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# An Analysis of the Current Status of Economic Exchange and Cooperation Between China and the DPRK, and Trends in its Development (Summary)

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## Introduction

Since the beginning of the 21<sup>st</sup> century, changes have begun to be seen in both the external and domestic political and economic policies of the DPRK. Moreover, with the enhancement of China's economic strength, China has reached a turning point in its strategy relating to cooperation and exchange with the DPRK and economic cooperation and exchange between the two countries has increased markedly. Over the course of several years from the mid-1990s, the scale of trade between them declined,

but signs of a change for the better are now being seen. In particular, since the summit between the leaders of China and the DPRK in 2001, not only the volume of trade but also the volume of investment has risen significantly, as has the value of China's financial aid to the DPRK. According to some statistics, the volume of China-DPRK trade in 2003 rose 2.8 times on the 1999 level of \$370 million, reaching \$1.02 billion, while China's financial aid to the DPRK during the same period increased by 1.6 times from \$48.36 million to \$120 million. While cumulative Chinese

investment in the DPRK up to the end of 2003 (actual investment) was \$10.6 million, cumulative investment in China by the DPRK (actual investment) was \$86.2 million<sup>1</sup>, far outstripping Chinese investment in the DPRK. These changes demonstrate that China's position within the external economic trade and cooperation of the DPRK has strengthened and its role has increased. In addition, the DPRK has great development potential in terms of economic exchange in Northeast Asia and its position and importance in China's external relations strategy has been enhanced. Consequently, relations between the two countries are rapidly becoming closer. Furthermore, as economic exchange and cooperation is progressing at a considerable pace, the prospects for the future are becoming even brighter.

### 1. Current Status and Characteristics

China has historically maintained friendly relations with the DPRK, even after the latter's relationship with Russia cooled in the aftermath of the collapse of the Soviet Union. It was during this period that China cemented its status as one of the DPRK's main external trading partners. The volume of trade between China and the DPRK was no more than \$170 million in 1970, accounting for 14.6% of the DPRK's total external trade, but this figure rose to \$490 million in 1975, accounting for a share of 25.8%; it was \$690 million in 1980, \$500 million in 1985, \$480 million in 1990 and \$900 million in 1993. However, in addition to the DPRK's escalating economic difficulties and a reduction in the products that it could export, its foreign exchange reserves fell considerably and the scale of its external trade diminished. The volume of trade between China and the DPRK also decreased, falling to \$550 million in 1995, which accounted for just 26.8% of the total volume of the DPRK's external trade. Since 2000, there has been a turnaround, with trade between the two countries increasing, expanding to \$740 million in 2001, or 32.6% of the total volume of the DPRK's external trade. In 2003, this figure rose to \$1.02 billion, or 44.3% of the total volume of the DPRK's external trade. Of this, Chinese exports to the DPRK were worth \$630 million (an increase of 34.1% on the previous year), while imports were worth \$400 million (up 46% on the same period). Trade between the two countries broke through the billion dollar barrier for the first time since diplomatic relations between them were established in 1949; furthermore, trade between China and the DPRK as a share of the DPRK's total trade exceeded 40% for the first time since the 1970s (see Table 1).

**Table 1 Trade Between China and the DPRK**

(\$1 million (%))

Year	DPRK Imports From China	DPRK Exports to China	Total Volume of Trade Between China & the DPRK	Chinese Balance of Trade
1992	541.1 (34.8)	155.5 (17.0)	696.6 (28.6)	385.6
1995	486.2 (36.9)	63.6 (8.6)	549.8 (26.8)	422.6
1999	328.7 (34.1)	41.7 (8.0)	370.4 (25.0)	287.0
2000	450.8 (32.0)	37.2 (6.6)	488.0 (24.7)	413.6
2001	573.2 (35.4)	166.7 (25.6)	738.9 (32.6)	406.5
2002	413.3 (28.5)	213.8 (32.6)	627.1 (28.6)	198.2
2003	628.0 (47.6)	395.5 (39.0)	1,023.5 (44.3)	232.4

