Economic Environment Report of GTR 2015: Fostering Economic Cooperation in Northeast Asia in the new Global Environment

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1. Economic Overview in Northeast Asia

The world GDP growth plummeted down to a -2% in 2009 due to the Global Financial Crisis, bounced back to 4% in 2010 and have been remaining at a growth rate higher than 2% but lower than 3% until 2014. The World Bank estimates that global growth is expected to rise in 2015 to 3 % and to be sustained at 3.2~3.3% in 2016~2017.

The sharp decline in oil prices since mid-2014 is projected to be sustained and to contribute to global growth, with significant shifts from oil-exporting to oil-importing economies.[1] As a result of falling oil prices, Russia, one of the major oil-exporting economies, faces economic slowdown. Contrary to the high growth rate prior to the Global Financial Crisis, the economic growth of Russia started to decline again in 2011. In addition to oil prices, the conflict between Russia and Ukraine led to series of sanctions which negatively affected Russia's trade and investment leading to lower growth in 2014.

China's growth rate has shown a downward trend since 2007, and the Chinese government targets the growth rate at a range of 6.5% to 7.0% for 2016. Since 2014, China is undergoing financial reforms tightening regulation and supervision, along with land and state-owned enterprises reform. World Bank estimates that the reform agenda has the potential to raise output by 2~3% in the long run, but may dampen short run growth due to firms' adjustment of new prices by factor reallocation across sectors. A sharp slowdown in the Chinese economy is pointed out to have a threatening impact on the East Asian region which is highly dependent on the country's large commodities demand.

Mongolia as a country relying much on commodity exports is experiencing lower economic growth since its peak in 20ll partly attributed to lower international commodity prices and slowing

[1] World Bank estimates that a 30 percent decline in oil prices (as projected for 2015) could be associated with an increase in global GDP by about 0.5 percent.

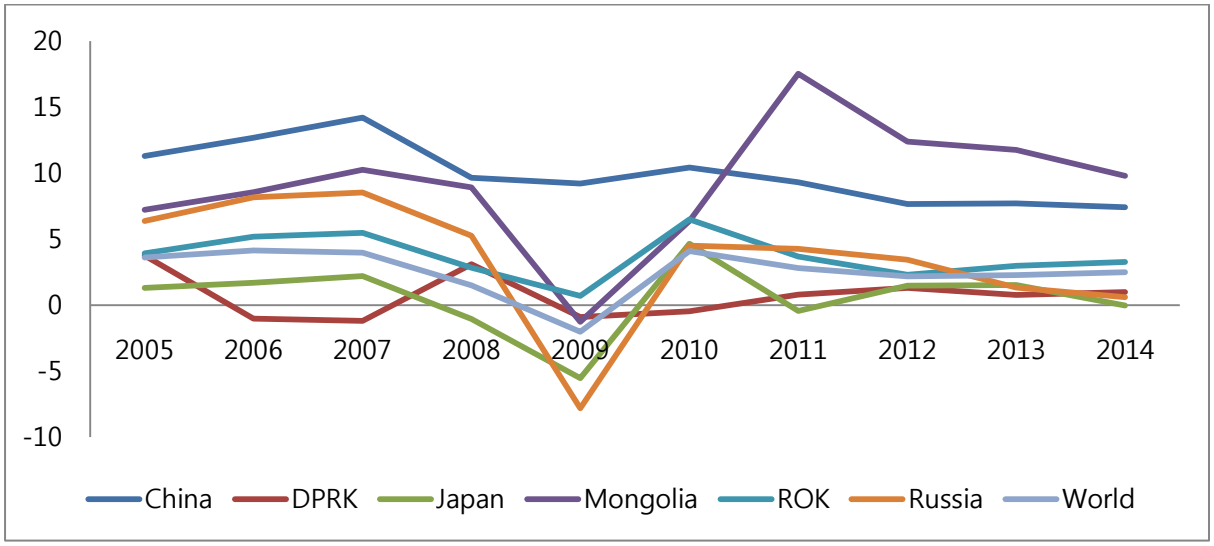
global demand including China, a major buyer of commodities. ADB and World Bank forecast that Mongolia's growth to be lower or weak in 2015-2016, reflecting a deteriorating external environment, drought-affected harvests, and tight monetary and fiscal policies. On the positive side, however, recovery in foreign investment is expected to begin to support the non-mining sector growth.

ROK's economic annual growth rate tends to be relatively flat around at 3% during 2005-2014 except for the Global Financial Crisis in 2008-09. Real exports are stagnating because of lower global demand, especially lower demand from its major trading partner, China. Furthermore, the outbreak of the Middle East Respiratory Syndrome (MERS) reduced output growth this year. OECD estimates GDP growth rate of Korea to be 2.75% in 2015 but to increase to 3% in 2016 and 3.5% by 2017 due to pick-up in private consumption.

The Japanese economy is suffering from the so-called "Lost two decades" since the 1990s. Throughout 2005 to 2014 the growth rate is lower than the world most of the time; the average annual growth rate records only 0.6% average annual growth during the period. The sales tax increase in April 2014 affected the Japanese economy negatively to revive recording -0.03% growth in 2014 despite a weak yen. Since Japan is a major trade partner for GTI members, the risk of Japan relapsing into stagnation threatens the growth prospects in the GTR.

As for DPRK, the growth rate remains very low throughout 2005-2014 exhibiting negative growth rates for some years and close to zero growth in other years. A primary reason for the poor performance is sanctions imposed by the UN due to North Korea's military threats starting from its nuclear experiment in 2006. The 5.24 measures imposed by the ROK government in 2010 have also worsened the trade and growth performance of DPRK.

Figure 1.1 Trend of growth rate of World and GTI members+2(DPRK, Japan)



Although comparing country level statistics can be an indicator to analyze and forecast Northeast Asia economy, regional statistics may better reflect the conditions of the GTR. The GTR's GRDP share of GTI members' GDP is quite low implying that the GTR have lagged behind the growth of each member countries.

Meanwhile, the GRDP growth rate of GTR is 5.55%, higher than the aggregate GDP growth rate of member countries' growth rate 4.12% and world GDP growth rate 2.18% in 2012. In other words, GTR consists of sub-regions of GTI member countries that are underdeveloped but with great development potential. GTR, rich with natural gas, coal and other resources along with abundant land, has a high growth potential in the region. However, political instability which causes uncertainty in the trade and business environment is pointed out as a major obstacle to attract investment and expand trade in the region to spur regional economic growth.

Table 1.1 Comparison of GDP and GRDP

Unit: million USD

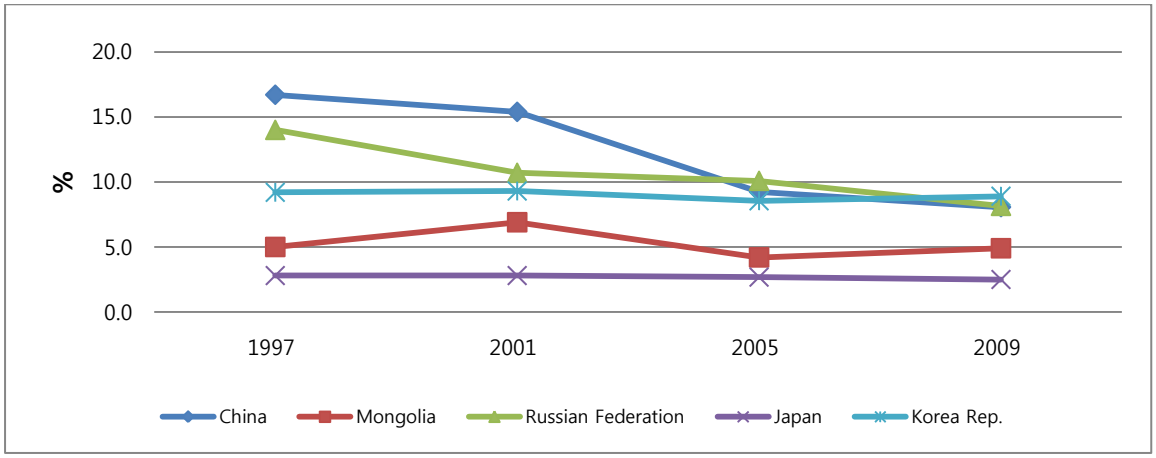
	GDP	GRDP
DPRK	13,233	13,233 (N/A)
Russia	980,609	53,051 (5.41%)
ROK	1,165,258	219,651 (18.85%)
Japan	4,695,356	97,663 (2.08%)
China	4,578,168	568,608 (12.42%)
Mongolia	4,562	4,562 (N/A)

Note: Share of GRDP out of country's GDP in the parentheses. Data for GRDP for DPRK and Mongolia not available.

2. Trade and Investment Conditions in Northeast Asia

Tariff rates has fallen for all GTI countries since 1997 while China and Russia's tariff rates dropped dramatically as these two countries acceded to the WTO relatively recently. The average MFN applied tariff rates remain lower than 10% for all GTI countries since 2009.

Figure 2.1 MFN applied tariff rates



Given lower tariff rates in the region, trade facilitation—broadly defined as the set of policies aiming at reducing trade costs other than tariffs--has drawn much attention to reduce trade costs in developing countries. Based on the broad definition, trade facilitation can be undertaken along two dimensions: hard infrastructure and soft infrastructure. Hard infrastructure includes tangible infrastructures such as roads, railways and airport while soft infrastructure includes custom procedures, transparency and business environment.

Hard infrastructure is especially important for the GTR (Greater Tumen Region) as it includes large areas of land which is far away from sea ports and hence has relatively less access to the rest of the world. For instance, Mongolia is a landlocked country and Heilongjiang, Jilin and Inner Mongolia are landlocked provinces of China in the GTR. Despite the importance, some GTI countries are known to lack good quality hard infrastructure. Road density of Mongolia is only 3.2km/1000km^2 and railway density is only 1.2km/1000km^2. In addition to the low coverage of railways compared to total area of land, the fact that Mongolia and China use two different rail gauges (Mongolia using broad gauge and China using narrow gauge) has been pointed out to be a major obstacle of trade between the two countries.

Table 2.1 Hard Infrastructure

		ROK	China	Russian Fedration	Mongolia	Japan	DPRK
Population (million)		49.0	1,355.7	142.5	3.0	126.9	
Total Area (1000 km^2)		99.7	9,597.0	17,098.2	1,564.1	377.9	120.5
Land		96.9	9,326.4	16,377.7	1,553.6	364.5	120.4
Water		2.8	270.6	720.5	10.6	13.4	0.13
Roadways	total(1000km)	105.0	4,106.4	1,283.4	49.2	1,217.1	25.554
	Road Density ($km/1000km^2$)	1,083.6	440.3	78.4	3.2	3,339.1	212.2
Railways	total(km)	3,381	86,000	87,157	1,908	27,155	7.435
	Railway Density ($km/1000km^2$)	34.9	9.2	5.3	1.2	74.5	0.1
Airport	Total	111	507	1,218	44	175	82
	Airport with paved runways	71	463	594	15	142	39
Major Ports		Busan, Incheon, Gunsan, Kwangyang, Mokpo, Pohang, Ulsan, Yeosu	Dalian, Ningbo, Qingdao, Qinhuangdao, Shanghai, Shenzhen, Tianjin	Kaliningrad, Nakhodka, Novorossiysk, Primorsk, Vostochnyy	-	Chiba, Kawasaki, Kobe, Mizushima, Moji, Nagoya, Osaka, Tokyo, Tomakomai, Yokohama	Ch'ongjin, Haeju, Hungnam (Hamhung), Namp'o, Senbong, Songnim, Sonbong (formerly Unggi), Wonsan

Note: 1. Population is estimate of July 2014.
2. Data for Roadways: ROK(2009), China(2011), Russia(2012), Mongolia(2010), DPRK (2006)
3. Data for Railways: ROK, China(2008), Russia(2006), Mongolia(2013), DPRK (2014)
4. Airport: 2013

Data: CIA, The World Factbook.

In terms of soft infrastructure in the region and narrower sense of trade facilitation, ROK has ranked the 31th efficient country in custom procedures by World Bank Doing Business 2016 (survey conducted in June 2015). For ROK, Only an hour is required to complete import procedures and 14 hours to export. ROK is followed by Japan (52th), Mongolia (74th), China (96th) and Russia (170th) among GTI members. For the 2016 survey, Austria ranked number 1 in custom efficiency as its custom requires only 1 hour for both import and export procedures and records 0 USD for cost to import and export.

Table 2.2 Custom Efficiency

Country	Rank	Time to export: Documentary Compliance (hours)	Cost to Export: Border Compliance (USD)	Time to Import: Documentary Compliance (hours)	Cost to Import: Border Compliance (USD)
ROK	31	14	185	1	27
China	96	26	522	66	171
Russia	170	96	1,125	43	500
Mongolia	74	37	41	115	83
Japan	52	48	306	3	23

Data: World Bank, Doing Business 2016 [online]. (accessed on: 2015.12.11.)

Along with political instability, investment conditions of the GTI countries have been pointed out to be a cause of hindrance to attract foreign investment to the region. Although China is one of the largest global FDI recipients, indicators suggest that there is still room for improvement, particularly in the areas of business regulations. It ranks relatively low in starting a business, dealing with construction permits, getting electricity, protecting minority investors, paying taxes although this may vary much by provinces. Other transition economies, Russia and Mongolia rank 51th and 56th respectively with some improvement from prior year.

Table 2.3 Custom Efficiency

	China	ROK	Japan	Russian Federation	Mongolia
Starting a Business	136 (127)	23 (16)	81 (77)	41 (34)	36 (40)
Dealing with Construction Permits	176 (177)	28 (30)	68(66)	119 (117)	25 (27)
Getting Electricity	92 (86)	1 (1)	14(14)	29 (53)	134 (136)
Registering Property	43 (41)	40 (38)	48(47)	8 (8)	44 (43)
Getting Credit	79 (71)	42 (36)	79(71)	42 (61)	59 (61)
Protecting Minority Investors	134 (133)	8 (8)	36(33)	66 (64)	8 (8)
Paying Taxes	132 (133)	29 (27)	121(120)	47 (50)	91 (87)
Trading Across Borders	96 (96)	31 (30)	52(51)	170 (169)	74 (73)
Enforcing Contracts	7 (7)	2 (2)	51(51)	5 (5)	80 (80)
Resolving Insolvency	55 (53)	4 (5)	2(2)	51 (44)	89 (88)
Overall	**84 (83)**	**4 (4)**	**34(30)**	**51 (54)**	**56 (59)**

Data: World Bank, Doing Business 2016 [online]. (accessed on: 2015.12.11.)
Note: 2015 rank in parentheses.

3. Republic of KOREA

3.1 Economic Overview

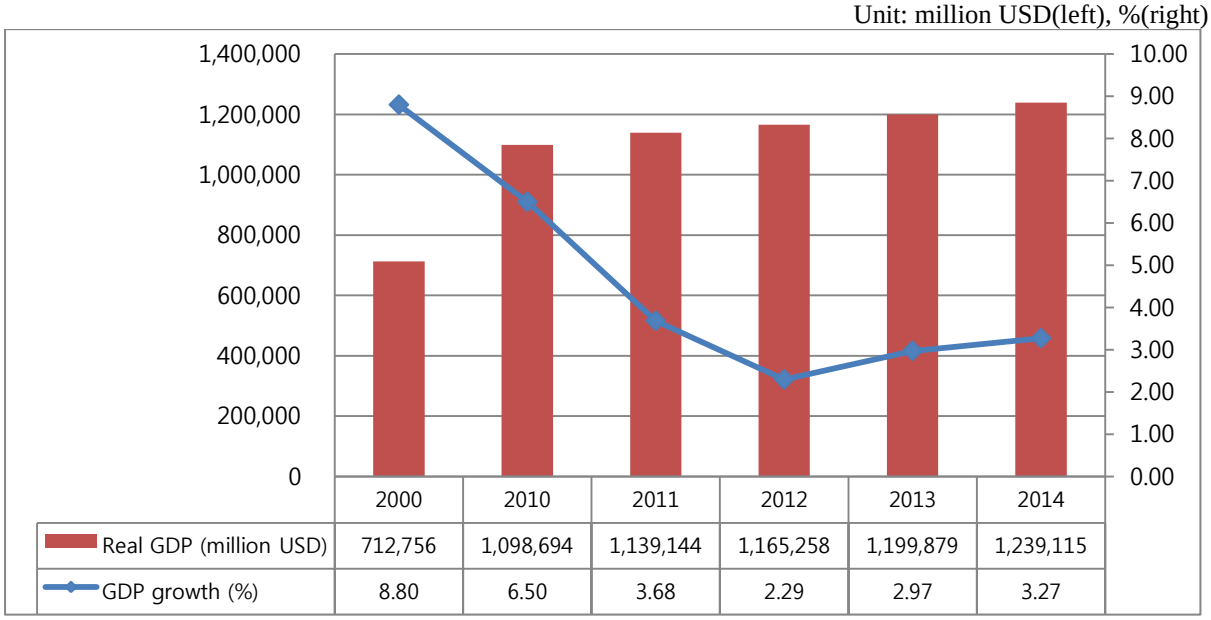
Korea, a country with a population of 50.4 million, is recognized for its economic achievement. From one of the world's poorest countries in the 1960s, it has grown to be the 13th largest economy in the world in terms of nominal GDP (US$ 1,410 billion). The country recorded a US$ 1,239 billion real GDP in 2014 which is a 3.27%p increase from 2013, and its GDP per capita is US$ 28,598 (US$ 34,356 in terms of PPP, current international $, UNCTAD).[2] Korea's economic growth is largely led by its export-oriented growth strategy, encouraging large Korean conglomerates' growth in sectors of heavy-industry and manufacturing industry's exports. In Forbes 2000 company lists, 66 Koreans companies were listed in 2015 including Samsung Electronics and Hyundai Motor; this number is the fourth largest in the world, only after the United States, China, Japan, and England.

Korea's economic expansion regained strength in 2013 and 2014 by recording 2.97% and 3.27% respectfully after a period of subdued growth in 2012 by 2.29%. Sustained growth in 2014 was largely driven by private and government consumption and investment, mainly in plant and equipment and consumption. Private and government consumption, while its pace slightly decreased due to sluggish domestic demand, continued to account for 1.3%p of growth, while investment contributed 1.5%p. Meanwhile, the contribution of net exports to GDP growth decreased from 1.5%p in 2013 to 0.5%p in 2014. This recent contraction was partly caused by the sluggish export environment of Korea's main export markets including China and the EU.

[2] UNCTAD Statistics.

Figure 3.1 Trend of Korea's GDP and GDP growth

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
Real GDP (million USD)	712,756	1,098,694	1,139,144	1,165,258	1,199,879	1,239,115
GDP growth (%)	8.80	6.50	3.68	2.29	2.97	3.27

Source: UNCTAD Stat. (2015.11.30)

Despite robust economic growth shown in the recent two years, Korean economy faces structural problems such as low growth in terms of GDP and population and weakening growth momentum. The population growth rate is under 1%, recording 0.4% growth in 2014, and its economic growth rate is at a declining trend from 6.2% in the 1990s to 4.34% in 2000s. More recently the growth rate showed an average 3.46% growth rate from 2008~14 while the world growth rate recorded 2.18% during the same period.

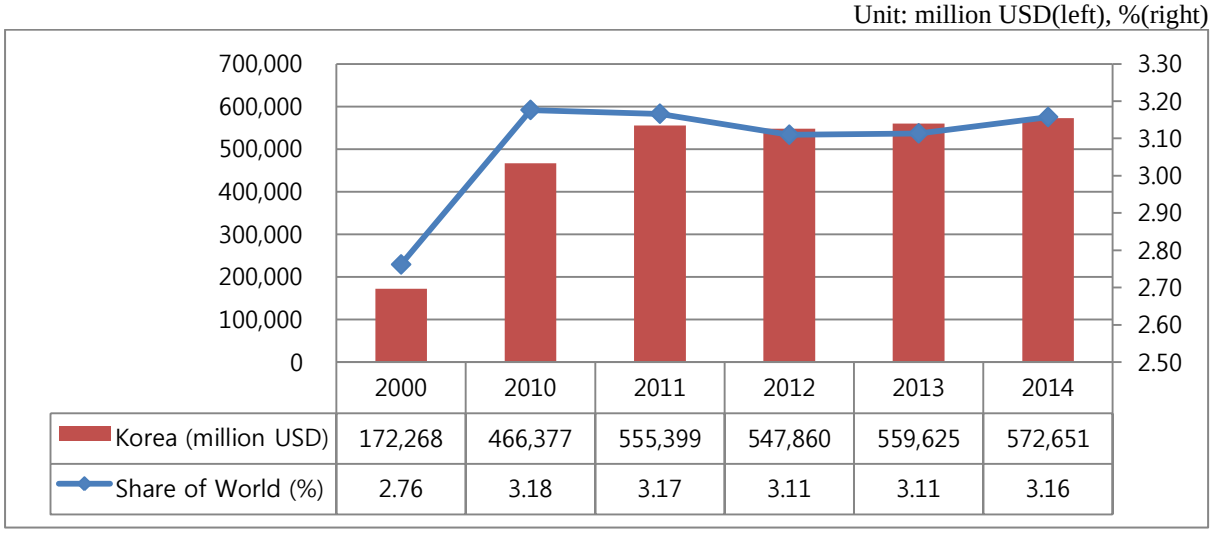
In February 2014, the Korean government adopted the Three Year Plan for Economic Innovation to overcome the structural problems and regain the growth momentum. The plan includes the following three strategies: (a) fair and efficient economy; (b) growth through innovation; and (c) balance between exports and domestic consumption.

