



# The Asia-Pacific Journal: Japan Focus

in-depth critical analysis of the forces shaping the Asia-Pacific...and the world.

## From Backwater to Powerhouse. China's northeast and Northeast Asia on a roll

BY Furuya Koichi

Hunchun, China--From this observation deck overlooking the Tumen River in Jilin province, thousands of kilometers from China's bustling eastern seaboard, it's not hard to see why the northeastern provinces have stumbled as the rest of the nation gallops along the path of economic development.

To the left, is Russia, and to the right, North Korea. In the distance, the Sea of Japan glistens like an oasis that can't be reached. And therein lies the problem.



It's not for lack of manpower or know-how that the northeast lags. Rather, it is restricted transportation routes.

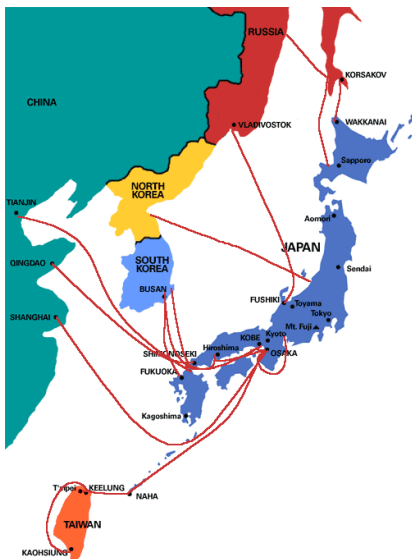
China's border here is just 16 kilometers shy of the Sea of Japan, meaning anything produced in these upper regions must be transported down to the major port cities in China and then shipped around the Korean Peninsula.

In the words of one local resident, "This narrow strip of land makes northeast China an 'inland' region."

But after years of plodding, Beijing has finally started to up the ante in working to secure this potentially lucrative sea route.

As a result, this almost painfully quiet crossroads is expected to emerge as yet another Chinese economic powerhouse within a few years.

Having already established a land route between Hunchun and the Russian port of Zarubino, the focus is now on North Korea.



Last year, Rason International Logistics Co., a joint China-North Korea venture company, won the right to use Rajin Port in Rason, on North Korea's northeast

coast, for five decades.

Despite the time limit, the company is now moving ahead to build a full-scale route connecting the port with Hunchun.

The entire cost, 60 million euros (8.7 billion yen), will be shouldered by China.

Fan Yingsheng, president of Rason International Logistics, brushes off criticism the project will end with China incurring huge losses.

"The more difficult the project, the greater development possibility it has," he says.

Once finished, probably by the end of 2007, the route is expected to handle about 300,000 tons of freight a year in its initial years. That may not seem much, but projections putting future annual volume at close to 3 million tons indicate the region's huge potential.

The route is not expected to overtake the road that was built to Zarubino, but rather, enhance it. Chinese officials are also hoping that the Rason project will move faster.

Up until the early 1990s, tensions between China, North Korea and Russia were such that the shared border area posed little in the way of economic opportunity, and much in the way of territorial feuds.

Then, in 1991, following the end of the Cold War, the United Nations Development Program designated the Tumen River basin, which overlaps the three nations' borders, as an important area for development. A year later, China decided to open the region to foreign interests.

But progress was slow. Demarcation lines between China and Russia had not been drawn. On the other side, Beijing's relationship with Pyongyang took a turn for the worse after formal diplomatic relations were established with South Korea in 1992.

A Chinese official recalls: "The Chinese government couldn't even conduct a proper survey of the (Tumen) river mouth (because it was unable to obtain the cooperation of Russia and North Korea). We depended on a map made by Japan before World War II."

Eventually, a road was built linking Hunchun with Zarubino. As with the latest project, China footed most of the bill.

By 2000, Chinese manufacturers were able to use the route to ship freight to Sokcho on South Korea's east coast.

During the six years up to 2005, freight volumes between Zarubino and Sokcho increased seven times to 7,000 TEU. (A single TEU, a common container dimension, is equivalent to the capacity of a container measuring 20 feet, or six meters, in length, eight feet in width and 8.6 feet in height.) Most of the exports came from the northeastern region of China.

As the ice melted on relations with both its neighbors, China initiated a project in 2002 headed by President Hu Jintao to put priority on developing the northeast.

At the same time, China waged a charm offensive with the North Korean regime headed by Kim Jong Il.

"Now, both North Korea and Russia are eager to cooperate with China for the development of the border area. It's time for us to get over difficulties and start development projects in this area," says Hunchun Mayor Jin Xiangzhen.

While there is still a long way to go in achieving the kind of success that China's coastal areas boast of, overseas interest is growing--especially from Japan.

Gifu-based apparel manufacturer Kojima Iryo Co., which operates a plant in Shanghai, has recently finished construction of a new plant in Hunchun.

Company officials say the new sea route will mean a major reduction in shipping costs to Japan.

Now, the company typically imports material from Japan, has it sewn into garments at the Hunchun factory and then ships the finished product by road to Dalian, where it is loaded onto ships bound for Japanese ports.

Labor is also cheaper in Hunchun than in China's more developed areas.

Currently, the firm employs about 330 people, including those now in training. Within three years, the payroll is expected to soar to nearly 5,000.

Officials, noting that the apparel industry is affected by fast-moving trends, which demand a quick response, said that shipping from either the North Korean port or Zarubino makes sense.

"When the new China-Japan routes open, transportation times will be much shorter," says Kaoru Sasaki, production section chief of Kojima Iryo's Hunchun factory.

According to Hunchun city officials, three other Japanese companies have already set up bases in the area.

And with China's National Trunk Highway System slated to be extended to connect Hunchun to the Jilin provincial capital of Changchun by 2009, domestic companies are also expected to soon start capitalizing on the new push.

And what has for years been termed as the last economic hinterland of the global economy will be no more.

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