Looking at the structure of China and the DPRK's exports and imports, we can see that the majority is accounted for by rudimentary commodities and that there are few types of product. In 2003, of China's exports to the DPRK, mineral fuels were worth \$180 million (up 53.2% on the previous year), with crude oil rising to \$120 million, refined oil (diesel, aviation fuel, etc.) increasing to \$35.74 million (up 80.1% on the previous year), coal increasing to \$14.95 million (up 56.7% on the previous year), and electricity increasing to \$790,000 (up 39.6% on the previous year). With regard to China's other exports to the DPRK, meat rose to \$63.62 million (an increase of 5.1 times on the previous year), while cereals increased to \$49.95 million (up 67% on the previous year). Furthermore, a 44% rise on the previous year to \$39.56 million was achieved in the electrical equipment and components industry. These four categories account for 53.2% of the total value of China's exports to the DPRK.

Looking at China's major imports from the DPRK, we can see that the value of imports of marine produce is \$270 million (up 44.7% on the previous year), accounting for 67.5% of total imports from the DPRK, while clothing imports total \$52.24 million (up 37% on the previous year), accounting for 13.2% of total imports. In addition, iron and steel accounts for 11.8%, at \$46.8 million. These three commodities account for 92.5% of China's imports from the DPRK.

Chinese investment in the DPRK is mainly concentrated in the Rason Economic and Trade Zone and the Pyongyang area. Up to the end of 2003, Chinese investors had funded 35 projects in the DPRK, with a cumulative value of \$10.6 million; the average value of investment in each project was less than \$400,000. The main investment sectors include construction, catering, travel, electrical power, computers, ballpens, marble cutting, trade and clothing. China was the top investor in the DPRK until 2001, but it has now been pushed into second place by the ROK (cumulative actual investment in the DPRK by the ROK is currently \$180 million).

DPRK investment in China began in 1993 and gradually expanded into the fields of trade, the travel business and finance, having begun in the form of the management of restaurants. According to some statistics, DPRK investment in China totaled \$24.85 million by the end of 2003. DPRK investment is concentrated in the three northeastern provinces, Beijing, Shanghai and the Guangdong area.

In recent years, the revitalization of economic exchange between China and the DPRK has led to a rapid expansion in its scale and the range of fields in which it takes place, and a number of new characteristics in economic exchange between them have emerged, as follows:

- (1) The DPRK's exports to China have increased rapidly, while its deficit *vis-à-vis* China has fallen sharply

Looking at the process of trade between China and the DPRK, we can see that, while the total value of goods

<sup>1</sup> Cumulative investment by the DPRK in China is \$86.2 million, but the cumulative figure to the end of 2003, which excludes funds that have been withdrawn, is \$24.85 million.

exported to the DPRK was continuing to increase, China maintained a vast trade surplus. However, between 2000 and 2003, the DPRK exhibited rapid growth, apart from in 2000, when its exports to China recorded negative growth. According to certain statistics, during this period, the growth rate of the DPRK's trade with China averaged 112.7% annually; in contrast, the growth of China's export trade with the DPRK remained at an average of just 22.2% each year. As a result, the DPRK's trade deficit with China fell sharply, reaching \$407 million in 2000 and \$198 million in 2001, the lowest level since the 1990s. Thereafter, the deficit stabilized at \$232 million in 2003. This signifies that the DPRK's external export capacity has improved somewhat, its dependence on trade with China has increased and a relatively beneficial environment for trade and exchange between the two countries has been put in place.

- (2) Border trade and processing trade are gradually becoming more active

For a long time, normal trade (general trade) and bonded trade has accounted for a relatively large share of trade between China and the DPRK. However, border trade and processing trade, which had been stagnating, have become more active and are experiencing rapid growth (see Table 2).

In addition, there has been a significant increase in China's assistance to the DPRK, with economic assistance to that country rising from \$27.56 million in 2000 to \$120 million in 2003; the share of trade between the two countries accounted for by economic assistance during that period rose from 5.6% to 12.1%. This speaks volumes about how China is trying to develop the relationship between the two countries by supporting the DPRK's economic recovery.