3.2. Trade

Korea continues to pursue an outward oriented, opened economic policy. The country's share of trade in goods and services of Korea's GDP reached at 102.77% of its total GDP in 2013, which is an increase from 67.95% in 2000 (World bank). Korea ranked the eighth largest trading countries in the world in 2014. To be more specific, Korea was the sixth largest exporter and the ninth largest importer in the world. The subdued trend of world trade since 2012 has reflected Korea's trade in goods in volume terms. However, Korea's share of world trade continued a general increasing trend from 2.76% and 2.49% in 2000 to 3.16% and 2.83% in 2014 in terms of export and import, respectfully.

Figure 3.2 Trend of Korea's Export (FOB)

Unit: million USD(left), %(right)

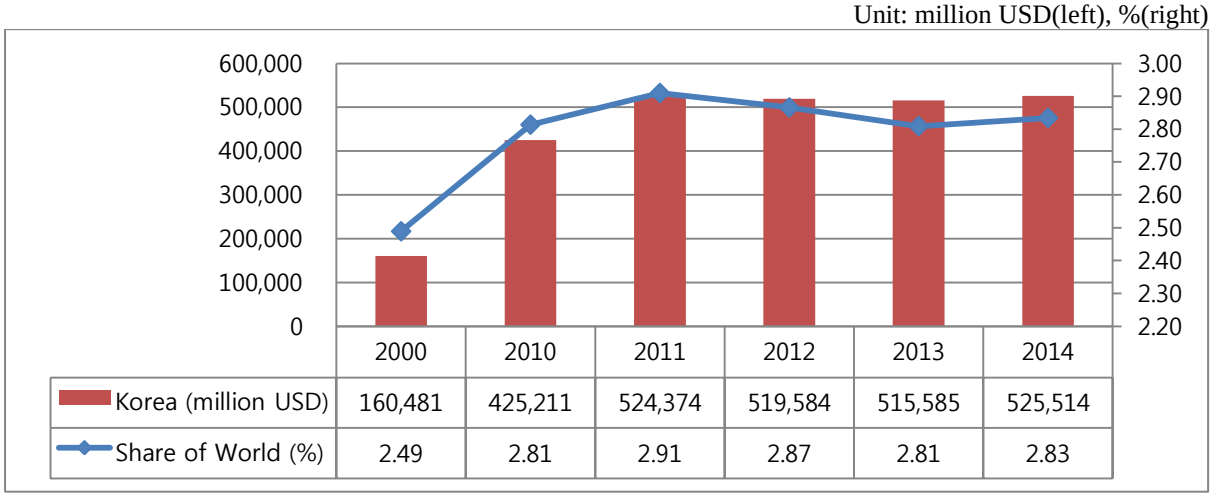


	2000	2010	2011	2012	2013	2014
Korea (million USD)	172,268	466,377	555,399	547,860	559,625	572,651
Share of World (%)	2.76	3.18	3.17	3.11	3.11	3.16

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

Figure 3.3 Trend of Korea's Import (CIF)

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
Korea (million USD)	160,481	425,211	524,374	519,584	515,585	525,514
Share of World (%)	2.49	2.81	2.91	2.87	2.81	2.83

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

As for Korea's top trading partners, China has become Korea's most significant export and import partner in 2014 accounting for a share of 25.4% and 17.1% in Korea's total exports and imports, respectfully. Japan was the third largest export destination and the second largest import source. In particular, Russia's position in Korea's trade increased significantly since 2000 ranking as the 12th largest export destination in 2014. Its share increased from 0.46% and 1.28% in 2000 to 1.77% and 2.98% in 2014 in export and import, respectfully.

Table 3.1 Top Export Partners of Korea

	2000	2010	2011	2012	2013	2014
1	USA	China	China	China	China	China
2	Japan	USA	USA	USA	USA	USA
3	China	Japan	Japan	Japan	Japan	Japan
4	Hong Kong	Hong Kong	Hong Kong	Hong Kong	Hong Kong	Hong Kong
5	Taiwan	Singapore	Singapore	Singapore	Singapore	Singapore
6	Singapore	Taiwan	Taiwan	Vietnam	Vietnam	Vietnam
7	UK	India	Indonesia	Taiwan	Taiwan	Taiwan
8	Germany	Germany	Vietnam	Indonesia	Indonesia	India
9	Malaysia	Vietnam	India	India	India	Indonesia
10	Indonesia	Indonesia	Brazil	Russia	Russia	Mexico

Source: IMF.2015.Direction of Trade Statistics.

Table 3.2 Top Import Partners of Korea

	2000	2010	2011	2012	2013	2014
1	Japan	China	China	China	China	China
2	USA	Japan	Japan	Japan	Japan	Japan
3	China	USA	USA	USA	USA	USA
4	Saudi Arabia	Saudi Arabia	Saudi Arabia	Saudi Arabia	Saudi Arabia	Saudi Arabia
5	Australia	Australia	Australia	Qatar	Qatar	Qatar
6	Indonesia	Germany	Qatar	Australia	Australia	Germany
7	Malaysia	Indonesia	Indonesia	Kuwait	Germany	Australia
8	UAE	Taiwan	Germany	Germany	Kuwait	Kuwait
9	Taiwan	UAE	Kuwait	Indonesia	UAE	UAE
10	Germany	Qatar	UAE	UAE	Taiwan	Taiwan

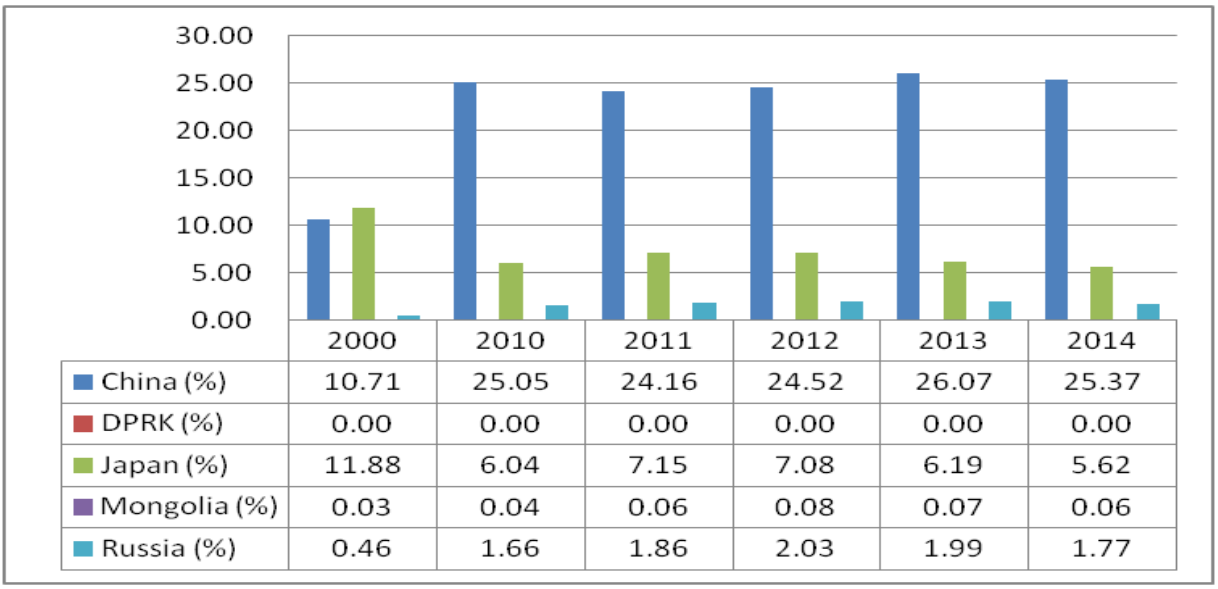
Source: IMF.2015.Direction of Trade Statistics.

As for Korea's trade structure, there were no significant changes in the top ranking export and import products. In 2000, Korea's top three major export items were machinery and transport equipment, manufactured goods classified chiefly by material and chemicals and related products, and this remained the same in 2014. This reflects Korea's global stance as leading shipbuilders and manufacturers of electronics. In terms of Korea's import structure, the top three major items were mineral fuels, lubricants and related materials, which partly include the industrial raw materials, machinery and transport equipment and manufactured goods.

Under the dynamic changes in global trade regulations, Korea adopted the new trade roadmap in 2013, aiming to become a linchpin in regional economic integration. In this aspect, Korea has participated proactively in economic integration in the Asia-Pacific region. Within the Greater Tumen Region countries, Korea-China FTA came into effect in December 2015, and China-Japan-Korea FTA along with the RCEP started the negotiations, although little progress has been made, since 2012.

Figure 3.4 Trend of Korea's Export to GTR countries

unit: %

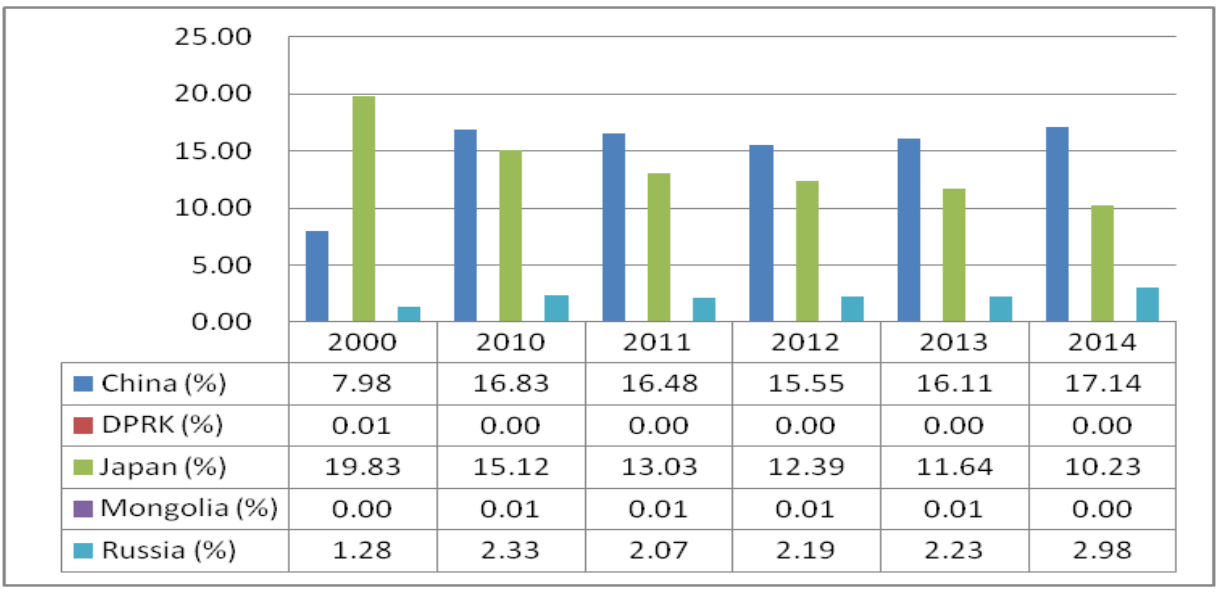


	2000	2010	2011	2012	2013	2014
China (%)	10.71	25.05	24.16	24.52	26.07	25.37
DPRK (%)	0.00	0.00	0.00	0.00	0.00	0.00
Japan (%)	11.88	6.04	7.15	7.08	6.19	5.62
Mongolia (%)	0.03	0.04	0.06	0.08	0.07	0.06
Russia (%)	0.46	1.66	1.86	2.03	1.99	1.77

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

Figure 3.5 Trend of Korea's Import to GTR countries

unit: %

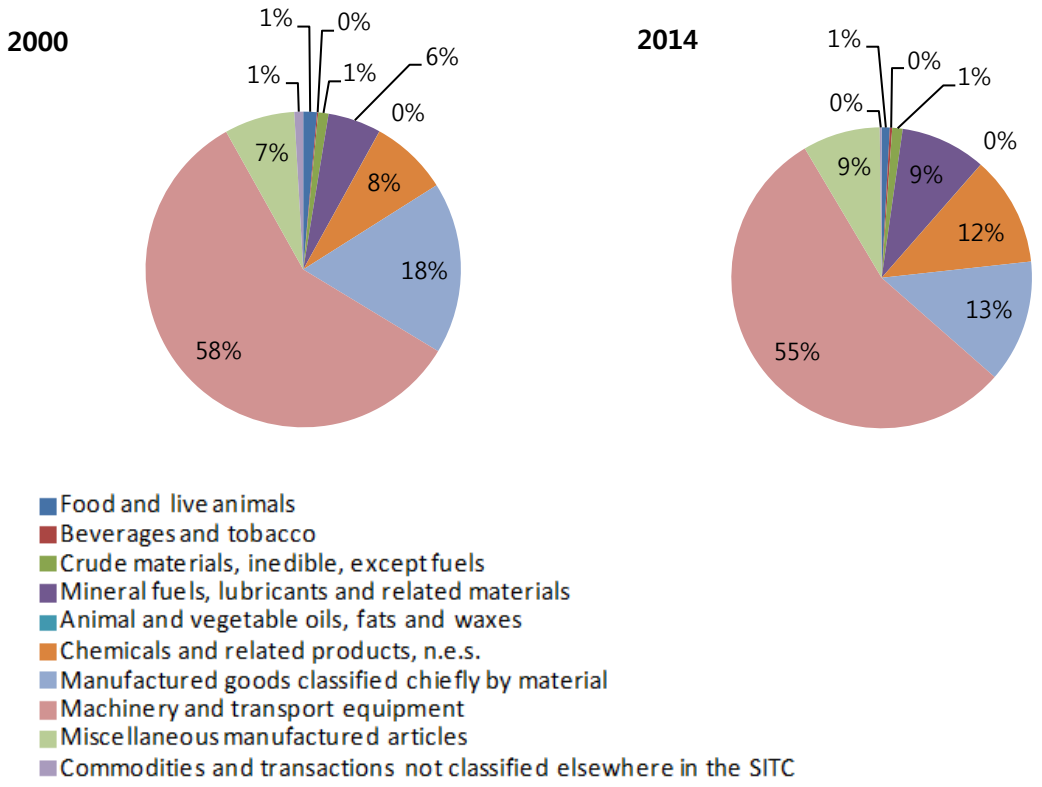


	2000	2010	2011	2012	2013	2014
China (%)	7.98	16.83	16.48	15.55	16.11	17.14
DPRK (%)	0.01	0.00	0.00	0.00	0.00	0.00
Japan (%)	19.83	15.12	13.03	12.39	11.64	10.23
Mongolia (%)	0.00	0.01	0.01	0.01	0.01	0.00
Russia (%)	1.28	2.33	2.07	2.19	2.23	2.98

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

Figure 3.6 Export Structure of Korea

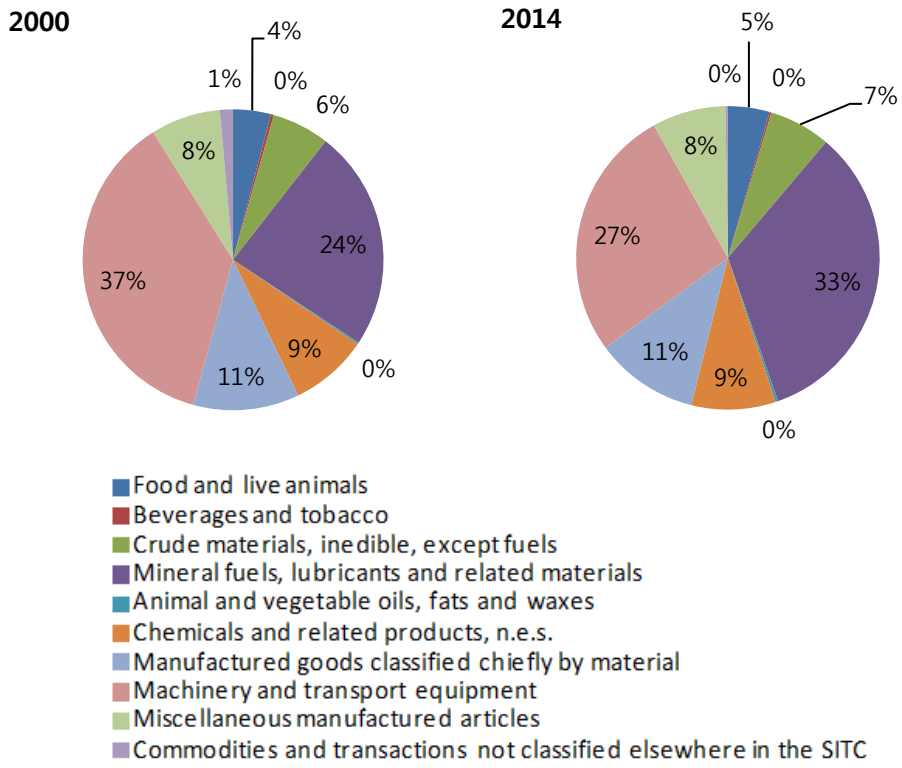
unit: %



Note: Commodities of SITC, Rev.3
Source: United Nations Commodity Trade Statistics Database (UN Comtrade). (2015.11.23)

Figure 3.7 Import Structure of Korea

unit: %



Note: Commodities of SITC, Rev.3
Source: United Nations Commodity Trade Statistics Database (UN Comtrade). (2015.11.23)

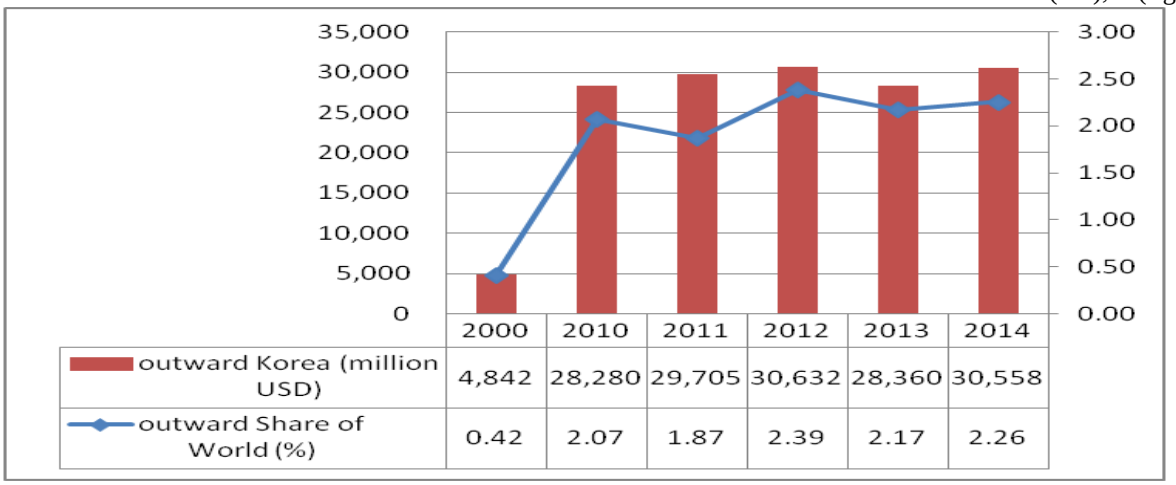
3.3 Foreign Direct Investment

Compared with trade, Korea's share in the world's total investment are much smaller. Korea's outward FDI flow has increased remarkably from 2000 to 2014. While its recent FDI remained almost constant, Korea's outward FDI share to the world accounted for 2.26% in 2014 from 0.42% in 2000. The top three destinations of Korea's outward flows in 2014 were the United States, China and Vietnam (The Export-Import Bank of Korea). Non-manufacturing sectors had the largest share in Korea's outward FDI representing 63.4% in 2014. Manufacturing sectors represented 24.5% of Korea's total outward FDI, mainly in the

electrical machinery and equipment, and transport equipment. The mining sector represented 11.8% in 2014. Meanwhile, Korea's inward FDI fluctuated, but its share of world inward FDI flows remained constant from 0.84% share of world inward FDI in 2000 to 0.81% share in 2014.

