state-set prices for selected commodities to adjust near their market levels, while wages in priority sectors were boosted. In spring 2003 the authorities relaxed restrictions on farmers’ markets, giving ordinary citizens limited freedom to buy and sell a range of food and manufactured goods.

The establishment of the Kaesong Industrial Zone, just north of the DMZ and only 50 kilometres from Seoul was seemingly a sign of improving relations between the DPRK and ROK. The zone, run by the Hyundai Asan Corporation is a production and re-export platform for ROK's small and medium enterprises, employing several thousand North Koreans. A rail link connecting Seoul to the zone started to operate in December 2007. The zone is a source of hard currency for the DPRK weather further expansion will take place remains to be seen. The DPRK still have supply-demand imbalances and have not substantially been altered as of yet by these progressive but experimental measures.

Foreign Direct Investment

Kaesong Industrial Complex

The DPRK started experimenting with market system in 2002 with the opening of the Kaesong Industrial Complex. Located near the Demilitarized Zone, Kaesong allowed joint ventures between both Koreas and helped boost trade between the two sides over US $1 billion for the first time in 2005. As of September 2008, 79 firms from the ROK were manufacturing goods in the KIC, employing more than 33,000 DPRK workers. Most of the goods produced are sold in the South; a small quantity is being exported to foreign markets. The DPRK recently expelled Republic of Korea personnel from Kaesong, which had become a symbol of North-South