China's economic assistance to the DPRK can be broadly categorized as follows: economic support loans, commercial loans and grant aid. These three forms of economic assistance are implemented in the form of the provision of commodities, including machinery, equipment and components, rice, beans, maize, crude oil, aviation fuel, diesel, agricultural chemicals, cars, pork, powdered milk, paper, computers, teaching materials and equipment, cement bags, and food wrappers. These are things that are needed in the DPRK at present and, through this assistance, China is able to play a certain part in alleviating the serious shortages suffered by the DPRK.

- (3) The companies involved in trade and the types of goods exported and imported are increasing, and a change in the structure of goods has begun

For a long time, the structure of commerce between China and the DPRK has tended to be simple and static, as far as the goods involved are concerned. From the early to mid-1990s, the main goods imported from the DPRK by China included logs, iron and steel, mineral ores and seafood. Of these, iron, steel and seafood consistently accounted for more than half of the DPRK's exports to China, but the country's economic difficulties intensified, supply shortages of energy and raw materials continued, the production capacity of its iron and steel factories fell considerably and, furthermore, the quantity of timber that the DPRK acquired by exporting labor to Siberia decreased. Consequently, exports of iron, steel and logs to China fell. However, the DPRK did not have any products to compensate for this, so the share accounted for by these two categories of product in the DPRK's overall trade with China was still high.

The main products that China exported to the DPRK included crude oil, food and textiles. From the beginning of the 21<sup>st</sup> century, economic cooperation between China and the DPRK strengthened further. In particular, trade between the two countries was revitalized after the 2001 summit between their leaders, with an unprecedented increase being seen in the types of goods being imported and exported, as well as in the companies engaging in trade. According to some statistics, about 580 Chinese companies were involved in trade with the DPRK before 1999, but this figure rose to more than 900 in 2003. During the same period, the number of DPRK companies and related departments involved in trade with China rose from 160 to more than 250; in addition, the number of types of product that are the focus of commerce between the two countries was once more than 60 (1995), but this figure now stands at more than 100. Furthermore, a change has taken place in the structure of goods exported and imported by the two countries, with China shifting towards imports of marine produce, iron and steel, and clothing from the DPRK. Of the main products imported by the DPRK from China, crude oil still accounts for the top share, but coal, foodstuffs, textile products and machinery components have emerged as substitutes for the chemical fibers and everyday goods that were formerly major imports. Products with a relatively high added value account for an increasingly large share of trade between the two countries.

Table 2 Table of Statistics Regarding Trading Methods and the Current Status of Transactions Between China and the DPRK

Basis	Fiscal Year	(\$10,000 (%))									
		1999		2000		2001		2002		2003	
		Monetary Value	Share								
General Trade		16,750	45.2	27,814	57.0	35,676	48.2	29,913	47.7	45,388	44.3
Processing Trade		3,387	9.1	3,485	7.1	4,735	6.4	5,581	8.9	10,416	10.2
Border Trade		10,734	29.0	12,645	25.9	15,671	21.2	15,238	24.3	27,816	27.2
Bonded Trade		889	2.4	1,298	2.7	10,359	14.0	5,142	8.2	5,119	5.1
Economic Assistance		4,836	13.1	2,756	5.6	6,880	9.3	6,145	9.8	12,384	12.1
Other		444	1.2	806	1.7	591	0.8	690	1.1	716	0.7
Total		37,037	100.0	48,804	100.0	73,986	100.0	62,700	100.0	102,350	100.0

- (4) Trade and economic exchange with the DPRK is flourishing most of all in China's Yanbian Korean Autonomous Prefecture and the Dandong region

Until the mid-1990s, border trade between the Yanbian region and the DPRK played an extremely important role. At its peak in 1993, the total value of border trade between the two countries was \$330 million, accounting for 36.7% of all trade between the two countries and for 72.6% of border trade between them at that time. Thereafter, the DPRK's economic troubles escalated and regulations concerning export goods became harsher, so products aimed at border trade in each region decreased considerably. In addition, the companies involved in trade in the Yanbian region were small in scale and fairly uncompetitive in most cases, so trade between the DPRK and Yanbian continued to fall. In 1996, the total value of trade fell to \$31.63 million, but from the beginning of the 21<sup>st</sup> century, cooperative relations between the two countries expanded and border trade between Yanbian and the DPRK began to recover some of its vitality once more. According to certain statistics, the value of the Yanbian Korean Autonomous Prefecture's trade with the DPRK in 2003 was \$112 million, exceeding the scale of its trade with the ROK (\$103 million) for the first time, making the DPRK the region's biggest trading partner. Currently, products from the DPRK are selling well in some of the markets in Yanji, the capital of Yanbian. The majority of products in the display counters on the first floor of Yanji's West Market have been imported from the DPRK. These include paintings of the DPRK, ceramics, embroidery, stamps, kitchen utensils, fox fur scarves, gloves, talcum powder, dried squid and cod products, hairy crabs, trout and Pacific saury, all of which are popular with local people, as well as with tourists.