Figure 3.8 Trend of Korea's Outward FDI

Unit: million USD(left), %(right)

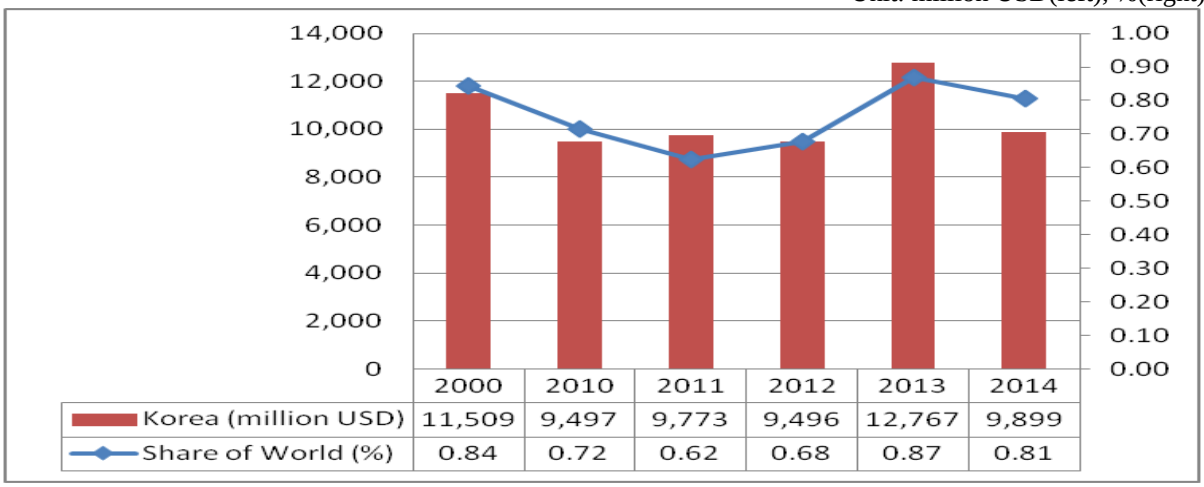


	2000	2010	2011	2012	2013	2014
outward Korea (million USD)	4,842	28,280	29,705	30,632	28,360	30,558
outward Share of World (%)	0.42	2.07	1.87	2.39	2.17	2.26

Source: United Nations Conference on Trade and Development Statistics Database (UNCTAD). (2015.11.26)

Figure 3.9 Trend of Korea's Inward FDI

Unit: million USD(left), %(right)



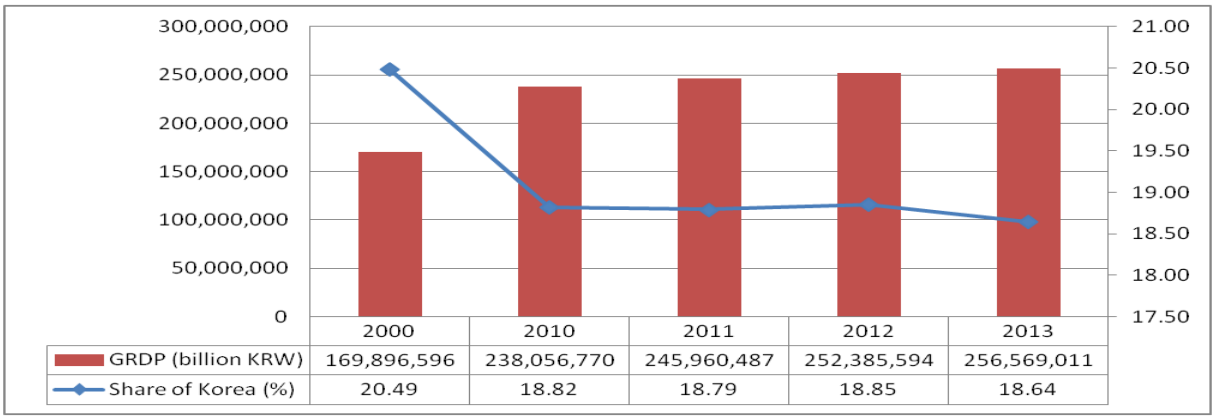
	2000	2010	2011	2012	2013	2014
Korea (million USD)	11,509	9,497	9,773	9,496	12,767	9,899
Share of World (%)	0.84	0.72	0.62	0.68	0.87	0.81

Source: United Nations Conference on Trade and Development Statistics Database (UNCTAD). (2015.11.26)

3.4 Regional Level Statistics of Republic of KOREA

Korea is consisted of nine provinces and eight Cities, and two provinces namely Gyeongsangbuk and Gangwon and two cities namely Busan and Ulsan are the official participants of the GTI. Korean GTR accounted for 18.64% of Korea's total GDP in 2014 and the share has been constant at around 18% in recent years. The region recorded a lower level of growth rate in general compared to that of Korea's total GDP growth rate. The share of the region's export to GTI countries has slightly increased since 2000 from 25.53% to 27.32% in 2014 while import decreased during the same period from 31.96% to 22.33%. In particular, the region's export and import to China and Russia increased from 2000 to 2014. Russia's share of export and import, for instance increased from 0.41%(export) and 1.99%(import) to 1.39% and 6.02%, respectfully.

Figure 3.10 Trend of Korea GTRs GRDP



Source: http://kosis.kr/statisticsList/statisticsList_02List.jsp?vwcd=MT_ATITLE01&parmTabId=M_02_01_01#SubCont

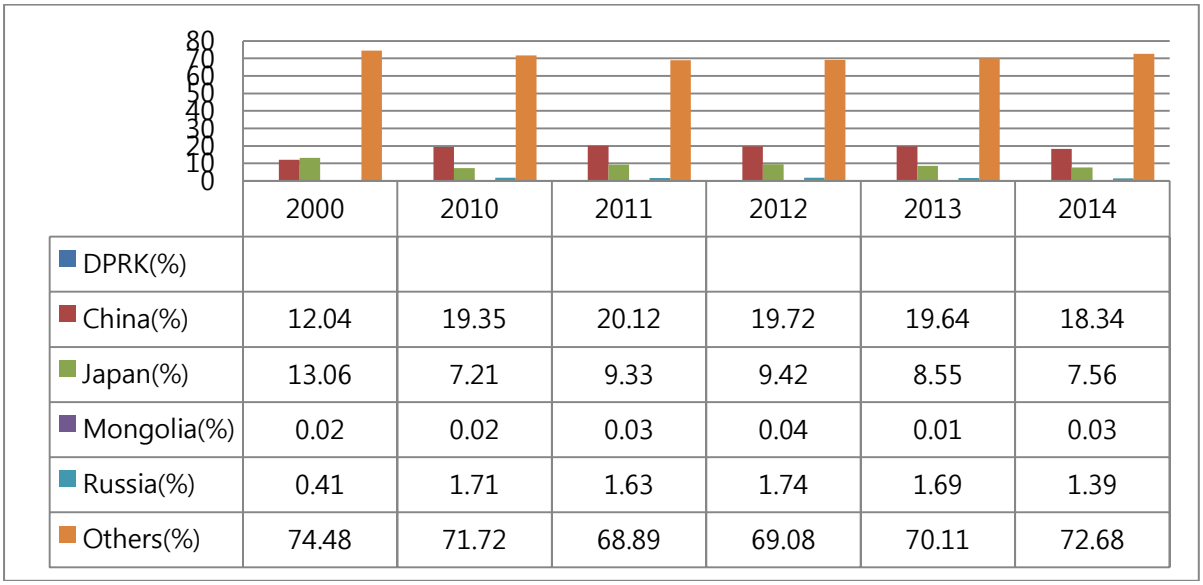
Table 3.3 Korea GTR's GDP Growth Rate

	2000	2009	2010	2011	2012	2013
GRDP	6.19	-1.40	5.23	3.32	2.61	1.66
Korea	8.35	0.67	6.55	3.46	2.30	2.78

Source: http://kosis.kr/statisticsList/statisticsList_02List.jsp?vwcd=MT_ATITLE01&parmTabId=M_02_01_01#SubCont

Figure 3.11 Trend of Korean GTRs Export to GTR countries

unit: %

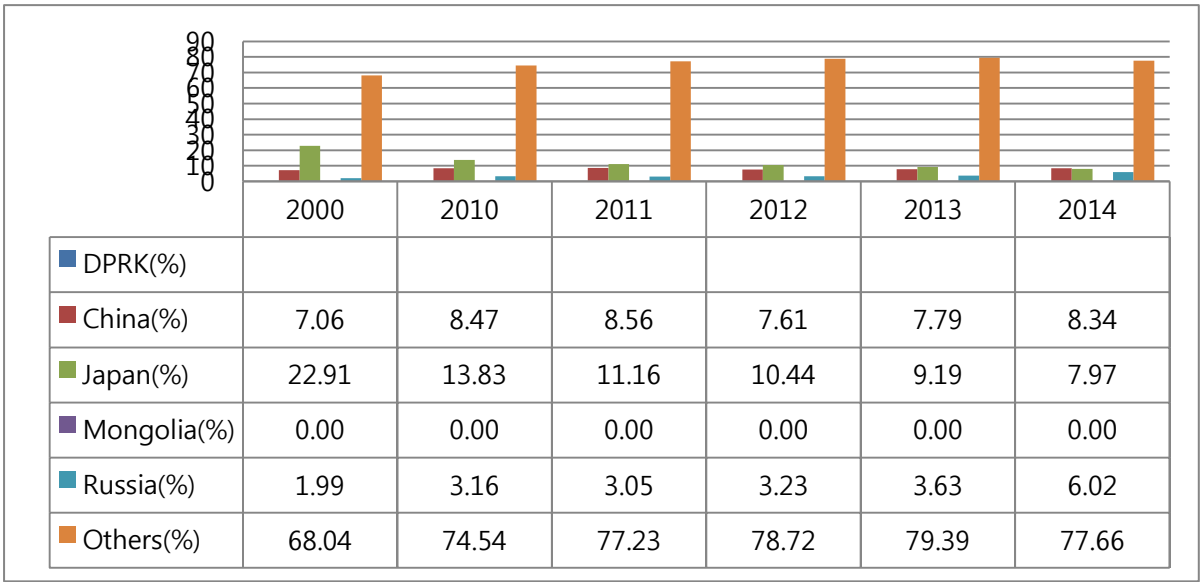


	2000	2010	2011	2012	2013	2014
DPRK(%)						
China(%)	12.04	19.35	20.12	19.72	19.64	18.34
Japan(%)	13.06	7.21	9.33	9.42	8.55	7.56
Mongolia(%)	0.02	0.02	0.03	0.04	0.01	0.03
Russia(%)	0.41	1.71	1.63	1.74	1.69	1.39
Others(%)	74.48	71.72	68.89	69.08	70.11	72.68

Source: Korea International Trade Association Database (KITA). (2015.12.1)

Figure 3.12 Trend of Korean GTRs Import to GTR countries

unit: %



	2000	2010	2011	2012	2013	2014
DPRK(%)						
China(%)	7.06	8.47	8.56	7.61	7.79	8.34
Japan(%)	22.91	13.83	11.16	10.44	9.19	7.97
Mongolia(%)	0.00	0.00	0.00	0.00	0.00	0.00
Russia(%)	1.99	3.16	3.05	3.23	3.63	6.02
Others(%)	68.04	74.54	77.23	78.72	79.39	77.66

Source: Korea International Trade Association Database (KITA). (2015.12.1)

4. China

4.1 Economic Overview

China is now the world's largest economy accounting for 16.6% of the world economy in terms of real GDP (PPP, current international $, World Bank) growing from 7.7% of world GDP in 2000. However, China's remarkable growth in the 2000s started to slowdown afterwards, entering to a "new normal" phase of growth while attempting to rebalance the economy to embrace a more sustainable economic growth. China's economic growth in most recent years is moderated to around 7% compared to a 10% average growth during the 2000s.

In response to the slowdown of the economy, the Chinese government started to focus on economic restructuring. The structural reform aims to drive the Chinese economy towards to a more sustainable development and to grow beyond the middle-income trap. The government is rebalancing its growth model from growth driven by trade and investment towards to domestic consumption including services. It is because the manufacturing sector, which was the former pillar of its economic growth, currently faces overcapacity problems. China is now pushing the service sector, consumption and private entrepreneurship as new drivers of economic growth, relying less on debt and more on the stock market funding.

The service sector has become an increasingly important part of the Chinese economy. The service sector accounts for 48.2% of Chinese GDP in 2014, increased by 1.3%p compared to 2013, while manufacturing sector accounts for 30.8% of GDP in 2013, decreased by 0.2%p compared to 2013(World Bank).

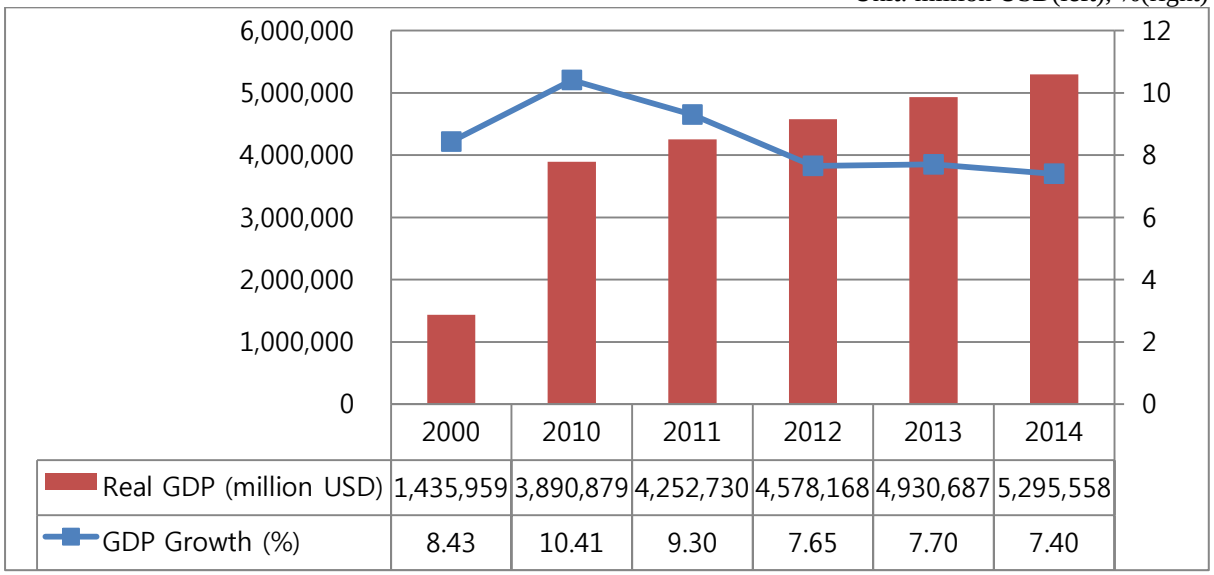
While experiencing rapid economic growth, there has also been a significant rise of regional inequality in the Chinese economy. According to the National Bureau of Statistics in

2014, the average GDP per capita for the top 3 provincial-level-regions (Tianjin, Beijing, Shanghai) is 100,865 RMB, while that of the bottom 3 (Gansu, Guizhou, Yunnan) is only 26,711 RMB. The average GDP per capita of GTR provinces is 56,408 RMB in 2014. That is, the economic condition of GTR provinces is better than those of western provinces, but it still lag behind those of urban provinces.

As an attempt to resolve the regional imbalance problem, China has released regional revival polices for provinces that lag behind China's average growth. One of the policies China has adopted was the "Revitalize Northeast China policy" to rejuvenate the industrial base in the Northeast region of China. The program aims to revive the traditional industry, to implement structural reforms of the SOEs, to construct an environment-friendly economy, and to reinforce regional cooperation with Russia, Mongolia and the two Koreas. The program includes the three Northern provinces (Heilongjiang, Liaoning, Jilin) and five eastern prefectures of Inner Mongolia in the GTR.

Figure 4.1 Trend of China's GDP and GDP growth

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
Real GDP (million USD)	1,435,959	3,890,879	4,252,730	4,578,168	4,930,687	5,295,558
GDP Growth (%)	8.43	10.41	9.30	7.65	7.70	7.40

Source: United Nations Conference on Trade and Development Statistics Database (UNCTAD). (2015.11.30)

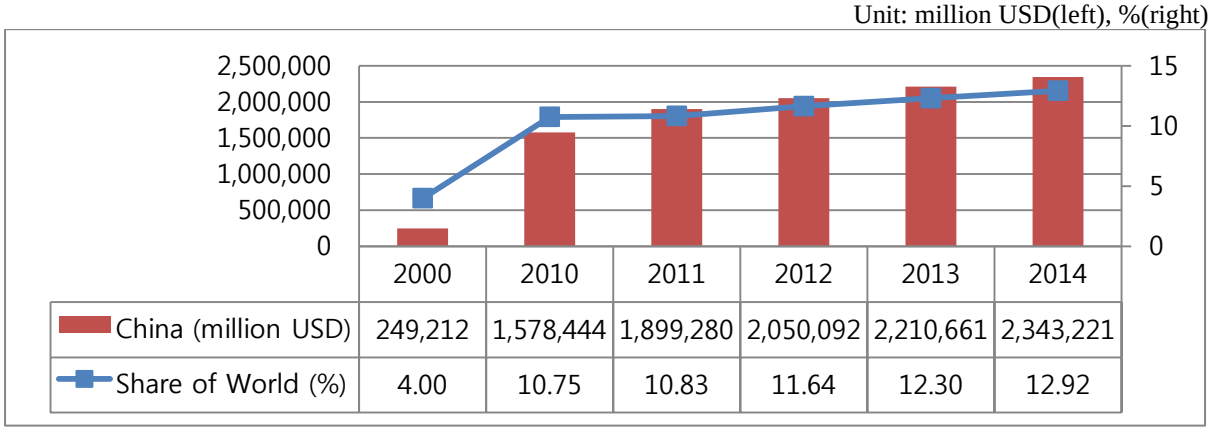
4.2 Trade

China is the world's largest trading country followed by the US – leading the world in exports and coming in second for imports. China is rapidly becoming the most important trade partner for many countries. In 2014, the volume of China's export amounts 2,343 billion dollars with a 13% share of the world export, increasing from 249 billion dollars which only accounts for a 4% share of the world in 2000. Meanwhile, the volume of China's import is 1,963 billion dollars with an 11% share of the world import, while it was 225 billion dollars, only accounting for a 3.5% share of the world import in 2000. The increase of Chinese trade attributes to many factors, such as China's accession to the WTO in 2001, its favorable policy on processing trade and signing a number of FTAs with its trade partners. Korea-China FTA will also take effect on 20 December, 2015.

China is transferring its source of growth from an export-driven to a domestic consumption-driven economy to alleviate regional imbalance and income inequality, and lower its high dependence of export. Therefore, the growth of its export is expected to moderate gradually from now on, relative to domestic consumption.

Figure 4.2 Trend of China's Export (FOB)

Unit: million USD(left), %(right)

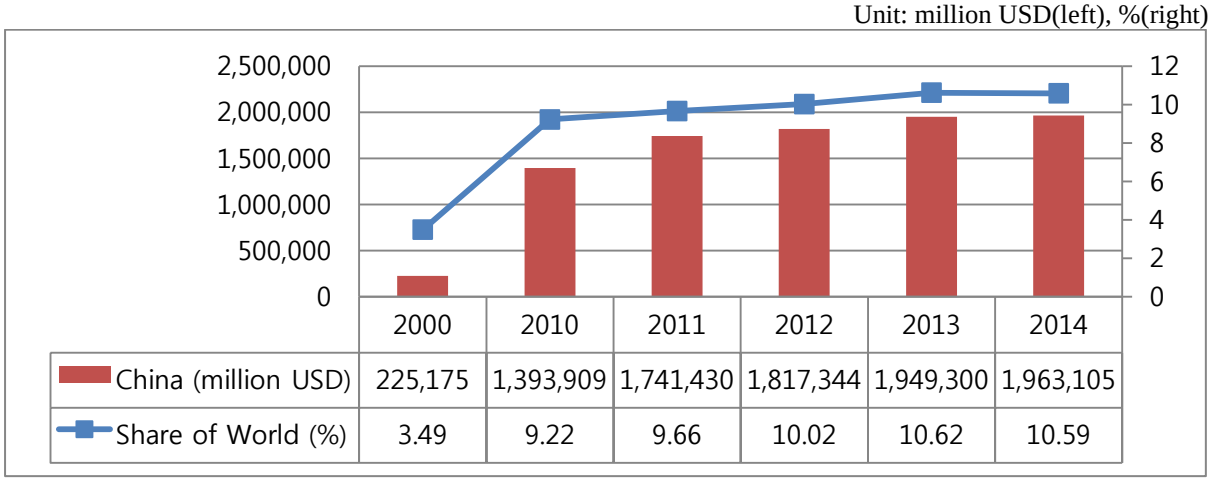


	2000	2010	2011	2012	2013	2014
China (million USD)	249,212	1,578,444	1,899,280	2,050,092	2,210,661	2,343,221
Share of World (%)	4.00	10.75	10.83	11.64	12.30	12.92

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

Figure 4.3 Trend of China's Import (CIF)

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
China (million USD)	225,175	1,393,909	1,741,430	1,817,344	1,949,300	1,963,105
Share of World (%)	3.49	9.22	9.66	10.02	10.62	10.59

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

The top five destinations for exports of China were the US, Hongkong SAR, Japan, Korea and Germany, while the top five import partners of China were Korea, Japan, USA, Taiwan and Germany. This list of top export partners was virtually unchanged during 2000s.

Table 4.4 Top Export Partners of China

	2000	2010	2011	2012	2013	2014
1	USA	USA	USA	USA	Hong Kong	USA
2	Hong Kong	Hong Kong	Hong Kong	Hong Kong	USA	Hong Kong
3	Japan	Japan	Japan	Japan	Japan	Japan
4	Korea	Korea	Korea	Korea	Korea	Korea
5	Germany	Germany	Germany	Germany	Germany	Germany
6	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands
7	UK	India	India	India	UK	Vietnam
8	Singapore	UK	UK	UK	Russia	UK
9	Taiwan	Singapore	Russia	Russia	Vietnam	India
10	Italy	Italy	singapore	singapore	India	Russia

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

Table 4.4 Top Import Partners of China

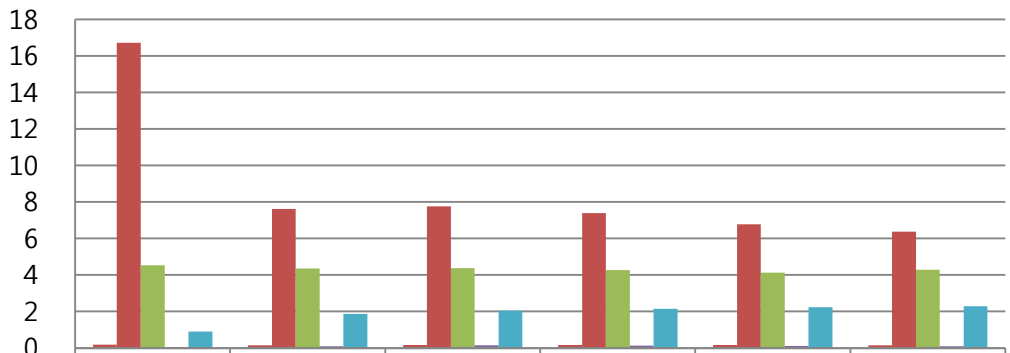
	2000	2010	2011	2012	2013	2014
1	Japan	Japan	Japan	Japan	Korea	Korea
2	Taiwan	Korea	Korea	Korea	Japan	Japan
3	Korea	Taiwan	Taiwan	Taiwan	Taiwan	USA
4	USA	USA	USA	USA	USA	Taiwan
5	Germany	Germany	Germany	Germany	Germany	Germany
6	Hong Kong	Australia	Australia	Australia	Australia	Australia
7	Russia	Malaysia	Malaysia	Malaysia	Malaysia	Malaysia
8	Malaysia	Brazil	Brazil	Saudi Arabia	Brazil	Brazil
9	Austrailia	Thailand	Saudi Arabia	Brazil	Saudi Arabia	Saudi Arabia
10	Singapore	Saudi Arabia	Russia	South Africa	South Africa	South Africa

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

Among GTI members, Japan and Korea is included in the top five trade partner. In terms of export, Japan and Korea account for 6.4%, 4.3% of China's total exports in 2014 respectively. Russia accounts for a smaller share (2.3%) compared to those countries, while Mongolia has never been included in the top 10 trade partners with only 0.1% share of Chinese export. The share of China's import to GTI member countries is similar to export. Japan and Korea account for 8.3%, 9.7% in 2014 respectively. Russia and Mongolia account for 2%, 0.3% respectively in 2014. It is worth to note that the share of Japan in China's trade has been decreasing about 10%p both in import and export, but Japan still remains as an important trade partner to China.