Dandong's trade with the DPRK has continued to flourish and even now it is the focus of attention as the area with the most extensive border trade with the DPRK and with the greatest development potential. The number of companies involved in trade with the DPRK has climbed to more than 800 and the value of trade between Dandong and the DPRK in 2003 was \$380 million, accounting for 37.1% of all trade between China and the DPRK; at the same time, the DPRK has already established a number of companies in Dandong and is promoting a variety of projects. Furthermore, if the establishment of the DPRK's Sinuiju Special Administrative Region is carried out, Dandong's presence and role in economic cooperation with the DPRK is likely to become even greater.

## **2. Factors and Issues Relating to the Rapid Development of Economic Cooperation Between China and the DPRK**

Economic exchange and cooperation between China and the DPRK is now beginning to come to life once more and the relationship between the two countries is developing rapidly. In the background to this can be found the following factors:

- (1) Political and economic cooperation between China and the DPRK is becoming more rational and practical

Until now, China has maintained a relationship of friendship and good-neighborliness with the DPRK.

However, in the early 1990s, as a result of developments in the international situation, both China and the DPRK were compelled to revise their foreign policies, with changes in the times forcing upon them adjustments in their cooperative relations, which they had previously thought would continue unaltered. In the case of China, progress was made in political and economic reforms, with the transition from a planned economy to a market economy accelerating. In addition, in order to speed up its external liberalization, China was proactive in improving its relationships with advanced countries in the West. One case in point was its formal establishment of diplomatic relations with the ROK in 1992. At the time, the DPRK harbored a deep sense of dissatisfaction regarding the changes taking place in China and a series of actions that it had initiated, so it took a critical stance. Furthermore, there was a relative decline in China's assistance to the DPRK, so the DPRK's displeasure with China grew. Consequently, the rift between the two became deeper, their relationship began to cool, and trade, economic exchange and cooperation between them declined. However, at the beginning of the 21<sup>st</sup> century, they began to understand each other and adapt to the changes that had taken place, with exchanges between high-ranking officials of the two countries taking place more frequently and some of the misunderstandings and tension between the two gradually being eliminated. They emphasized understanding over misunderstanding and concord over conflict, opening up a new page in the history of their cooperation. They positioned objectivity, rationality and practicality as the main axes in the development of economic cooperation, deeming them to be a new motive force in developing economic exchange and cooperation between the two countries. Consequently, once observing the principles of rationality and practicality has become the basis for the smooth development of economic exchange between the two states, they will be able to avoid major problems and will have found an important key that will enable them to maintain a constructive relationship in the long term.

- (2) Signs of a modest recovery in the DPRK's economy have been seen, opportunities for cooperation and exchange are increasing and both countries are feeling a growing attraction to each other

From the beginning of the 21<sup>st</sup> century, the DPRK pressed on with adjustments to its economic policies, actively deploying a series of policies with economic recovery and development in mind. In particular, on 1<sup>st</sup> July 2002, the government of the DPRK announced its extremely significant Economic Management Improvement Measures. The main measures included a considerable increase in wages, the introduction of market prices for certain products, the expansion of the principle of autonomy in the local economy and of economic autonomy for businesses, the adjustment of the exchange rate, the promotion of the construction of production bases for export goods, and an expansion in the quantity and type of export goods produced. Based on the premise of giving greater autonomy in management to trading companies and those companies returning their profits to the state, the government sought to enable these companies to formulate their own annual