Figure 4.4 Trend of China's Export to GTR countries

unit: %

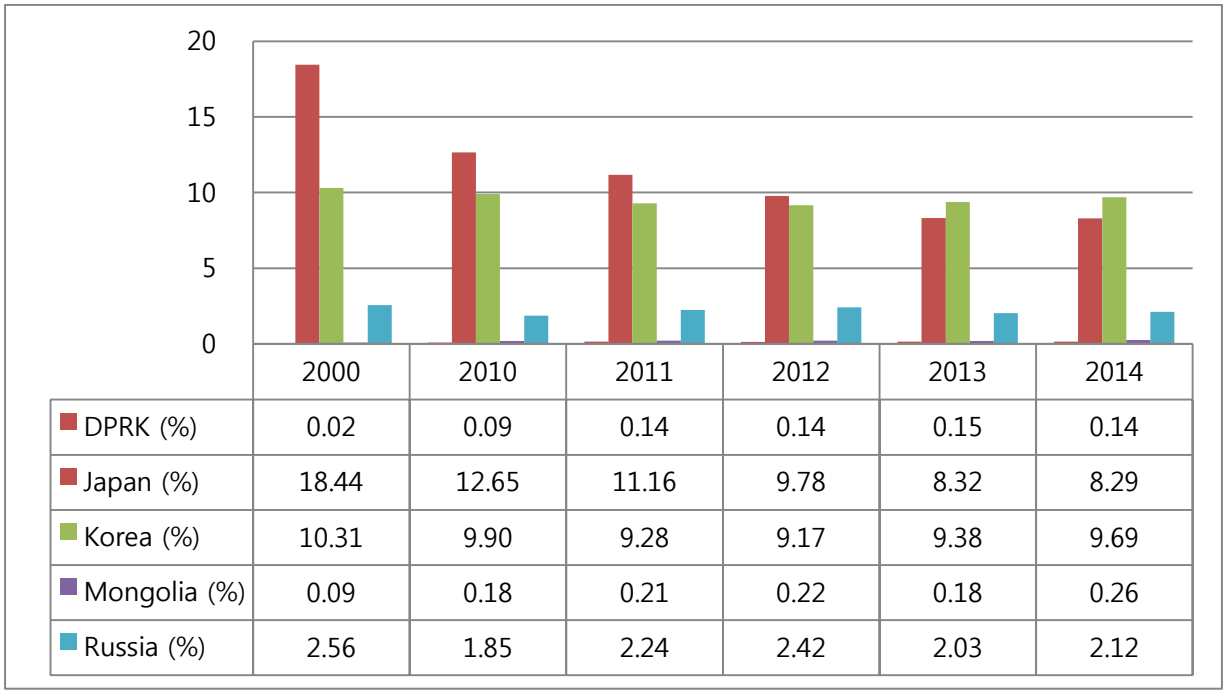


	2000	2010	2011	2012	2013	2014
DPRK (%)	0.18	0.14	0.17	0.17	0.16	0.15
Japan (%)	16.71	7.62	7.76	7.39	6.78	6.38
Korea (%)	4.53	4.36	4.37	4.28	4.12	4.28
Mongolia (%)	0.04	0.09	0.14	0.13	0.11	0.09
Russia (%)	0.90	1.87	2.05	2.15	2.24	2.29

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

Figure 4.5 Trend of China's Import to GTR countries

unit: %



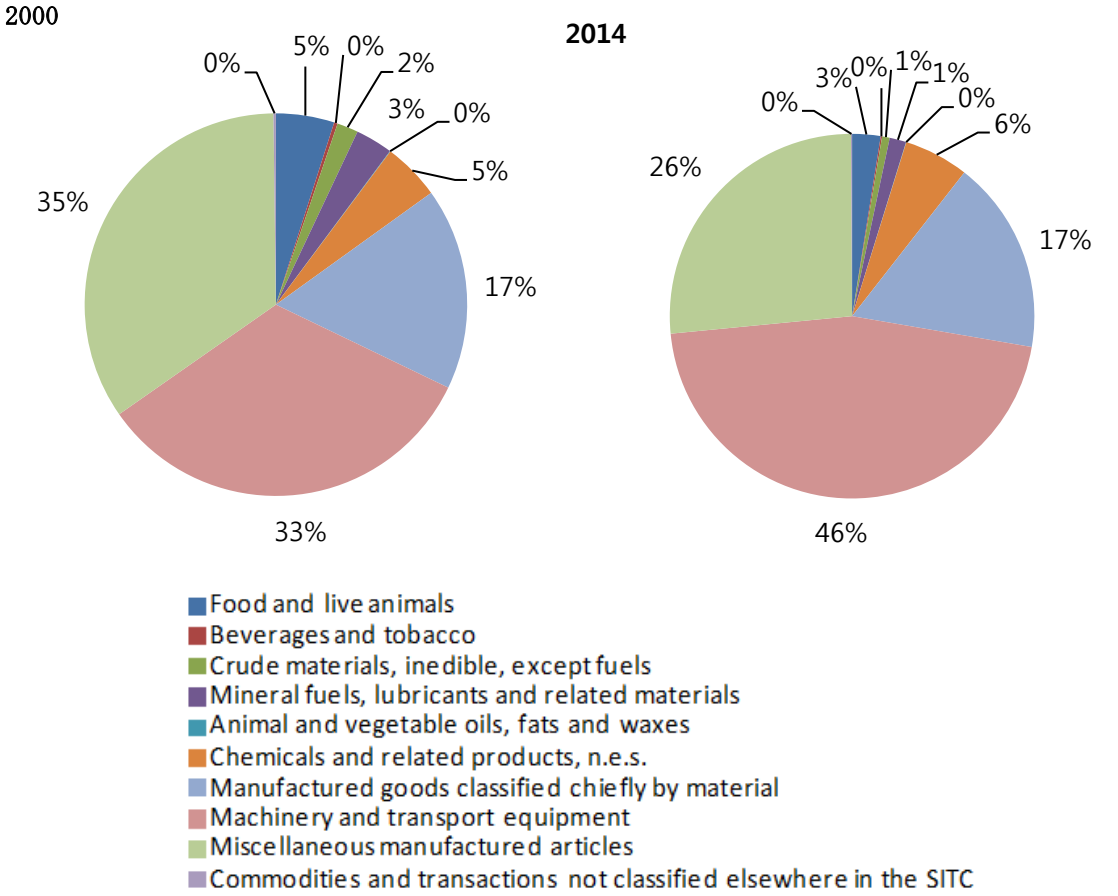
	2000	2010	2011	2012	2013	2014
DPRK (%)	0.02	0.09	0.14	0.14	0.15	0.14
Japan (%)	18.44	12.65	11.16	9.78	8.32	8.29
Korea (%)	10.31	9.90	9.28	9.17	9.38	9.69
Mongolia (%)	0.09	0.18	0.21	0.22	0.18	0.26
Russia (%)	2.56	1.85	2.24	2.42	2.03	2.12

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

As for China's trade structure, there were no significant changes in the top ranking export products. In 2014, China's top three exports are machinery and transport equipment (46%), crude materials, inedible, except fuels (26%), manufactured goods classified chiefly by material (17%), same with that of 2000(33%, 35%, 17% for each). The share of exports of Machinery and transport equipment has been increased by 13%p implying that China is becoming to be more specialized in the industry. On the other hand, the import structure has changed slightly. In 2000, the top three products of imports were machinery and transport equipment (41%), manufactured goods classified chiefly by material (19%) and Chemicals and related products (13%). However, the top three importing products has become machinery and transport equipment (37%), mineral fuels, lubricants and related materials (16%), Chemicals and related products (10%) in 2014 where the change was mainly driven by the increasing importance of mineral fuels, lubricants and related materials imports.

Figure 4.6 Export Structure of China

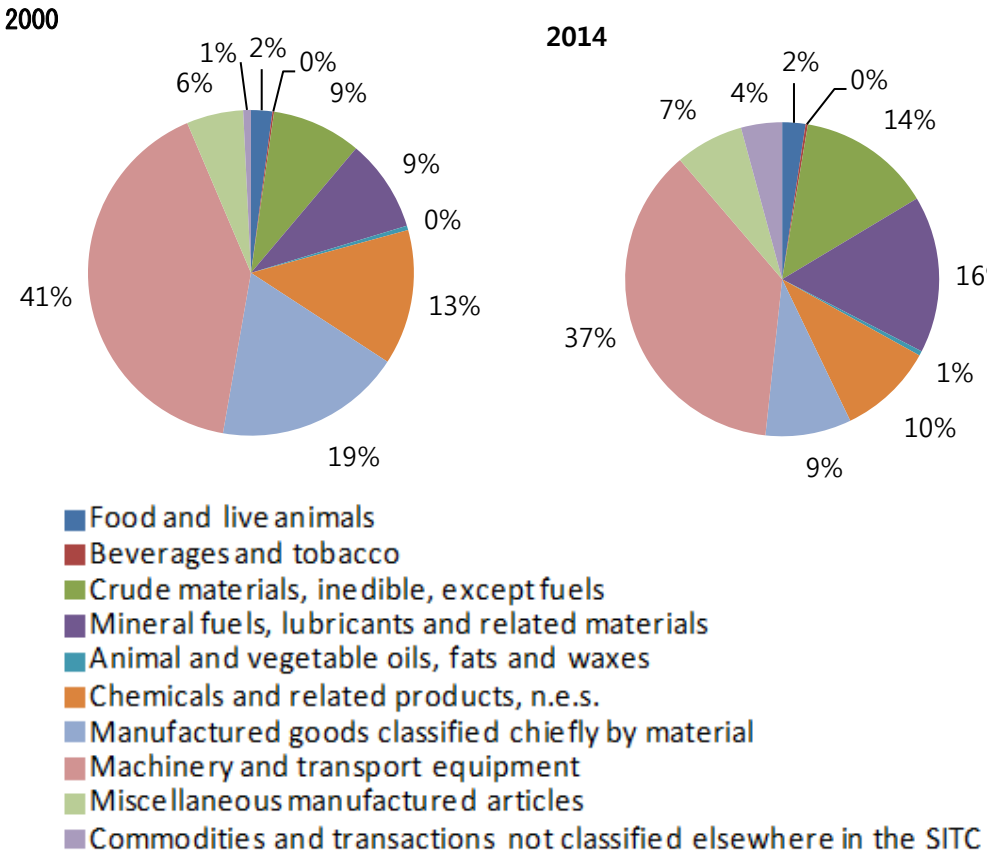
Unit: million USD(left), %(right)



Note: Commodities of SITC, Rev.3
Source: United Nations Commodity Trade Statistics Database (UN Comtrade). (2015.11.23)

Figure 4.7 Import Structure of China(2014)

unit: %



Note: Commodities of SITC, Rev.3
Source: United Nations Commodity Trade Statistics Database (UN Comtrade). (2015.11.23)

4.3 Foreign Direct Investment

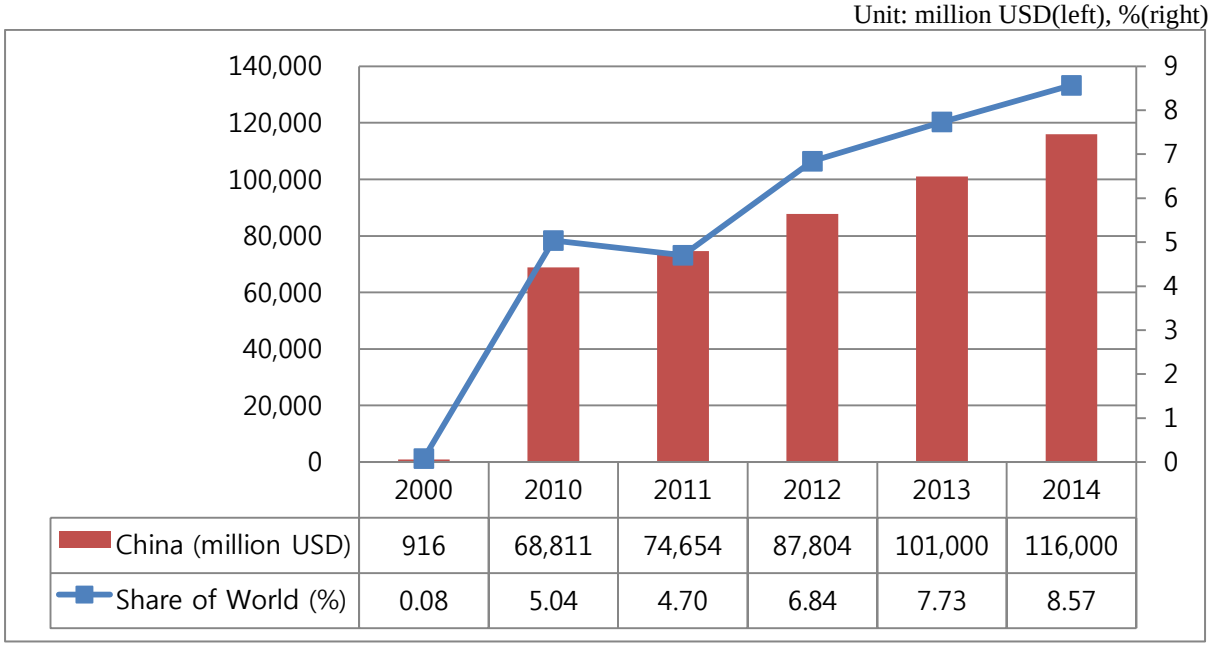
In 2014, China's outward FDI is 116,000 million dollars having 8.57% share of world FDI, while it was 916 million dollars having only 0.08% share of world FDI in 2000. It has enormously increased during 2000-2014. The stable FDI level and rapid growth shows that the country is still an attractive destination for foreign investments. China's destinations of investment has been changing from resource-rich developing countries to developed countries that provide access to advanced technologies, established brands, extensive industry

experience and worldwide distribution networks. [3]

In 2014, China's Inward FDI is 128,500 million dollars having 10.46% share of world FDI, while it was 40,715 million dollars having only 2.99% share of world FDI in 2000. It has been significantly increased during 2000-2014, same with China's outward FDI. The most significant development in the FDI arena in the past few years is the growth in FDI in the service sector. In 2014, services attracted 66.2 billion dollars in FDI, up 7.8 percent year-on-year.[4] The service sector now takes a greater share of FDI than the manufacturing sector.

Figure 4.8 Trend of China's Outward FDI

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
China (million USD)	916	68,811	74,654	87,804	101,000	116,000
Share of World (%)	0.08	5.04	4.70	6.84	7.73	8.57

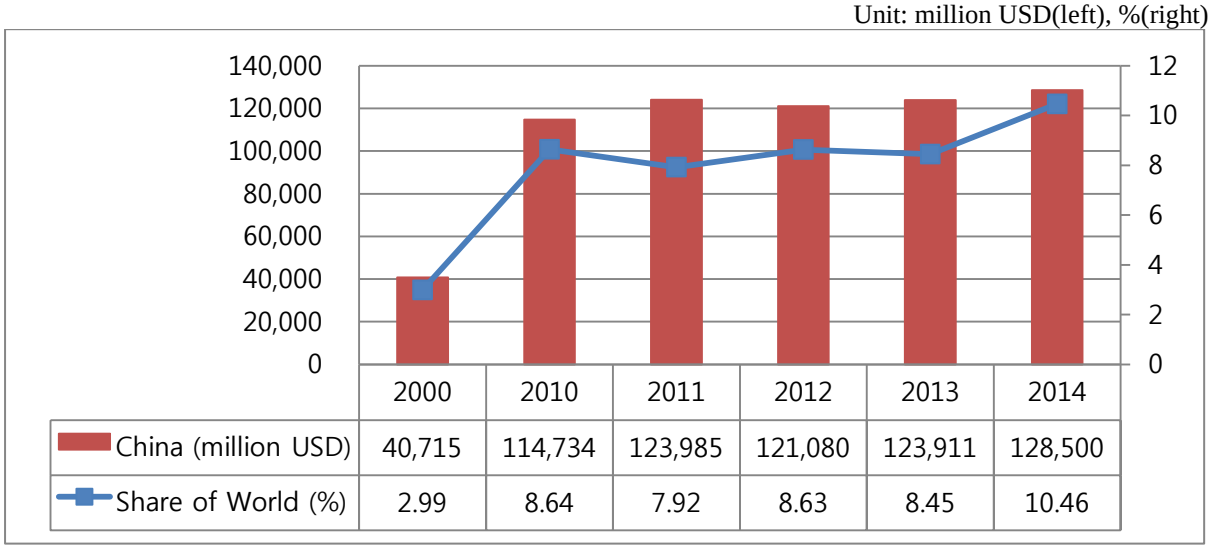
Source: United Nations Conference on Trade and Development Statistics Database (UNCTAD). (2015.11.26)

[3] http://www.kpmg.com/ES/es/Internacionalizacion-KPMG/Documents/China-Outlook-2015.pdf

[4] Ibid,.

Figure 4.9 Trend of China's Inward FDI

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
China (million USD)	40,715	114,734	123,985	121,080	123,911	128,500
Share of World (%)	2.99	8.64	7.92	8.63	8.45	10.46

Source: United Nations Conference on Trade and Development Statistics Database (UNCTAD). (2015.11.26)

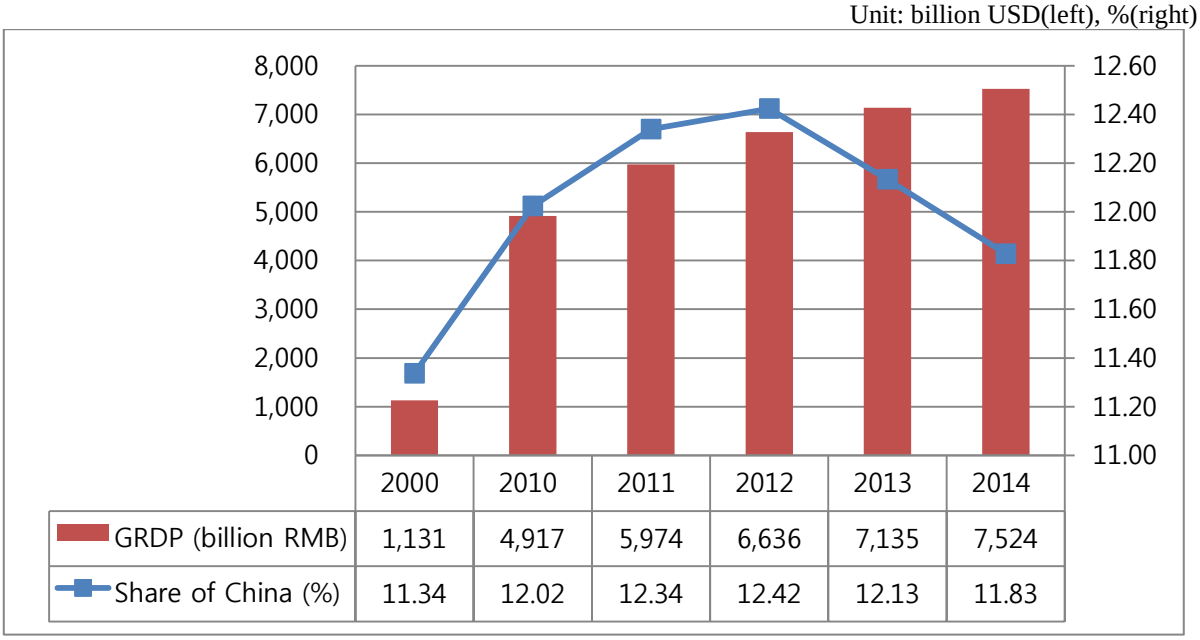
4.4 Regional Level Statistics of China

China consists of 23 provinces including Taiwan, 4 municipalities (Beijing, Tianjin, Shanghai, Chongqing), 5 autonomous regions (Xinjiang, Tibet, Inner Mongolia, Guangxi and Ningxia) and 2 special administrative regions (Hong Kong and Macau). Among them, GTR includes three Northeast provinces (Liaoning, Jilin and Heilongjiang and Inner Mongolia).

In 2003, as the Chinese government made revitalizing the northeast a priority, its economic output increased about 4 times during 2000-2010. Despite the government's effort, the share of GRDP of the four provinces of GTR, however, has not changed much. The GRDP of the four provinces is 7,524 billion RMB in 2014, accounting approximately 11% share of China's total GDP. Out of the 31 provincial-level-region, Liaoning is the only GTR province included in the top 10 provincial-level-regions in terms of GRDP in 2014, while Inner Mongolia, Heilongjiang and Jilin ranked 15th, 20th, 22nd respectively.