export and import plans, to adjust the exchange rate and to improve companies' management efficiency. Furthermore, in September of the same year, the government established the Sinuiju Special Administrative Zone, like Hong Kong and the Macao Special Administrative Region, and announced that it would implement capitalist market economic control measures. In addition, it has successively developed Mount Kumgang as a tourism destination and announced the construction of the Kaesong Industrial Zone, which is aimed at companies in the ROK. According to certain data, the DPRK recorded negative growth over a number of years, but it has been experiencing continuous positive growth since 1999. Between 2000 and 2003, the country's annual average growth rate reached 2.4% and the value of its foreign trade rose from \$148 million in 1999 to \$262 million in 2003. Given such changes, we can see that the DPRK's economy is already on the path to recovery, that it has strengthened its awareness of open-door policies and that it is attempting to participate in the international community.

Due to the emergence of such changes in the DPRK, the neighbor with which China had engaged in sustained interaction over a long period of time, Chinese companies gained confidence in economic exchange with the DPRK, as well as acquiring renewed vitality. In order for the DPRK to achieve economic recovery and growth, and resolve its conflicts with such members of the international community as the US and Japan, Chinese cooperation is essential. For the Chinese economy as well, the DPRK is a vital cooperative partner, particularly with regard to the economic development of areas adjacent to the border, and is a country that China cannot neglect in cultivating foreign markets and exerting its influence. Consequently, through trade and economic cooperation, the two countries will not only be able to increase mutual benefits, but will also be able to pursue mutual prosperity.

- (3) The DPRK's relationships with the US and Japan are deteriorating by the day, creating obstacles to the enhancement of external economic cooperation

Since the inauguration of the Bush administration, the US has deployed an extremely hard-line policy with regard to the DPRK. Before the terrorist attacks in September 2001, the Bush administration accused the DPRK of being "a rogue state isolated from the international community" and "a treacherous dictatorship" that is unable to discard its peculiar regime. After this, under the pretext of countering terrorism, the US named the DPRK as part of the "Axis of Evil", calling it a "rogue state", a "terrorist state" and a "state that threatens national security", while declaring its fears regarding nuclear development and proliferation by the DPRK. Furthermore, while avoiding contact with it, the US formulated a strategy of "forcible pre-emptive strikes" with regard to the DPRK and claimed that it possessed enriched uranium; after that, US-DPRK relations entered a period of greater tension. As Japan's relationship with the DPRK deteriorated as a result of the kidnappings issue, both Japan and the US asserted that they would impose even stricter economic sanctions on the DPRK and ceased the provision of heavy fuel oil to it. This brought about a nuclear crisis in the DPRK. Trade between Japan and the DPRK declined

drastically and the DPRK's energy shortages escalated, while overseas aid also fell. However, China expressed its opposition to the unfair behavior *vis-à-vis* the DPRK on the part of these powerful nations, which were following the principles of hegemony, while also asserting that it would lift its sanctions against the DPRK. As the problem was solved through dialogue with each country as a result of this, the DPRK felt an affinity with China and strengthened its relationship with China further. In addition, the DPRK pinned its hopes on China with regard to external trade and the scale of trade between the two countries expanded suddenly, as a result of China's forward-looking response to this, leading to an increasing reliance by the two countries on trade and economic cooperation with each other.

- (4) Contact between high-ranking officials became more frequent, cultivating a progressive atmosphere for trade and economic cooperation between the two countries

Recently, visits between high-ranking officials from China and the DPRK have become more frequent. For example, high-ranking officials from the Communist Party and the army, such as Jiang Zemin, the former Party Chief and President, received successive invitations to the DPRK, while Kim Jong-Il, General Secretary of the Korean Workers' Party and Chairman of the National Defense Commission, has visited China four times at the government's invitation.

Moreover, as a result of the success of the six-party talks in Beijing, solutions to the nuclear issues relating to the DPRK and disputes between the countries of Northeast Asia have been identified. With these progressive changes and economic exchange taking place between China and the DPRK, and with the expansion of economic assistance to the DPRK, China's decision that it must fulfill a certain role is extremely significant. The DPRK is also aware of the benefits that cooperation with China brings and is trying to make use of China's experience in implementing economic reforms and opening its doors wider to the outside world. In addition, it is conscious of the necessity of cooperating with China and has been able to obtain more assistance from China.

Today, economic cooperation between China and the DPRK is expanding steadily, but there are still problems that need to be resolved.

- (1) Border trade between China and the DPRK is still at a rudimentary level, which is an obstacle to increasing the scale of trade

Barter trade accounts for the majority of trade between China and the DPRK, but this method is clearly less convenient than transactions involving products and currency. In order to conduct barter trade, both sides must secure supply sources, which requires a lot of time and effort. Consequently, most barter trade takes place on a small scale, so this is hampering the expansion of trade between the two countries.

- (2) As the DPRK does not have a system for external trade and cooperation, it is not possible to conduct transactions in accordance with international practice

As the DPRK does not have a proper system for external trade and exchange at present, it is difficult to conduct trade that conforms to the international order, so further work in this area is needed. For example, the DPRK's trading associations have many managers, but as the departments that deal with actual trade have almost no authority to make decisions, the process of obtaining a final decision is extremely long and complicated, business is inefficient and it is exceedingly difficult to conduct transactions in line with international practices. Consequently, companies trying to initiate transactions with the DPRK have been unable to adapt to this situation, and it has ultimately had an impact on cooperative relations, proving to be an obstacle to the development of trade between the two countries.

- (3) The DPRK has defaulted on many debts and China has suffered great losses in many cases

As some DPRK companies do not act in a trustworthy manner in transactions with China, breaches of contract take place. Chinese companies have to send their representatives resident in the DPRK to collect money from the companies that have breached contracts, but even in this situation, Chinese companies are confounded by those on the DPRK side and most are ultimately unable to come up with a solution to their problems. Consequently, Chinese companies tread warily when conducting transactions with DPRK companies and are tending to focus on cooperation with trade organizations under the direct jurisdiction of the DPRK's central government, as far as possible. As they are relatively aloof with regard to companies other than these, the success rate is low. As a result, they have no opportunities to do business with companies affiliated to the DPRK's regional governments and small-scale trading companies, so eventually they go bankrupt or are bought out by other companies. This hinders the conduct of business between trading companies in both countries.

- (4) Trade disputes between the two countries are increasing because of the barriers put in place by the DPRK

In order to ensure the security of the administration, the DPRK imposes strict limits and controls on foreigners, including the Chinese. There are many obstacles to the conduct of business by foreigners, as well, of course, as on immigration, residence, transport and communications, giving rise to a great deal of inconvenience. By extension, representatives of Chinese companies stationed in the DPRK have been detained and cargo ships seized without reason; in addition, unnecessary misunderstandings have been caused by delays in cargo handling times, with Chinese companies incurring economic losses as a result. Even if such problems are solved appropriately through negotiations between the relevant departments in each country's government, they still leave an unpleasant aftertaste and are the reason why Chinese companies are hesitant about initiating business with the DPRK.

### 3. Prospects for the Future

As economic reforms in the DPRK progress, moves towards external liberalization have been accelerating. The

gradual outcomes of the six-party talks in Beijing and the solution of the DPRK nuclear issue have contributed to building the environment needed for the DPRK's domestic and external economic development, working as positive factors in its economic development and recovery. Once this happens, in addition to seizing the best opportunity to speed up economic reforms and liberalization, the DPRK will promote economic development, augment national strength and develop as the economic powerhouse that it is aiming to become. If the DPRK is to develop into such an economic giant, it is thought that remarkable economic changes will have to take place within the next two or three years. These will not merely help it to break out of its economic difficulties, but also put in place the atmosphere needed in order to achieve rapid economic growth overall, with policies regarding economic reforms supporting this tendency. It is thought that this will put in place the environment necessary for expanding overseas economic cooperation, improving trade capacity, enhancing the investment accordingly, increasing the types and quantities of export products significantly, improving the structure of export products and upgrading the country's foreign settlement capacity. Furthermore, by such means as speeding up economic development in the Kaesong Industrial Zone and the Sinuiju Special Administrative Zone, implementing policy changes in the Rason Economic and Trade Zone, and initiating construction work on railways and expressways traversing the Korean Peninsula will allow the DPRK to achieve economic development and put in place the environment necessary for foreign economic exchange that will attract more foreign investment. It is thought that this will lead to flourishing trade and economic transactions between China and the DPRK. In particular, it is likely that the relevant departments in Chinese cities and provinces near the border with the DPRK, such as Liaoning and Jilin provinces, will actively participate through economic development and cooperation with the DPRK, infusing economic cooperation and trade between the two countries with renewed vitality. In addition, China's participation and support is needed in order to build the DPRK's Sinuiju Special Administrative Zone. This is likely to trigger further development in trade between the two countries. Sinuiju is separated from China's Dandong region by a river and the majority of commodities needed to develop and build the special economic zone will be imported from China. Dandong will be the source of supply for the raw materials and everyday items needed for the construction of the Sinuiju Special Administrative Zone and it will fulfill a role as a stopover en route to the DPRK, the biggest gateway for Chinese trade with the DPRK and a hub for trade and economic cooperation between the two countries.