Figure 4.10 Trend of Northeast provinces and Inner Mongolia's GRDP

Unit: billion USD(left), %(right)



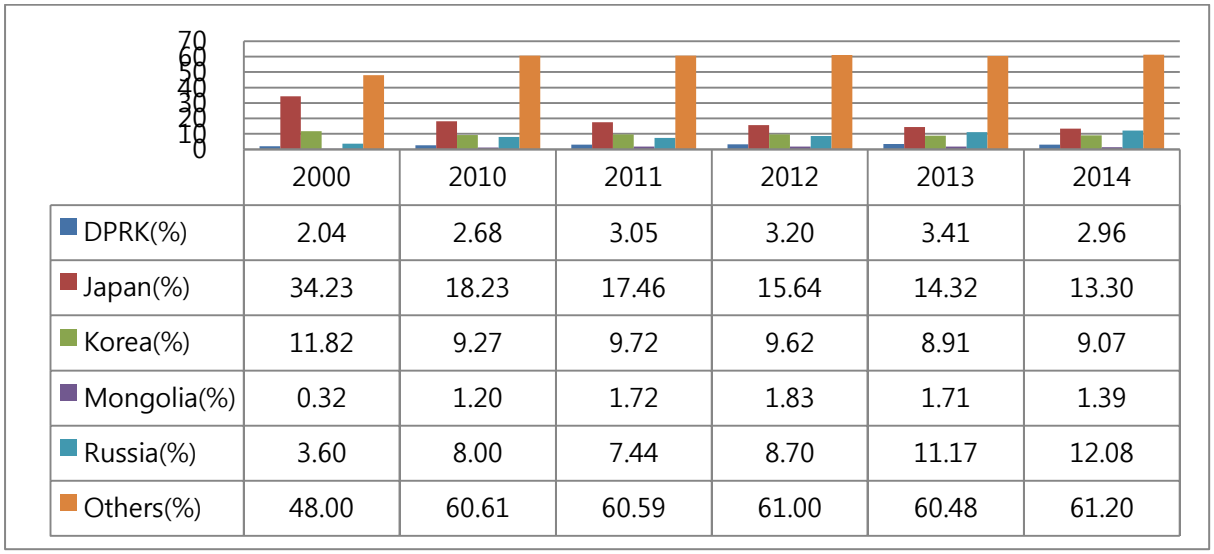
	2000	2010	2011	2012	2013	2014
GRDP (billion RMB)	1,131	4,917	5,974	6,636	7,135	7,524
Share of China (%)	11.34	12.02	12.34	12.42	12.13	11.83

Source: China National Bureau of Statistics; CEIC database. (2015.11.27)

As for the Chinese GTR provinces' export and import to other GTI member countries, the export share showed a decreasing trend; from 52.01% in 2000 to 38.80% in 2014. The import share has decreased more significantly from 52.14% to 33.14% during the same period. The decline is mainly due to the decreasing share of the trade between GTR provinces and Japan. Among the GTR provinces, Liaoning's trade makes up 45% of the inter-regional trade implying that trade costs are higher for other inland provinces. The total volume of the trade between GTI member countries is 32,047million dollars in Liaoning, 22,842 million dollars in Heilongjiang, 8,185 million dollars in Jilin and 7,938 million dollars in Inner Mongolia (including DPRK).

Figure 4.11 Trend of Northeast provinces and Inner Mongolia's Export to GTR countries

unit: %

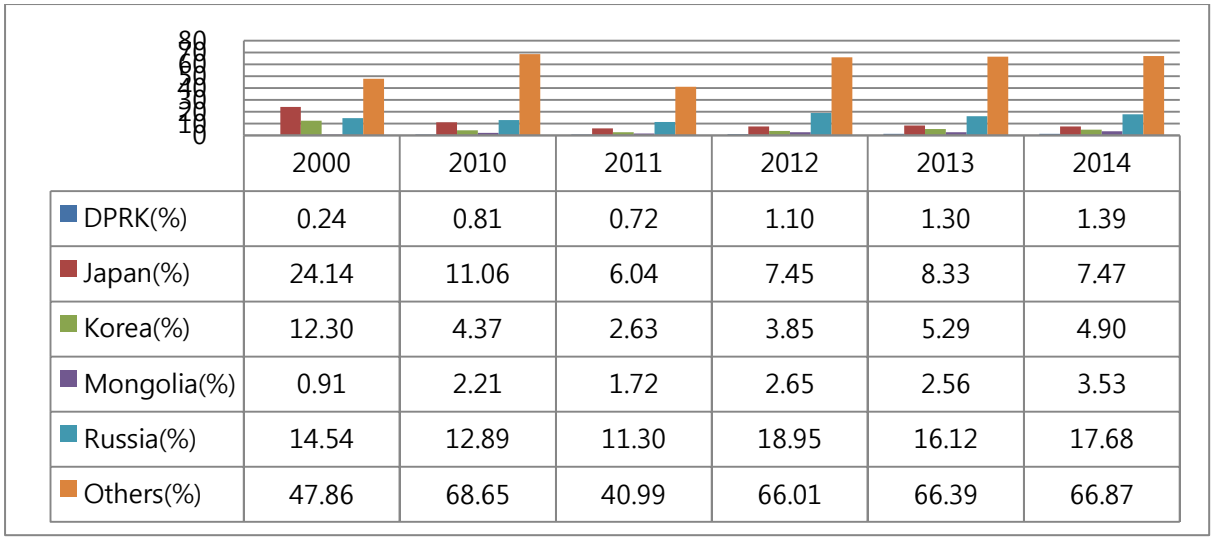


	2000	2010	2011	2012	2013	2014
DPRK(%)	2.04	2.68	3.05	3.20	3.41	2.96
Japan(%)	34.23	18.23	17.46	15.64	14.32	13.30
Korea(%)	11.82	9.27	9.72	9.62	8.91	9.07
Mongolia(%)	0.32	1.20	1.72	1.83	1.71	1.39
Russia(%)	3.60	8.00	7.44	8.70	11.17	12.08
Others(%)	48.00	60.61	60.59	61.00	60.48	61.20

Source: Korea International Trade Association Database (KITA). (2015.12.1)

Figure 4.12 Trend of Northeast provinces and Inner Mongolia's import to GTR countries

unit: %



	2000	2010	2011	2012	2013	2014
DPRK(%)	0.24	0.81	0.72	1.10	1.30	1.39
Japan(%)	24.14	11.06	6.04	7.45	8.33	7.47
Korea(%)	12.30	4.37	2.63	3.85	5.29	4.90
Mongolia(%)	0.91	2.21	1.72	2.65	2.56	3.53
Russia(%)	14.54	12.89	11.30	18.95	16.12	17.68
Others(%)	47.86	68.65	40.99	66.01	66.39	66.87

Source: Korea International Trade Association Database (KITA). (2015.12.1)

5. Russian Federation

5.1 Economic Overview

The Russian Federation, the largest country on earth with a population of 143 miliion (2014, UNCTAD), has been gradually enlarging its economy since the collapse of the Soviet Union, driven by natural resources such as oil and gas. Although it suffered from economic transition in the early 1990's, high oil prices and Vladimir Putin's major economic reforms led fine economic growth in the following years. However, high dependence on oil and gas - the country relies heavily upon oil and gas, which forms one-fifth of the total GDP, two-thirds of export volume, and half of public revenue (2014) – made Russia highly vulnerable to global crisis. The financial crisis in 2009 deeply affected Russia decreasing GDP by 7.8 percent as a result of plunge in export and domestic demand. Nevertheless, shortly after the crisis, Russia became one of the top 10 largest economies in the world in 2011.

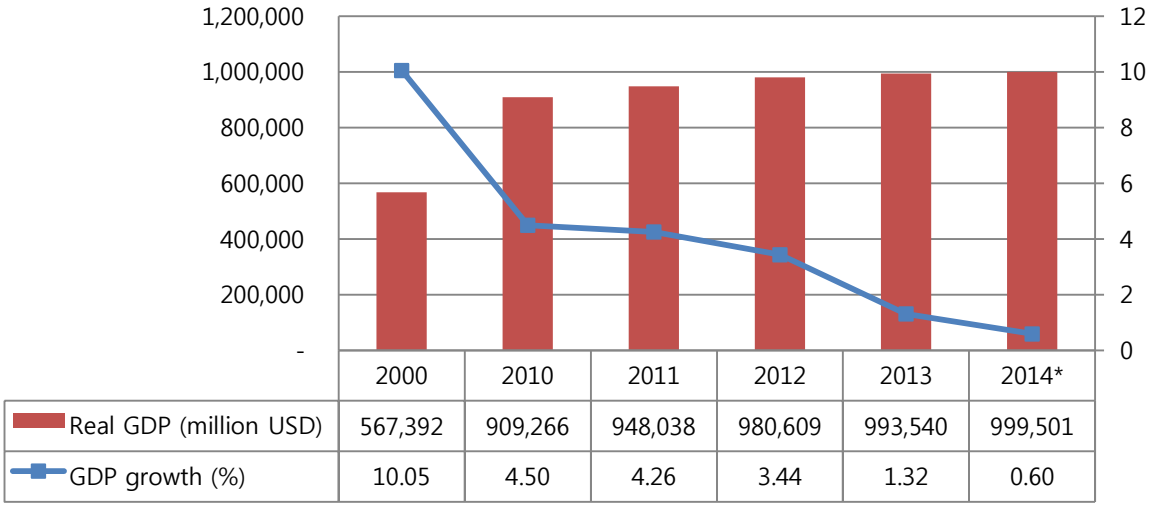
Meanwhile, economic growth started to slowdown since 2012 as low global energy prices and depreciation of the ruble caused decline of investment and lower productivity. The bureaucratic and inefficient system, energy dependent economic structure, low investment and low labor productivity are major structural vulnerabilities that hinder potential growth power of the Russian Federation. The fraction of investment in Russia shows 23 percent, which falls short of other emerging countries (30% in average, China 40%).

Furthermore, the annexation of Crimea by the Russian Federation in March 2014, which was followed by international sanctions from the United States and the European Union, has negatively affected the country's economy in trade and investment. Russia, which used to be in intimate relations with the European countries – half of trade and 70 percent of inward FDI comes from European Union –, is undergoing even more intensified economic slowdown. Russia's import restrictions on food from Canada, Australia, EU, Norway and the US which started from August 2014 contributed to

the deteriorating economy in the second-half of 2014. Ban of import on food increased domestic agricultural prices which led to consumption decrease, as it overlapped with ruble depreciation and plunging oil prices. Consequentially, Russia's economic growth rate slowed to 0.6 percent, which is a decrease by half of the previous year. According to the UN statistics, real GDP and GDP per capita of 2014 are estimated 999.5 billion USD and 7,016 USD each.

Figure 5.1 Trend of Russia's GDP and GDP growth

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014*
Real GDP (million USD)	567,392	909,266	948,038	980,609	993,540	999,501
GDP growth (%)	10.05	4.50	4.26	3.44	1.32	0.60

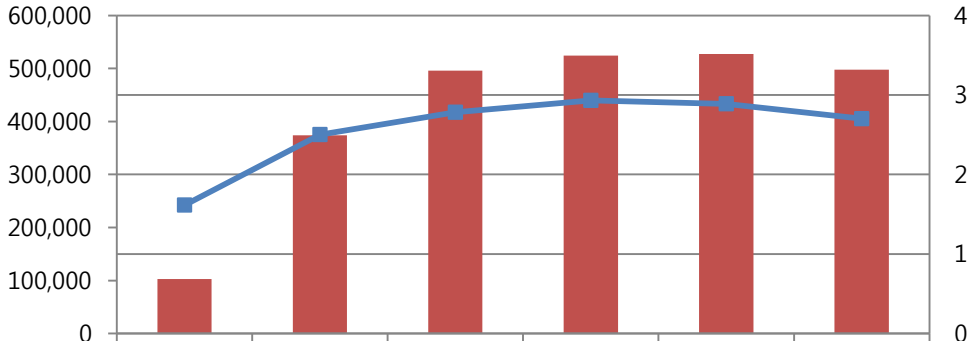
Note: *estimated. GDP in constant (2005) prices
Source: UNCTAD (2015.11.30).

5.2 Trade

Overall volumes of trade has been decreasing since the end of 2014 due to the oil price shock, collapse of the Russian ruble, and the Western sanctions against Russia over Ukraine crisis. Export fell by 16.5 percent year-on-year in 2014 4Q, while import also dropped by 20 percent. The downtrend of export and import will continue in 2015, followed by a weak recovery in 2016 and 2017.

Figure 5.2 Trend of Russia's Export (FOB)

Unit: million USD(left), %(right)

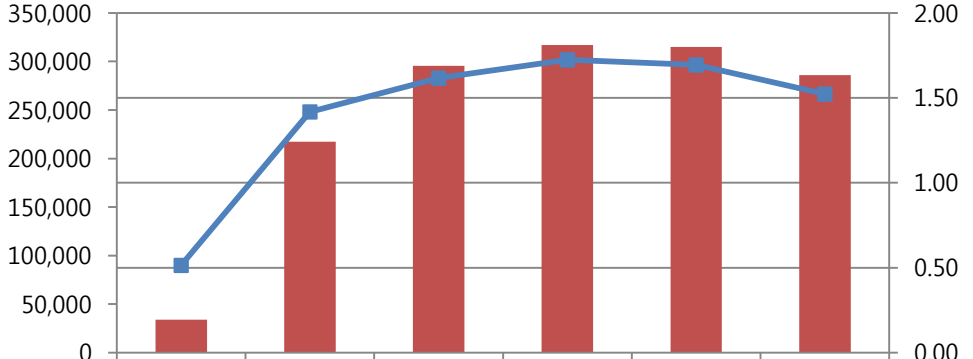


	2000	2010	2011	2012	2013	2014
Russia (million USD)	103,002	373,651	495,883	524,483	527,266	497,615
Share of World (%)	1.62	2.50	2.78	2.93	2.89	2.70

Source: IMF (2015.11.24)

Figure 5.3 Trend of Russia's Import (CIF)

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
Russia (million USD)	33,853	217,421	295,359	316,850	314,967	285,844
Share of World (%)	0.51	1.42	1.62	1.72	1.69	1.52

Source: IMF (2015.11.24)

According to statistics in 2014, most of Russia's major export partners are European countries, such as Netherlands (13.39%), Italy (5.82%), Germany (5.01%), and Northeast Asian countries such as China (7.54%) and Japan (3.99%). China is Russia's biggest import partner which takes 17.83 percent of Russia's import volume, followed by Germany (11.49%), USA (6.49%), Italy (4.42%) and Belarus(4.3%).

Table 5.1 Top Export Partners of Russia

	2000	2010	2011	2012	2013	2014
1	Germany	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands
2	USA	Italy	China	China	Italy	China
3	Italy	China	Italy	Germany	Germany	Germany
4	Belarus	Germany	Germany	Italy	China	Italy
5	China	Poland	Poland	Turkey	Turkey	Turkey
6	Ukraine	Turkey	Ukraine	Ukraine	Ukraine	Japan
7	UK	Ukraine	USA	Belarus	Belarus	Belarus
8	Poland	Japan	Turkey	Poland	Japan	Korea
9	Netherlands	USA	Japan	Kazakhstan	Poland	Ukraine
10	Switzerland	Finland	Korea	Japan	Kazakhstan	Poland

Source: IMF.2015.Direction of Trade Statistics (2015.11.24)

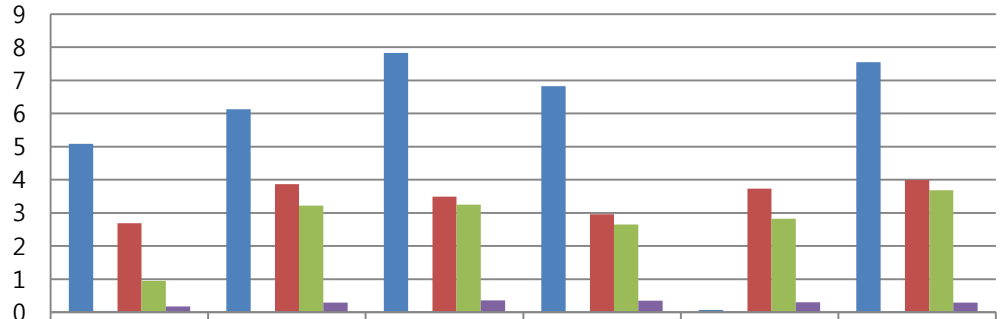
Table 5.2 Top Import Partners of Russia

	2000	2010	2011	2012	2013	2014
1	Germany	China	China	China	China	China
2	Belarus	Germany	Germany	Germany	Germany	Germany
3	Ukraine	Ukraine	Ukraine	Ukraine	USA	Ukraine
4	USA	Japan	Italy	Japan	Ukraine	Japan
5	Kazakhstan	Italy	USA	USA	Italy	Italy
6	Italy	USA	France	France	Belarus	USA
7	France	France	Korea	Italy	Japan	France
8	Finland	Korea	Belarus	Belarus	France	Korea
9	China	Poland	Japan	Korea	Korea	Poland
10	UK	Turkey	Poland	Kazakhstan	Poland	Turkey

Source: IMF.2015.Direction of Trade Statistics (2015.11.24)

Figure 5.4 Trend of Russia's Export to GTR countries

unit: %

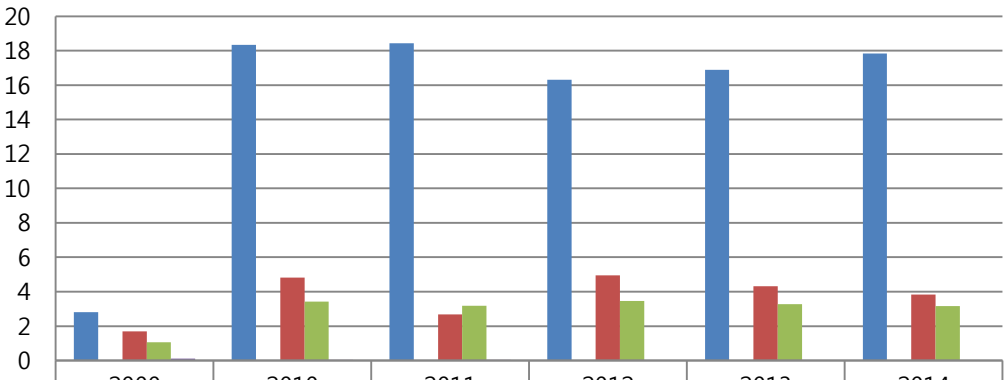


	2000	2010	2011	2012	2013	2014
China (%)	5.08	6.12	7.83	6.83	0.07	7.54
DPRK (%)	0.04	0.01	0.02	0.01	0.02	0.02
Japan (%)	2.69	3.87	3.48	2.96	3.73	3.99
Korea (%)	0.94	3.22	3.25	2.64	2.82	3.68
Mongolia (%)	0.18	0.29	0.36	0.35	0.30	0.29

Source: IMF.2015.Direction of Trade Statistics (2015.11.24)

Figure 5.5 Trend of Russia's Import to GTR countries

unit: %



	2000	2010	2011	2012	2013	2014
China (%)	2.80	18.34	18.43	16.31	16.89	17.83
DPRK (%)	0.02	0.01	0.01	0.00	0.00	0.00
Japan (%)	1.69	4.82	2.69	4.94	4.31	3.82
Korea (%)	1.06	3.42	3.19	3.46	3.27	3.16
Mongolia (%)	0.12	0.04	0.04	0.02	0.01	0.01

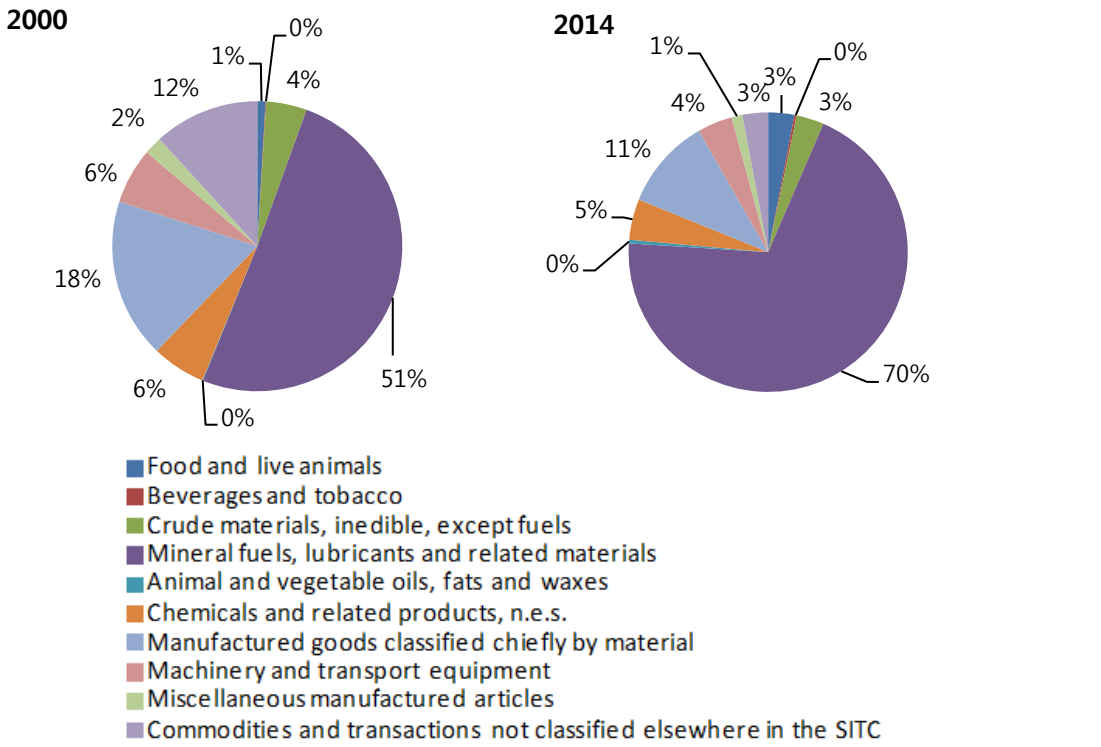
Source: IMF.2015.Direction of Trade Statistics (2015.11.24)

The largest contributor of Russian exports in 2014 was mineral fuels, lubricants and related materials which took 69.53 percent. Rapid drop of oil price at the end of 2014 naturally caused economic aggravation of the energy dependent country. The price of Ural crude oil, which is one of Russia's main exports, had dropped from approximately 110 USD per barrel to 52.8 dollars by 2015 1Q. The price has been increased since then, but not far above 60 dollars per barrel.