China's economic growth is likely to continue, enhancing its ability to engage in economic assistance and cooperation *vis-à-vis* the DPRK. In particular, active participation on the part of the DPRK is needed in order to develop the Tumen River area and renovate old industrial bases in Northeastern China. For example, the Hunchun and Yanji areas, which are included in economic development projects in the Tumen River area, are adjacent to the Rajin-Sonbong area of the DPRK, so if

development of the two regions of the DPRK mentioned above is delayed, this will have an impact on the economic development on Hunchun and the whole of the Yanbian area; consequently, it is possible that this will delay progress in developing the economy of the Tumen River area. In order to promote the renovation of old industrial bases in Northeastern China, the industrial structure must be revised and improved, structural adjustments in companies promoted, and declining industries weeded out, with the DPRK taking over technology and equipment in this process. This is because the majority of China's declining industries and technology and equipment to be handed over are needed by the DPRK. As a result of these complementary relationships, not only will China be able to solve the problem of disposing of this equipment that it no longer needs, but will also be able to fulfill demand in the DPRK, which will benefit industrial development in that country. This form of cooperation is beneficial to both parties and is a kind of win-win situation that will provide both sides with what they need.

In addition, the relationship between China and the DPRK is moving in the direction of mutual trust and cooperation, reaching a stage of concord and fusion. Both countries are aware of each other's importance and will both cooperate with each other, imbuing the relationship that had soured with renewed vitality and leading to further growth. As the Chinese often say, "You only realize the importance of something once you have lost it"; in the future, these two countries will come together and strive to improve friendly relations between them, and the most direct and effective method of doing this is to conduct economic exchange and cooperation. They have already concluded a marine transport treaty, in 2002, and are currently conducting discussions with the aim of concluding an investment protection treaty and a treaty on cross-border vehicle transport. In the future, it is likely that companies will be able to conduct normal business activities and the two countries will put in place the legal foundations for protecting companies' legal rights; in addition, a trade

order should be established between the two countries and a framework for trading relations constructed. If the trading environment between the two countries improves considerably, the unease with regard to joint ventures will be pushed aside and joint ventures between companies from the two countries will flourish. Consequently, trade and economic relations between China and the DPRK have vast potential and, once the scale of trade between the two countries expands and investment by Chinese companies moving into the DPRK increases markedly, the fields in which joint ventures are undertaken will become more diverse and increasingly dynamic.

According to certain forecasts, the value of trade between China and the DPRK will reach \$2-3 billion in 2008, while cumulative investment will be in excess of \$300 million. The grounds for this include the fact that Chinese companies have already begun to show an interest in the DPRK market and are waiting for the time to be ripe, and the fact that the Sinuiju Special Administrative Zone, in particular, is attracting attention. If economic development and expansion in the DPRK is achieved, many Chinese companies will expand into the DPRK, developing businesses and establishing bases there, demonstrating their abilities and achieving great success.

The prospects for economic cooperation between China and the DPRK are bright, but differences in the two countries' awareness regarding the principles of the market economy differ and there are disparities in their economic development, so as the scale of trade between them increases, conflicts and disputes are likely to increase. However, as relationships of friendship, good-neighborliness and cooperation aimed at mutual aid and common prosperity are once again becoming the key elements in interaction between China and the DPRK, so it is clear that the scale of trade between them will continue to expand.

(Translated by ERINA)