Russia's imports in 2014 were largely composed of machinery and transport equipment (44.33%), chemicals and related products (13.03%), manufactured goods (12.61%), miscellaneous manufactured articles (12.3%), food and live animals (10.99%), etc. Import on the first half of 2015 decreased by 38.6 percent year-on-year, as the country's economic uncertainty brought shrinkage of domestic investment sentiment, which consequently led to a decrease of demand on machinery equipments.

Figure 5.6 Export Structure of Russia

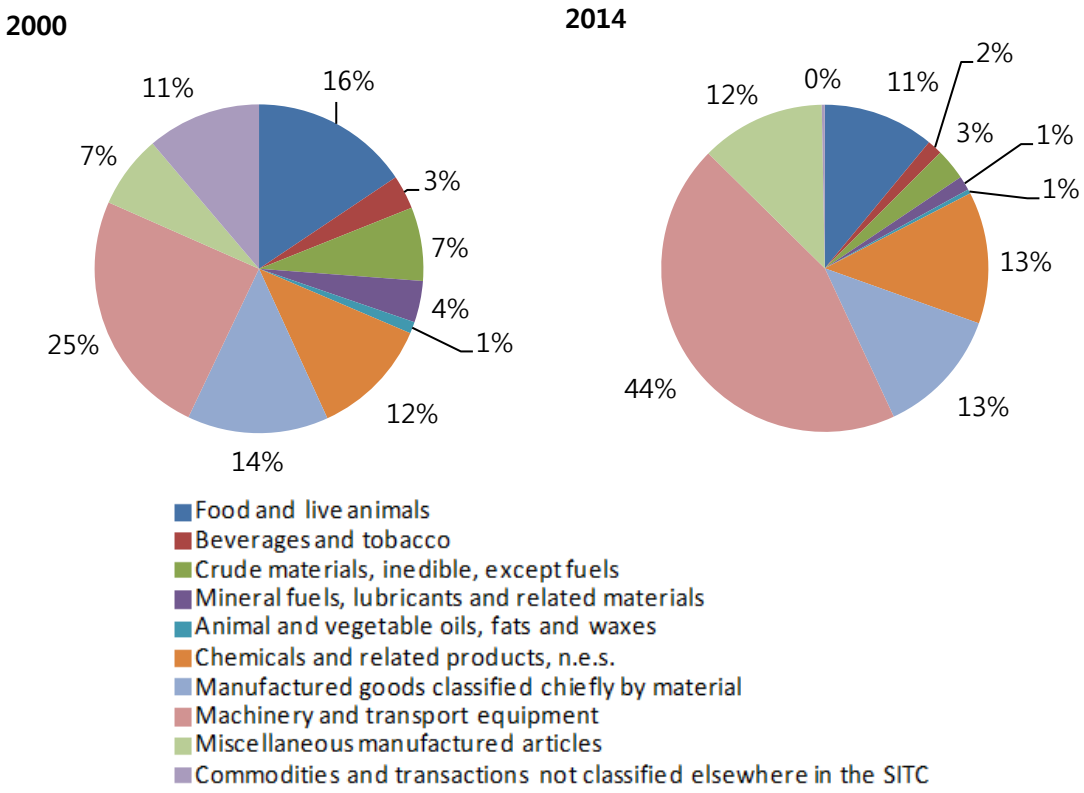
unit: %



Source: United Nations Commodity Trade Statistics Database (UN Comtrade). (2015.11.24)
Note: Commodities of SITC, Rev.3

Figure 5.7 Import Structure of Russia

unit: %



Source: United Nations Commodity Trade Statistics Database (UN Comtrade). (2015.11.18)
Note: Commodities of SITC, Rev.3

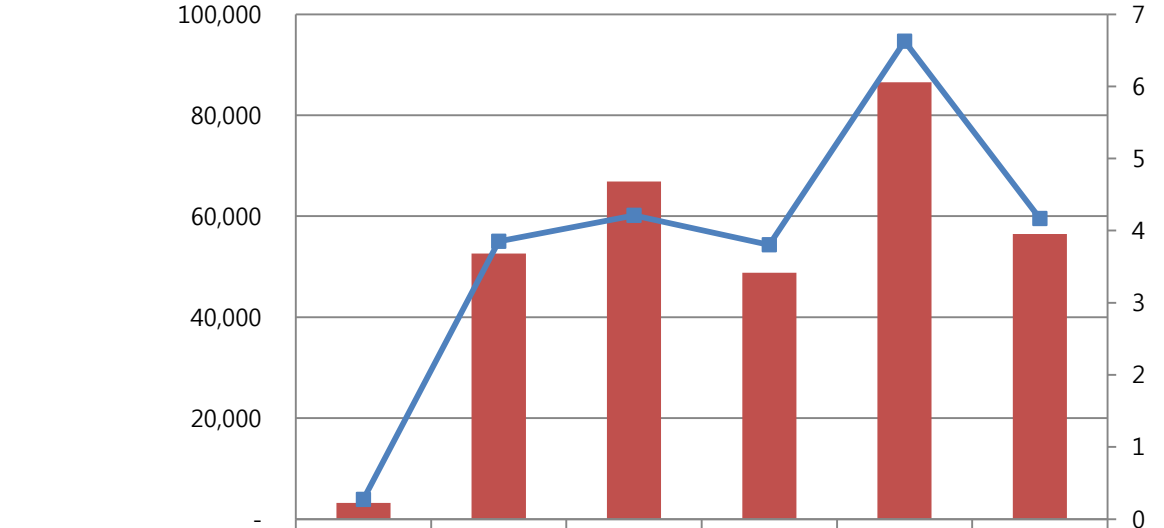
5.3 Foreign Direct Investment

Russia used to be one of the world top 5 countries in inward and outward foreign direct investment before the 2014 crisis. Inflows and outflows each amounted to 69 billion and 87 billion USD in 2013. But inward FDI includes large proportion of round-tripped capital, therefore making the real size of FDI a lot smaller. Regardless of the abundant natural resources and solid FDI regime, delay of modernization and diversification of the resource-dependent economy, weak infrastructure and corruption have been the major reasons for lack of foreign investment. Furthermore, the newest Russian crisis brought a rapid decline in both inward and outward FDI as the western sanctions expanded the banking sector, making it more difficult for financing.

Overseas investment by Russia has decreased to 56 billion USD, a 34.8 percent drop from 2013. The decline outstands even more while foreign direct investment from emerging economies, especially China, boomed during the same time period. Meanwhile, inward foreign direct investment declined even more, by 69.3 percent, from 69 billion USD in 2013 to 21 billion USD in 2014. Outflows of investment surpassed inflows by 743 million USD in 2014 Q3, and 1 billion USD in Q4. Such weaker investment is mostly due to the worsening economic conditions in Russia: continuation of Western sanctions; sharp falls in oil prices and collapse of the ruble. In such circumstances, foreign partners are showing doubts about Russia's large-scale projects, and many companies have started cancelling their investments to Russia.

Figure 5.8 Trend of Russia's Outward FDI

Unit: million USD(left), %(right)

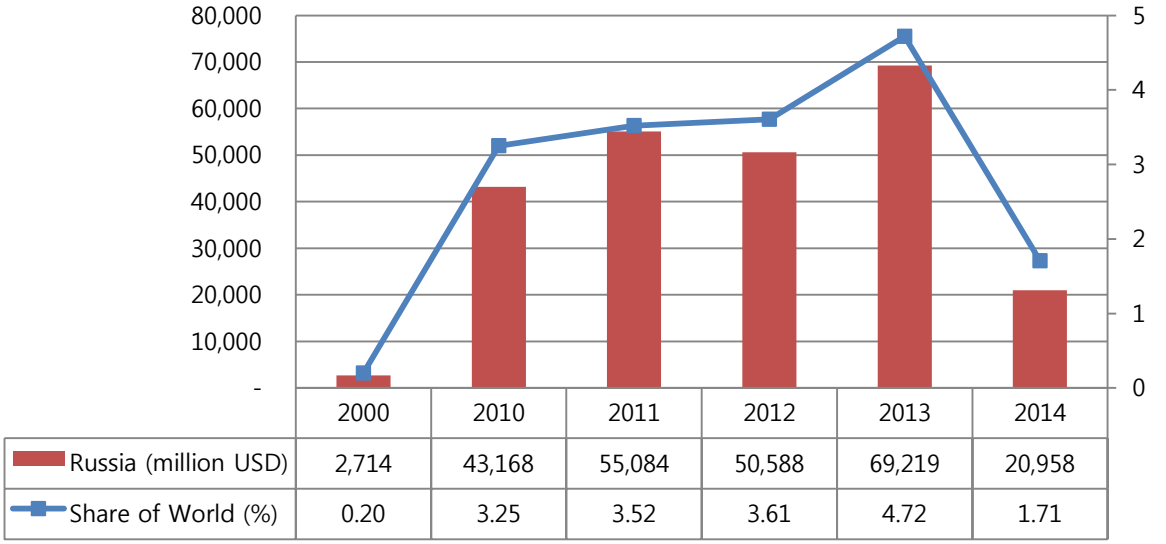


	2000	2010	2011	2012	2013	2014
Russia (million USD)	3,177	52,616	66,851	48,822	86,507	56,438
Share of World (%)	0.27	3.85	4.21	3.80	6.62	4.17

Note: Asset/liability basis from 2010
Source: UNCTAD (2015.11.30.)

Figure 5.9 Trend of Russia's Inward FDI

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
Russia (million USD)	2,714	43,168	55,084	50,588	69,219	20,958
Share of World (%)	0.20	3.25	3.52	3.61	4.72	1.71

Note: Asset/liability basis from 2010
Source: UNCTAD (2015.11.30.)

5.4 Russian Far East Economy

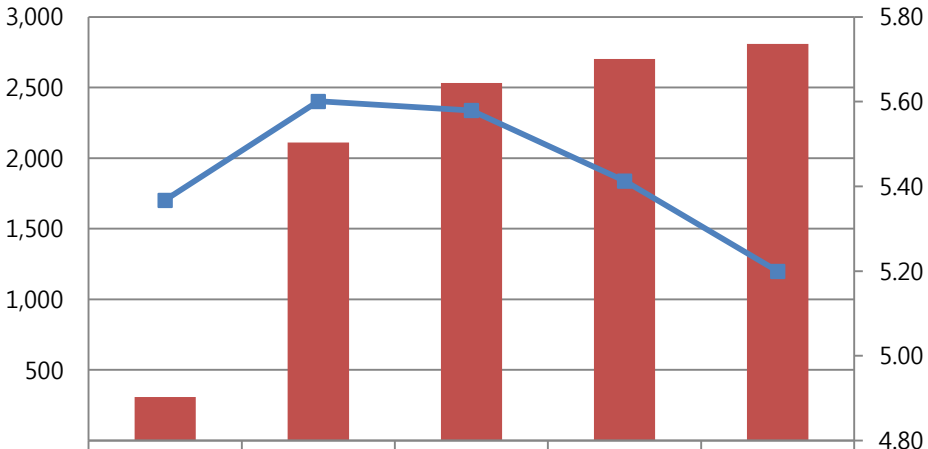
Far Eastern District of Russian Federation occupies 6,169,300km^2 which accounts for 36 percent of the total land area (17,098,200 km^2). Population of the district by January 2015 is 6,211 thousand[5], making population density lowest of all other districts, 1 person per km^2. The district shows rather poor level of GRDP (gross regional domestic product), which was 2,808 billion rubles in 2013, accounting for only 5.2 percent of the country. The district has been relatively underdeveloped due to far distance from the central federal district, harsh climate, and stagnant economic structure which has been highly focused in production of raw

[5] Численность населения Российской Федерации по муниципальным образованиям, "на 1 января 2015 года", http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/afc8ea004d56a39ab251f2bafc3a6fce (2015.11.19)

materials and war industry since the days of the former Soviet Union.[6] Such circumstances have hindered the development of economic and social infrastructure, which naturally led to drop of population and domestic demand. In attempts to find solutions, the country has pushed forward a scheme of development of the Far Eastern District, but due to delays of qualitative innovation of industrial structure, almost no visible changes were made since 2000.

Figure 5.10 GRDP of Far Eastern Federal District

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013
GRDP (billion rubles)	309	2,111	2,533	2,702	2,808
Share of Russia (%)	5.37	5.60	5.58	5.41	5.20

Source: Федеральная служба государственной статистики, "Национальные счета", http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/accounts/# (2015.11.19)

Recently, the Far Eastern District has come into spotlight in terms of development of gas processing industry, production of natural resources and increase of demand for related infrastructure. Chayandinskoye in Saha Republic, which is the district's major gas field planned to be completed by 2018, is expected to produce natural gas to fulfill the demand of

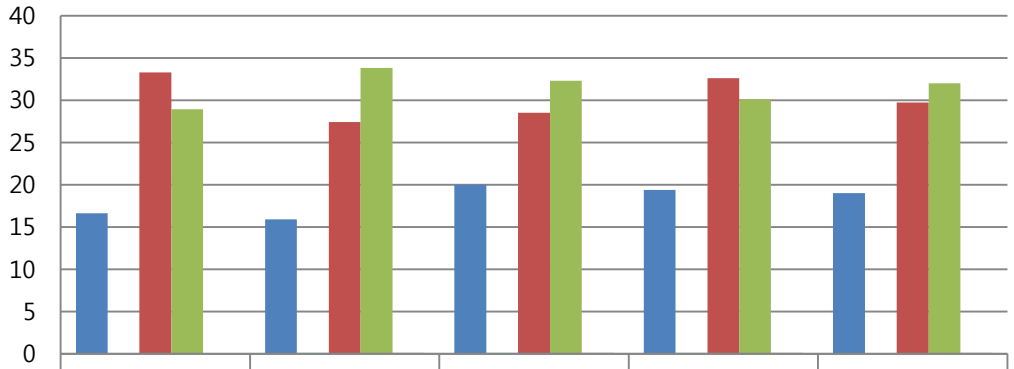
[6] KIEP, 2014, Sung Hoon Jeh, et al., "Russia's Development of the Far East and the Baikal Region and Korea's Countermeasures", p.31.

China through pipelines ‘Power of Siberia’ and ‘Eastern Route’. Meanwhile, there are concerns over expansion of raw material production rather than processed production. The portion of mining industry has increased by 11.6 percent point, from 14.9 percent in 2005 to 26.5 percent in 2013. Shares of manufacturing (5.4%, ↓2.3%p), construction (6.8%, ↓2.5%p), transportation and communication service (13.3%, ↓1.9%p) has decreased compared to 2005.

Based on economic cooperation among neighboring countries, trade volume shows rapid increase during the last five years. Total trade volume increased by 49.1 percent in 2014 (38,980 million USD) compared to 2010 (18,502 million USD). Export increased by 54 percent from 18,502 million USD to 28,491 million USD, while import increased by 37.4 percent from 7,634 million USD to 10,489 million USD.

Figure 5.11 Export of Far Eastern Federal District to GTR (2010-2014)

unit: %

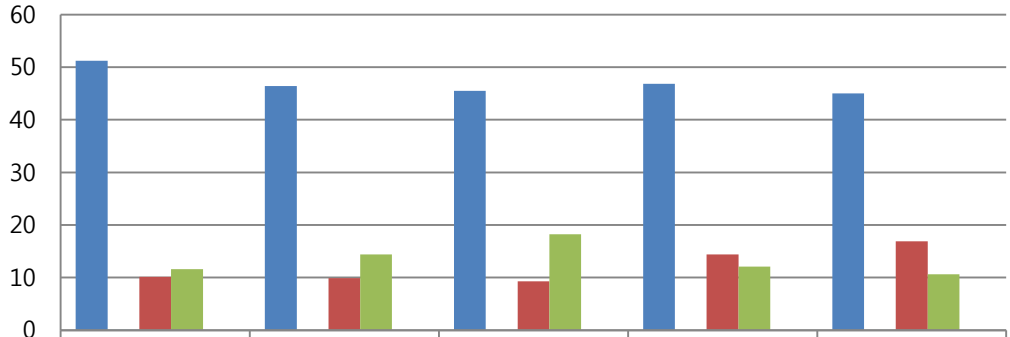


	2010	2011	2012	2013	2014
China (%)	16.62	15.90	20.00	19.40	19.02
DPRK (%)	0.05	0.10	0.10	0.10	0.08
Japan (%)	33.27	27.40	28.50	32.60	29.71
Korea (%)	28.92	33.80	32.30	30.10	31.99
Mongolia (%)	0.00	0.10	0.10	0.10	0.09

Source: Дальневосточное таможенное управление, “Статистика внешней торговли”, http://dvtu.customs.ru/index.php?option=com_content&view=category&id=63&Itemid=90 (2015.11.19)

Figure 5.12 Import of Far Eastern Federal District to GTR (2010-2014)

unit: %



	2010	2011	2012	2013	2014
China (%)	51.21	46.40	45.50	46.80	45.02
DPRK (%)	0.06	0.00	0.00	0.00	0.00
Japan (%)	10.13	9.90	9.30	14.40	16.91
Korea (%)	11.59	14.40	18.20	12.10	10.62
Mongolia (%)	0.00	0.00	0.00	0.00	0.01

Source: Дальневосточное таможенное управление, "Статистика внешней торговли", http://dvtu.customs.ru/index.php?option=com_content&view=category&id=63&Itemid=90 (2015.11.19)

According to 2014 statistics, countries of GTR (Greater Tumen Region) - Japan, Republic of Korea and China - are the major trading partners. Republic of Korea is the District's biggest export partner which holds 31.99 percent, followed by Japan (29.71%) and China (19.02%). Major import partners are China (45.02%), Japan (16.91%), Republic of Korea (10.62%) and the United States (5.9%). In short, the District's recent trade (total 78.65%, export 80.9%, import 72.56%) is mostly concentrated in GTR, especially in Japan, Republic of Korea and China.

Foreign direct investment towards the District had shown high level of increase in 2011 and 2012, resulting from large investment from major investors, inter alia Netherlands, towards the mining sector in Saha Republic. In 2011, FDI increased to more than 2.7 times – 3,199 million USD with 90 percent of foreign investment concentrated in fuel and energy

production - of which Netherlands took the lead (1,500 million USD, 47.07% of total FDI) followed by Cyprus (699 million USD, 21.93%) and India (574 million USD, 18.02%). In 2013, total volume of FDI amounted to 2,410 million USD and major foreign investors were Japan (913 million USD, 37.89%), Germany (18.25%), India(19.17%) and Cyprus(9.05%).

6. Mongolia

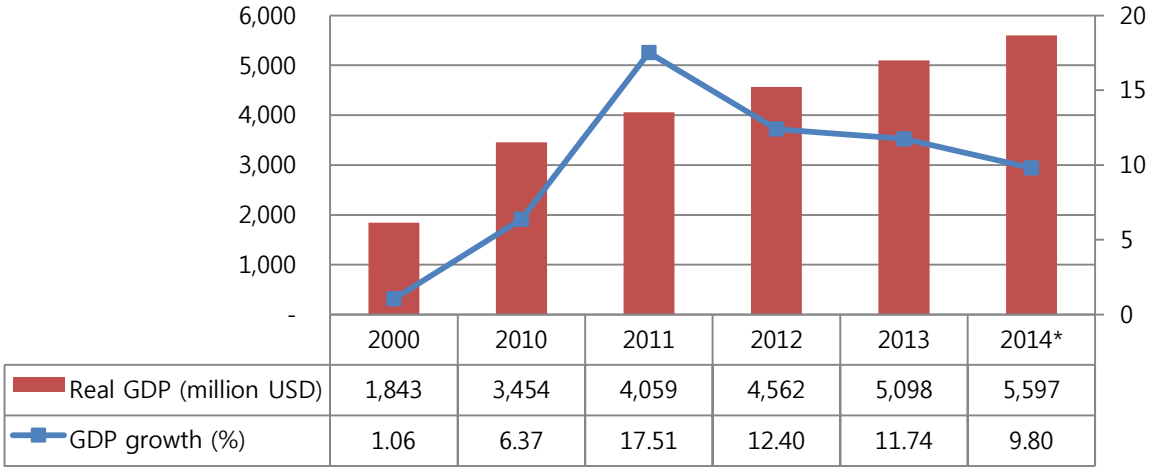
6.1 Economic Overview

Mongolia has successfully transformed into a market-based economy and multiparty democracy after the collapse of the Soviet Union in 1990. Although the country experienced a sharp drop in GDP at the initial stage, economic growth showed gradual increase during the last 20 years, which was driven by vast quantities of mineral resources. Mineral resources take upon 20 percent of GDP and 88 percent of export, and more than 70 percent of foreign direct investment flows into the mineral sector. Mongolia's main economic partners are China and Russia, with China growing its influence. Amidst China's increasing demand on natural resources and higher level of global commodity prices, Mongolia's GDP growth had reached its peak of 17.5 percent in 2011, as major strategic mining projects attracted higher levels of foreign investment.

However, the country with 2.9 million population (2014, UNCTAD) is recently going through tough circumstances. The fears of plundering of resources brought excessive political interference into the market-economy, resulting insecure regulatory environment for foreign investors. Cancelations and suspensions of projects led to sharp drop of FDI, followed by slowdown of GDP growth to 7.8 percent in 2014. According to the national statistical office of Mongolia, GDP growth of first three quarters in 2015 dropped to 2.5 percent. China's slowdown of growth and decreasing demand on natural resources also added to poor economic growth. According to the UN statistics, real GDP and GDP per capita of 2014 are estimated 5.6 billion USD and 1,943 USD each.

Figure 6.1 Trend of Mongolia's GDP and GDP growth

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014*
Real GDP (million USD)	1,843	3,454	4,059	4,562	5,098	5,597
GDP growth (%)	1.06	6.37	17.51	12.40	11.74	9.80

Note: *estimated. National Statistical office of Mongolia estimates 7.8 percent of GDP growth in 2014.
GDP in constant (2005) prices
Source: UNCTAD (2015.11.30.)

Although Oyu Tologoi project has been normalized in May 2015 due to Mr.Saikhanbileg government's concentrated effort, the country will need more time to get the national economy back on track, due to lack of investment in the previous years and remaining uncertainties of major mining projects in the midst of consistent political disputes. Meanwhile, the possibility of default crisis still exists as the external debt repayment schedule approaches – in early 2015 the Mongolian government had requested talks about possible support package from IMF.

6.2 Trade

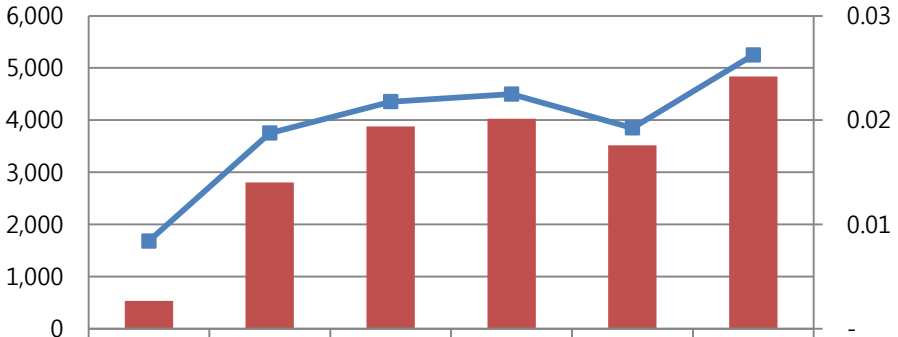
Mongolia's trade with China has rapidly increased during the last few years, which made China Mongolia's largest – 95.42 percent of total export partners in 2014 – trade partner. Overdependence on mineral revenues and demand from China is making Mongolia vulnerable to global circumstances such as China's slowdown of growth, decline in global commodity prices, etc.

Export volume has surged by 37.55 percent in 2014 (4.85 billion USD) amid descending

commodity prices, due to increased amount of mineral export earnings from Oyu Tolgoi mine. Adding to decreasing commodity prices, recent trend of decreasing global demand for coal and copper and China's economic slowdown is threatening Mongolia's future export revenue. In the meanwhile, due to lower levels of mining investment, imports fell by 14.75 percent compared to the previous year.

Figure 6.2 Trend of Mongolia's Export (FOB)

Unit: million USD(left), %(right)

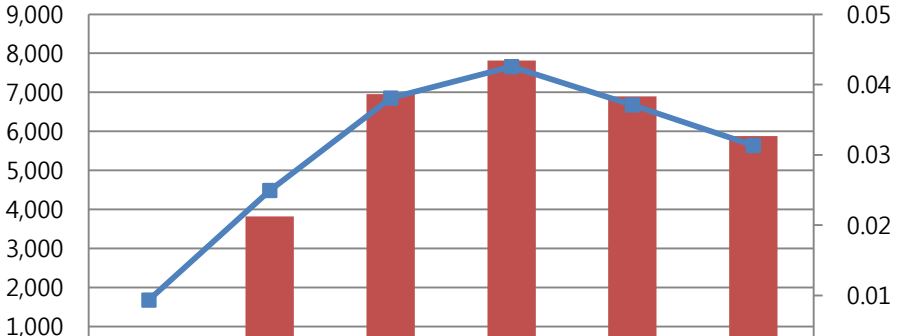


	2000	2010	2011	2012	2013	2014
Mongolia (million USD)	536	2,803	3,882	4,025	3,515	4,835
Share of World (%)	0.01	0.02	0.02	0.02	0.02	0.03

Source: IMF (2015.11.24)

Figure 6.3 Trend of Mongolia's Import (CIF)

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
Mongolia (million USD)	614	3,822	6,956	7,816	6,897	5,880
Share of World (%)	0.01	0.02	0.04	0.04	0.04	0.03

Source: IMF (2015.11.24)

Table 6.1 Top Export Partners of Mongolia

	2000	2010	2011	2012	2013	2014
1	China	China	China	China	China	China
2	USA	Canada	Canada	Canada	Canada	Italy
3	Russia	Russia	Russia	Russia	Italy	Russia
4	UK	UK	Korea	Korea	Russia	Korea
5	Italy	Italy	Italy	Italy	Korea	Indonesia
6	Australia	Korea	India	USA	USA	Japan
7	Korea	Japan	Japan	Japan	Japan	UK
8	Japan	USA	UK	UK	Germany	USA
9	Hong Kong	Ukraine	USA	India	UK	Germany
10	Switzerland	Germany	Germany	Germany	India	Belgium

Source: IMF.2015.Direction of Trade Statistics (2015.11.24)

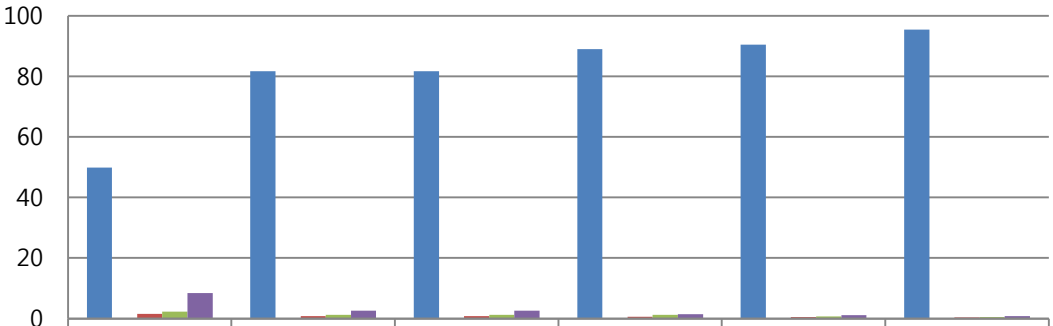
Table 6.2 Top Import Partners of Mongolia

	2000	2010	2011	2012	2013	2014
1	Russia	China	China	China	China	China
2	China	Russia	Russia	Russia	Russia	Russia
3	Japan	Korea	Korea	USA	Korea	Korea
4	Korea	Japan	Japan	Korea	Japan	Japan
5	Germany	USA	USA	Japan	USA	USA
6	USA	Germany	Germany	Germany	Germany	Germany
7	Hong Kong	Singapore	Canada	Belarus	Belarus	Singapore
8	Singapore	France	Singapore	Canada	Singapore	Kazakhstan
9	France	Ukraine	Belarus	Singapore	Kazakhstan	Poland
10	Kazakhstan	Poland	France	Kazakhstan	Poland	Italy

Source: IMF.2015.Direction of Trade Statistics (2015.11.24)

Figure 6.4 Trend of Mongolia's Export to GTR countries

unit: %

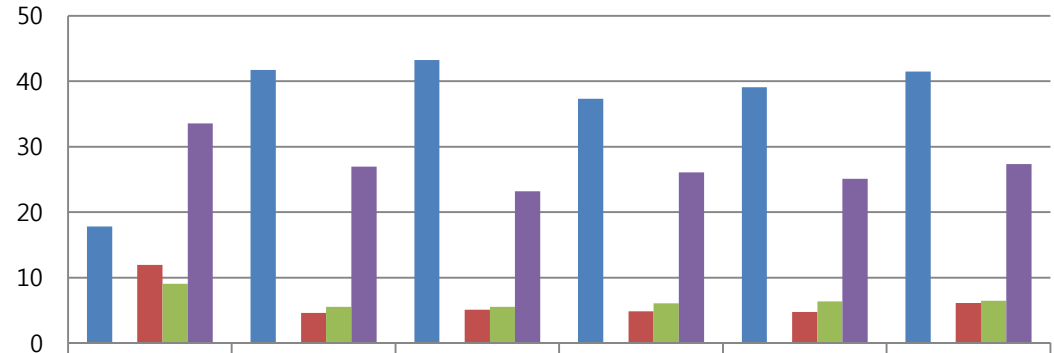


	2000	2010	2011	2012	2013	2014
China (%)	49.84	81.64	81.64	88.95	90.46	95.42
DPRK (%)	0.00	0.00	0.00	0.00	0.00	0.00
Japan (%)	1.51	0.77	0.77	0.58	0.50	0.32
Korea (%)	2.28	1.26	1.26	1.21	0.70	0.44
Russia (%)	8.43	2.57	2.57	1.45	1.06	0.76

Source: IMF.2015.Direction of Trade Statistics (2015.11.24)

Figure 6.5 Trend of Mongolia's Import to GTR countries

unit: %



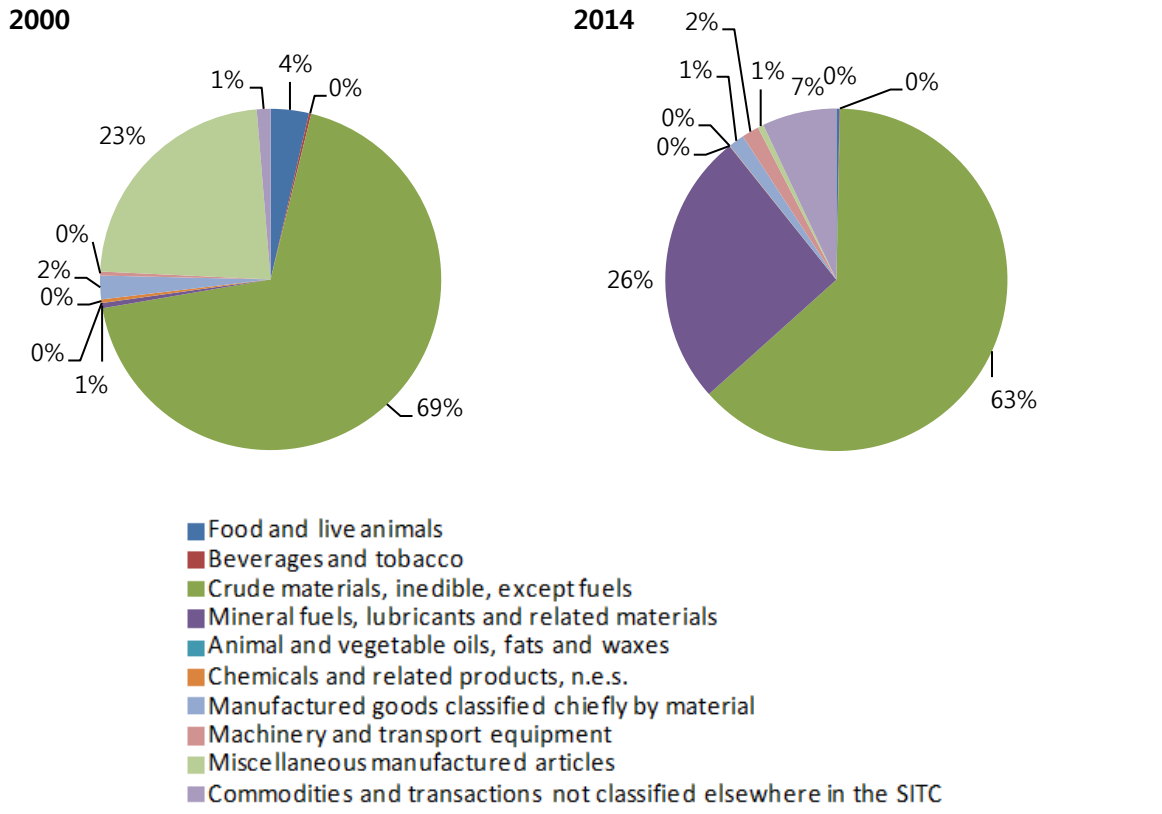
	2010	2010	2011	2012	2013	2014
China (%)	17.82	41.71	43.23	37.33	39.06	41.45
DPRK (%)	0.00	0.00	0.00	0.00	0.00	0.00
Japan (%)	11.93	4.63	5.08	4.85	4.77	6.12
Korea (%)	9.04	5.51	5.53	6.10	6.37	6.49
Russia (%)	33.56	26.95	23.20	26.05	25.08	27.33

Source: IMF.2015.Direction of Trade Statistics (2015.11.24)

The largest contributor of Mongolia's exports in 2014 was crude materials, inedible, mineral fuels, lubricants and related materials which occupied 88.9 percent. In the same year, imports were largely composed of machinery and transport equipment (31.28%), mineral fuels, lubricants and related materials (26.44%), and manufactured goods (19.51%), etc. Mongolia saw import volume of machinery and transport fall by 32.93 percent compared to 2013, with sharply reduced investment for mining sector.

Figure 6.6 Export Structure of Mongolia

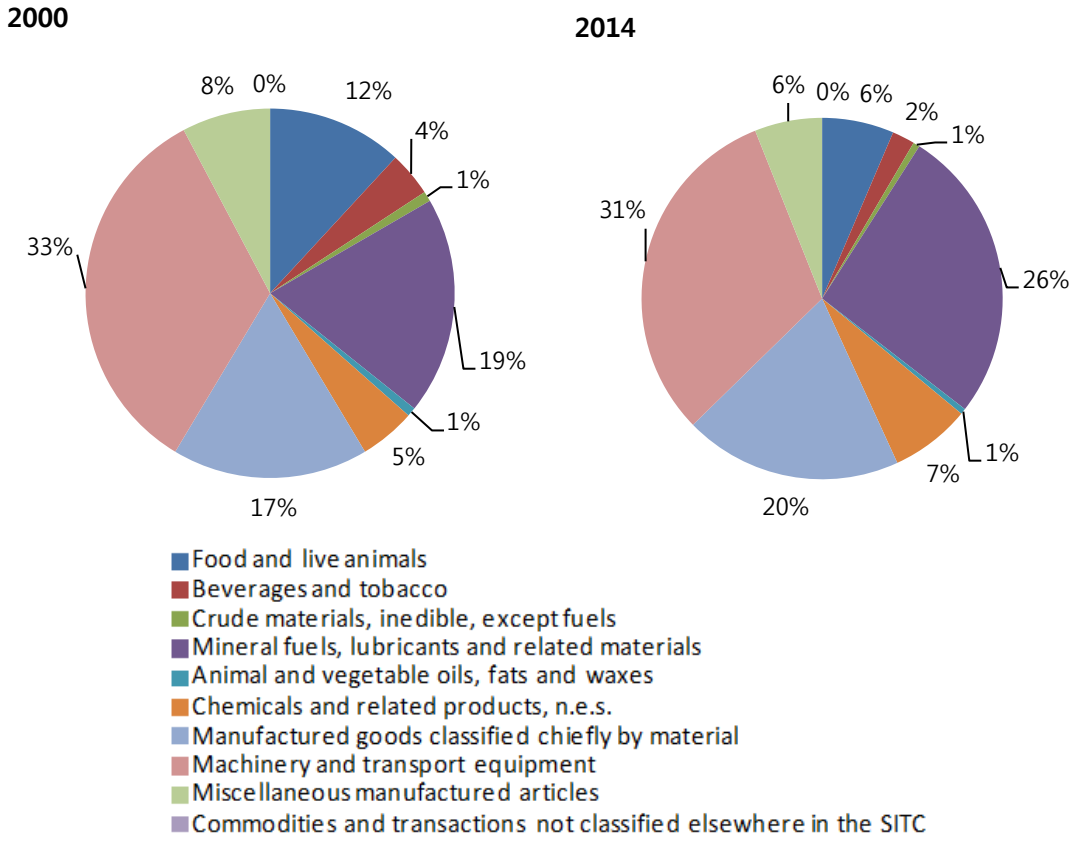
unit: %



Source: United Nations Commodity Trade Statistics Database (UN Comtrade). (2015.11.24)
Note: Commodities of SITC, Rev.3

Figure 6.7 Import Structure of Mongolia

unit: %



Source: United Nations Commodity Trade Statistics Database (UN Comtrade). (2015.11.24)
Note: Commodities of SITC, Rev.3

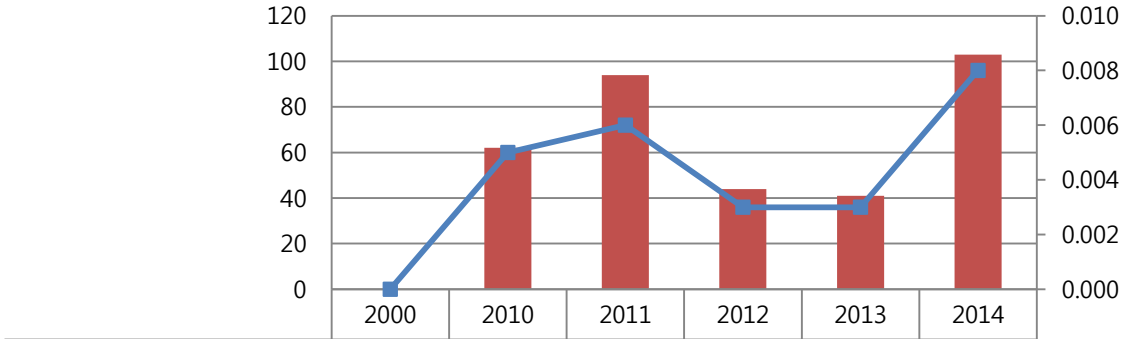
6.3. Foreign Direct Investment

Mongolia had had attracted 4.72 billion dollars in 2011 and 4.45 billion dollars in 2012, which mostly flowed into the mining sector. This increased national concerns about foreign firms encroaching on Mongolian underground resources. Accordingly, from 2009 to 2012, many legislation were made to prevent foreign firms from obtaining majority shares in mining sectors, and the Oyu Tolgoi project has ceased for the last two years due to dispute with the Mongolian government. Such insecure

regulatory environment resulted to a rapid drop of foreign direct investment to Mongolia, 2.14 billion dollars in 2013 and 508 million dollars in 2014.

Figure 6.8 Trend of Mongolia's Outward FDI

Unit: million USD(left), %(right)

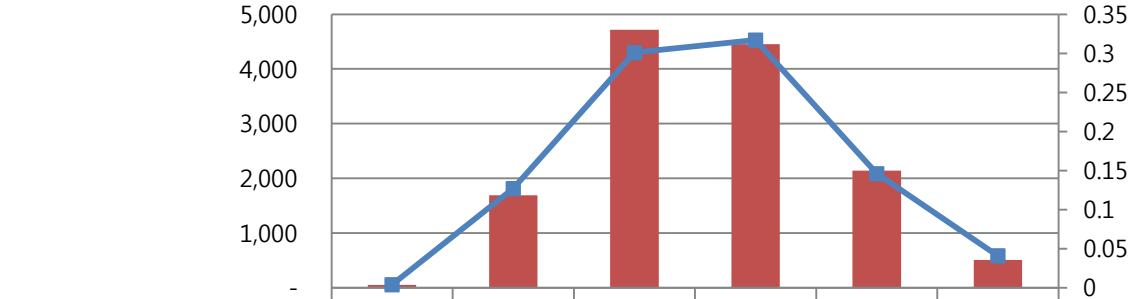


	2000	2010	2011	2012	2013	2014
Mongolia (million USD)	0	62	94	44	41	103
Share of World (%)	0.000	0.005	0.006	0.003	0.003	0.008

Source: UNCTAD (2015.11.30.)

Figure 6.9 Trend of Mongolia's Inward FDI

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
Mongolia (million USD)	54	1,691	4,715	4,452	2,140	508
Share of World (%)	0.004	0.127	0.301	0.317	0.146	0.041

Source: UNCTAD (2015.11.30.)

As Mongolian economy started to be negatively influenced by lower level of investment inflows, the government started amending legislations from 2013, in order to attract higher foreign direct investment by mitigating existing regulations. The *Foreign Investment Law* which has been amended

in 2014 protects investors' authority to maintain initial conditions which provides relief from the country's unstable regulatory environment. The *Law of Mongolia on Amending the Minerals Law (Amendment Law to the Minerals Law of 2006)* has also become effective in the same year, which expanded the area of mineral exploration from 8 percent to 20 percent, extended exploration period from 9 years to 12 years along with resuming special permissions to explore new minerals. The Amendment also limits the government intervention in mineral sector by creating new government agency – the National Geological Office – and a policy council mandated to implement state policy in relation to the mineral sector. Meanwhile, further amendments were made to the Minerals Law in February 2015 as it enabled the option to replace state share with royalty. On 14 May 2015, as the *Law on Amendment to the Investment Law* come into effect, all the authorities which were provided to the former Ministry of Economic Development has been devolved upon the Prime Minister.

Mr.Saikhanbileg's new government – the Government for Solution - which was established on December 2014 to normalize Mongolian economy has signed a deal with Rio Tinto to launch the second phase of the country's largest mine, Oyu Tolgoi. Yet, the regulatory environment seems to remain volatile for the next few years which will hinder active investment into the country. Tavan Tolgoi – the world's largest coal mine along with Oyu Tolgoi – project negotiation is struggling with the recent collapse of the coalition government.

7. Japan

7.1 Economic Overview

Japan, a country with a population of 127.1 million, is the third largest economy in the world with US$ 4,601 nominal GDP. The country also recorded US$ 4,765billion real GDP in 2014 which is a 0.03% decrease from 2013, and its GDP per capita recorded US$ 36,116 (US$ 36,426 in terms of PPP, current international $, UNCTAD). Japan's manufacturing sector serves as a key element of Japan's economy. The country also listed 218 companies at the Forbes global 2000 in 2015 which is the world's third largest.

In the late 2000s, before the impact of the global financial crisis, Japan's economic recovery trend was largely driven by its strong net exports, which accounted for 5.59% of Japan's total GDP in 2013. However, due to the country's top trading partners' sluggish economic situation namely the United States and the EU's, Japan's economy experienced a negative growth rates in 2011 by -0.45%. While Japan's economy experienced a positive real GDP growth rate in 2012 and 2013, the country experienced another economic contraction partly due to the negative contribution of consumption caused by an increased consumption tax.

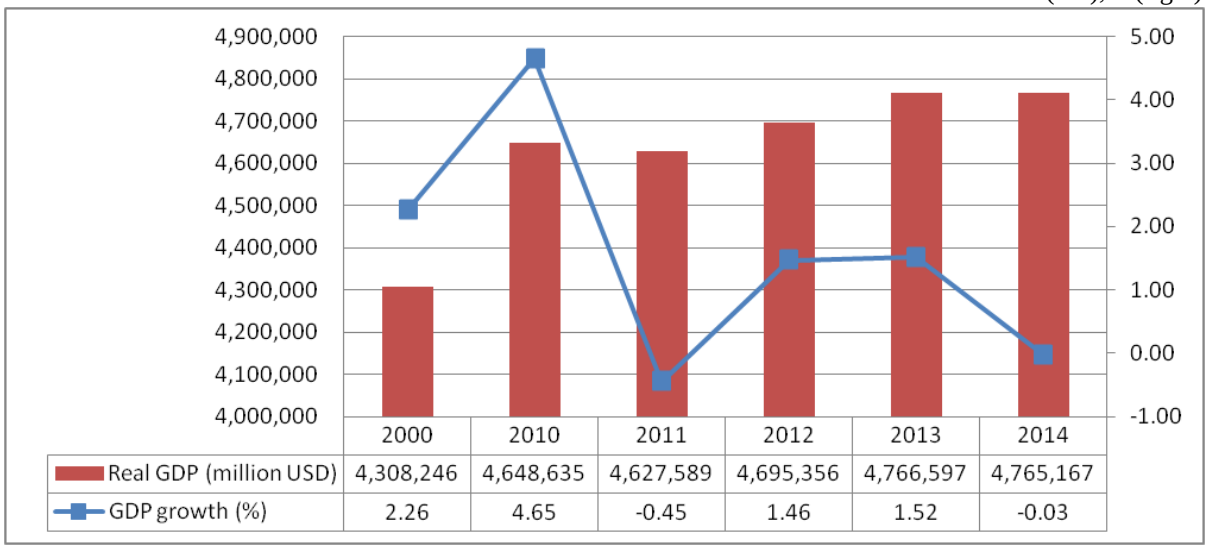
Japanese economy has long been facing structural problems with its decreasing and aging population trend, low domestic demand and its economic contraction.[7] Aiming to secure an average annual growth rate around 2.00%, Japan has initiated the Japan Revitalization Strategy (first initiated in 2013, revised in 2014) at all levels of government

[7] Japan's population growth rate started showing a decreasing trend from 2009 and recorded -0.16% in 2014 (World Bank).

and industry to boost the nation's labor and capital productivity growth.[8] The strategy includes the following three plans: the industry revitalization plan, the strategic market creation plan and the strategy of global outreach, which is expected to boost the supply side of the economy and support the nation's information industry, in particular.

Figure 7.1 Trend of Japan's GDP and GDP growth

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
Real GDP (million USD)	4,308,246	4,648,635	4,627,589	4,695,356	4,766,597	4,765,167
GDP growth (%)	2.26	4.65	-0.45	1.46	1.52	-0.03

Source: UNCTAD (2015.11.30)

7.2. Trade

Japan is one of the largest trading countries in the world, the fourth largest in the world. However, trade does not account for a significant share in Japanese economy, consisting only 35.1% of Japan's total GDP in 2013(World Bank); however, it has been the new driving force of Japan's economic growth in the 2000s. Japan's share of world trade has shown a decreasing trend. Japan's export share decreased from 7.67% in 2000 to 3.81% in 2014, and

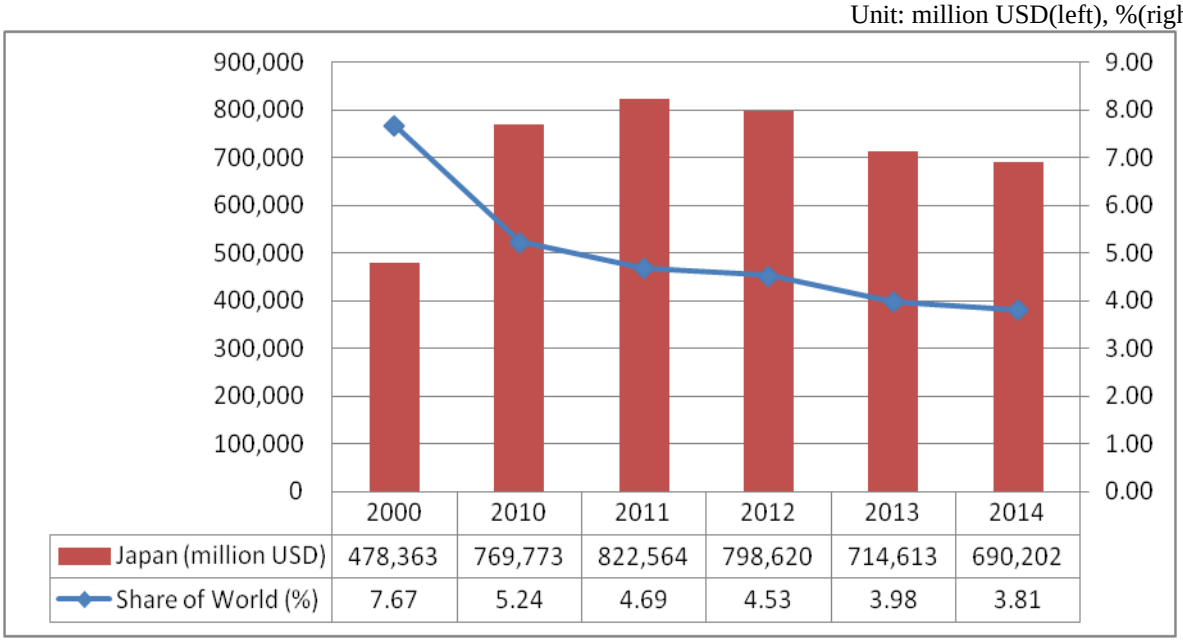
[8] Japan Revitalization Strategy. 2014.

the country's export continued to decrease for three consecutive years from $ 799 billion in 2012 to $690 billion in 2014. The country's imports also showed a decreasing trend during the same period from $886 billion to $812 billion. However, the country's world import share was robust from 2.49% to 2.83% during the same period.

Japan's top export and import partners did not change significantly for the past decade. The country's top 5 export partners remained the same, the United States, China, Korea, Taiwan, and Hong Kong. Russia was the 17th largest exporting destination and the 10th largest importing source for Japan. China was the second largest export destination and the largest import source; and Korea was the third largest export destination and the seventh largest import source. Japan's trade relationship with Mongolia is not significant in values and share. However, Japan and Mongolia has signed an EPA in February 2015. The EPA between the two countries is expected to enhance the economic cooperation between the two countries in the infrastructure construction, engineering, and mining sectors. In part of the strategy of global outreach plan within the revitalization strategy, Japan is actively pursuing FTAs with large trading partners, which includes China-Japan-Korea FTA, RCEP, TPP and Japan-EU FTA. Japan is also initiating an active SME support policy targeted towards the Asian markets and the Cool Japan initiative, Japan as an attempt to spur economic growth.

Figure 7.2 Trend of Japan's Export (FOB)

Unit: million USD(left), %(right)

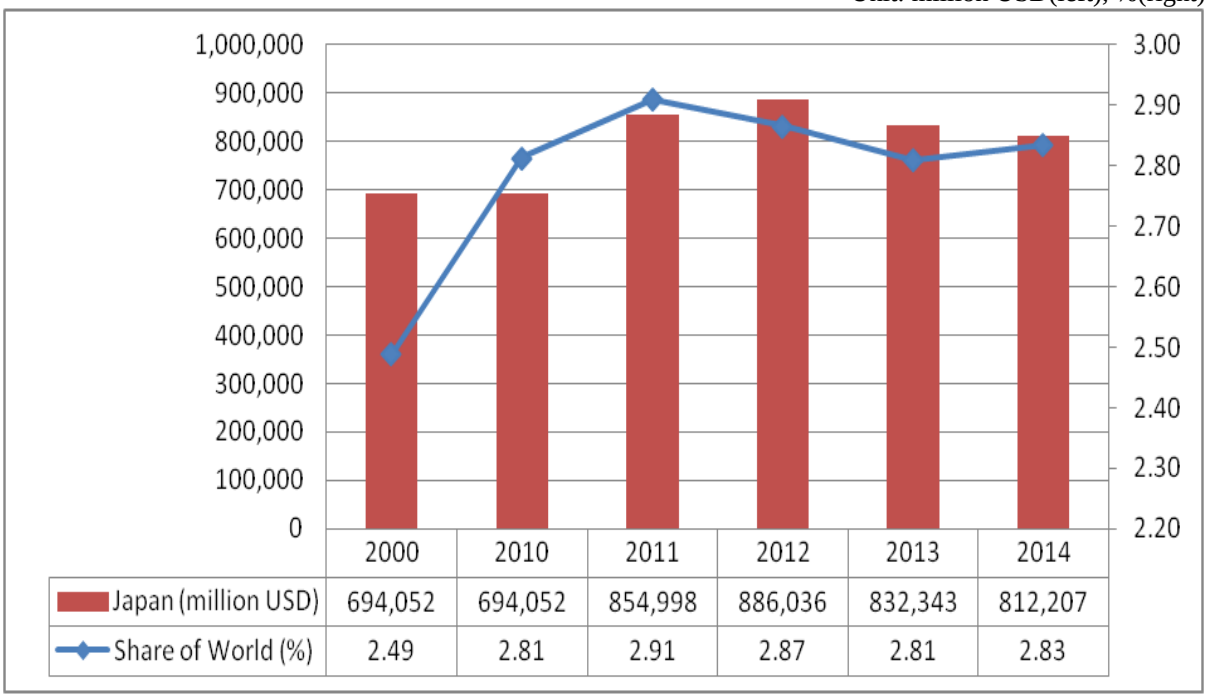


	2000	2010	2011	2012	2013	2014
Japan (million USD)	478,363	769,773	822,564	798,620	714,613	690,202
Share of World (%)	7.67	5.24	4.69	4.53	3.98	3.81

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

Figure 7.3 Trend of Japan's Import (CIF)

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
Japan (million USD)	694,052	694,052	854,998	886,036	832,343	812,207
Share of World (%)	2.49	2.81	2.91	2.87	2.81	2.83

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

Table 7.1 Top Export Partners of Japan

	2000	2010	2011	2012	2013	2014
1	USA	China	China	China	USA	USA
2	Taiwan	USA	USA	USA	China	China
3	Korea	Korea	Korea	Korea	Korea	Korea
4	China	Taiwan	Taiwan	Taiwan	Taiwan	Taiwan
5	Hong Kong	Hong Kong	Hong Kong	Thailand	Hong Kong	Hong Kong
6	Thailand	Thailand	Thailand	Hong Kong	Thailand	Thailand
7	Singapore	Singapore	Singapore	Singapore	Singapore	Singapore
8	Germany	Germany	Germany	Germany	Germany	Germany
9	Malaysia	Malaysia	Malaysia	Indonesia	Indonesia	Indonesia
10	Netherlands	Netherlands	Netherlands	Australia	Australia	Australia

Source: IMF.2015.Direction of Trade Statistics

Table 7.2 Top Import Partners of Japan

	2000	2010	2011	2012	2013	2014
1	USA	China	China	China	China	China
2	China	USA	USA	USA	USA	USA
3	Korea	Australia	Australia	Australia	Australia	Australia
4	Taiwan	Saudi Arabia	Saudi Arabia	Saudi Arabia	Saudi Arabia	Saudi Arabia
5	Indonesia	UAE	UAE	UAE	UAE	UAE
6	UAE	Korea	Korea	Korea	Qatar	Qatar
7	Australia	Indonesia	Indonesia	Indonesia	Korea	Korea
8	Malaysia	Taiwan	Malaysia	Malaysia	Malaysia	Malaysia
9	Saudi Arabia	Malaysia	Qatar	Qatar	Indonesia	Indonesia
10	Germany	Qatar	Thailand	Thailand	Germany	Russia

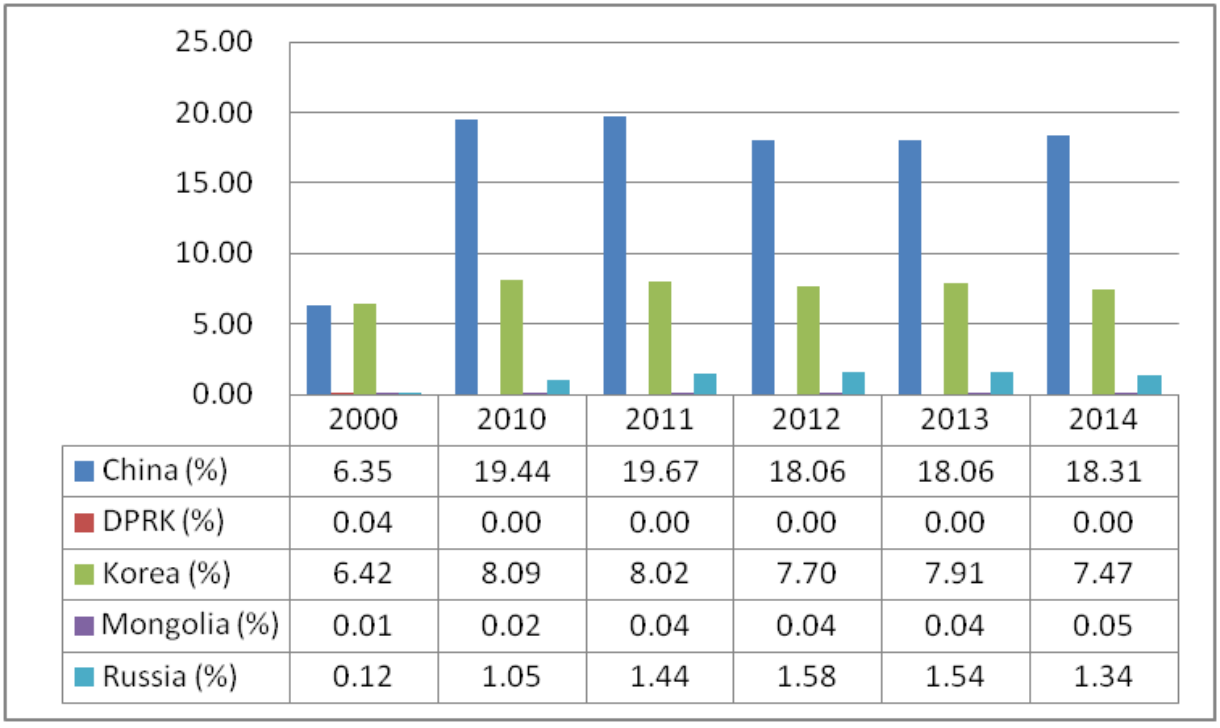
Source: IMF.2015.Direction of Trade Statistics

As for sectoral distribution, there were no significant change in the major export and import sectors but the distribution has diversified in both import and export from 2000 to

2014. In 2014, Japan's top export sector were the Machinery and transport equipment sector accounting for 58% of Japan's total export followed by Manufactured goods(13%), and Chemicals(10%). Whereas, the top three export sectors in 2000 were Machinery and transport equipment sector (69%), Manufactured goods(10%) and Miscellaneous manufactured articles(9%). The diversification trend was clearer in Japan's import change. Mineral fuels accounted for a total 32% and became the top import sector of Japan while it was machinery and transport equipment in 2000 with 28%. In 2014, the major import sector of Japan included machinery and transport equipment (24%), and manufactured articles(12%) sectors in 2014.

Figure 7.4 Trend of Japan's Export to GTR countries

unit: %

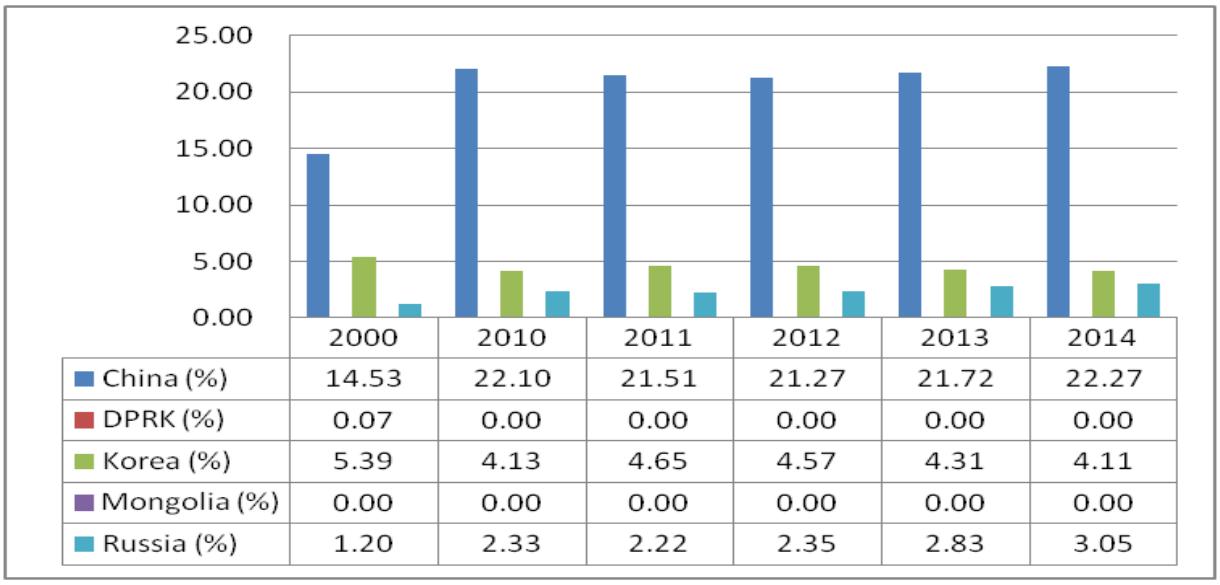


	2000	2010	2011	2012	2013	2014
China (%)	6.35	19.44	19.67	18.06	18.06	18.31
DPRK (%)	0.04	0.00	0.00	0.00	0.00	0.00
Korea (%)	6.42	8.09	8.02	7.70	7.91	7.47
Mongolia (%)	0.01	0.02	0.04	0.04	0.04	0.05
Russia (%)	0.12	1.05	1.44	1.58	1.54	1.34

Source: IMF.2015.Direction of Trade Statistics(2015.11.23).

Figure 7.5 Trend of Japan's Import to GTR countries

unit: %

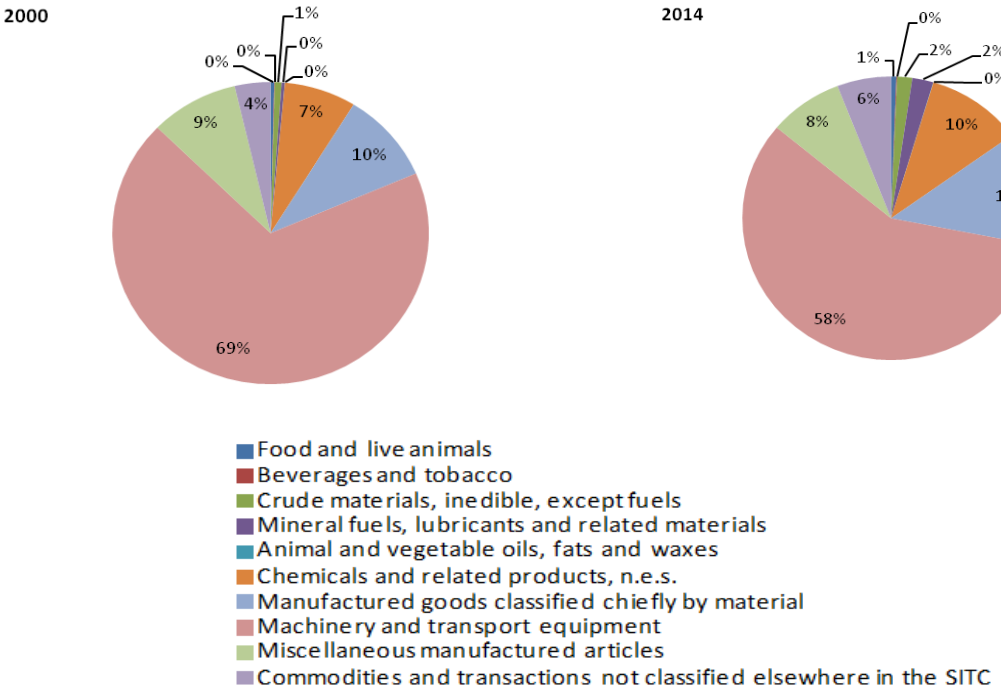


	2000	2010	2011	2012	2013	2014
China (%)	14.53	22.10	21.51	21.27	21.72	22.27
DPRK (%)	0.07	0.00	0.00	0.00	0.00	0.00
Korea (%)	5.39	4.13	4.65	4.57	4.31	4.11
Mongolia (%)	0.00	0.00	0.00	0.00	0.00	0.00
Russia (%)	1.20	2.33	2.22	2.35	2.83	3.05

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

Figure 7.6 Export Structure of Japan

unit: %

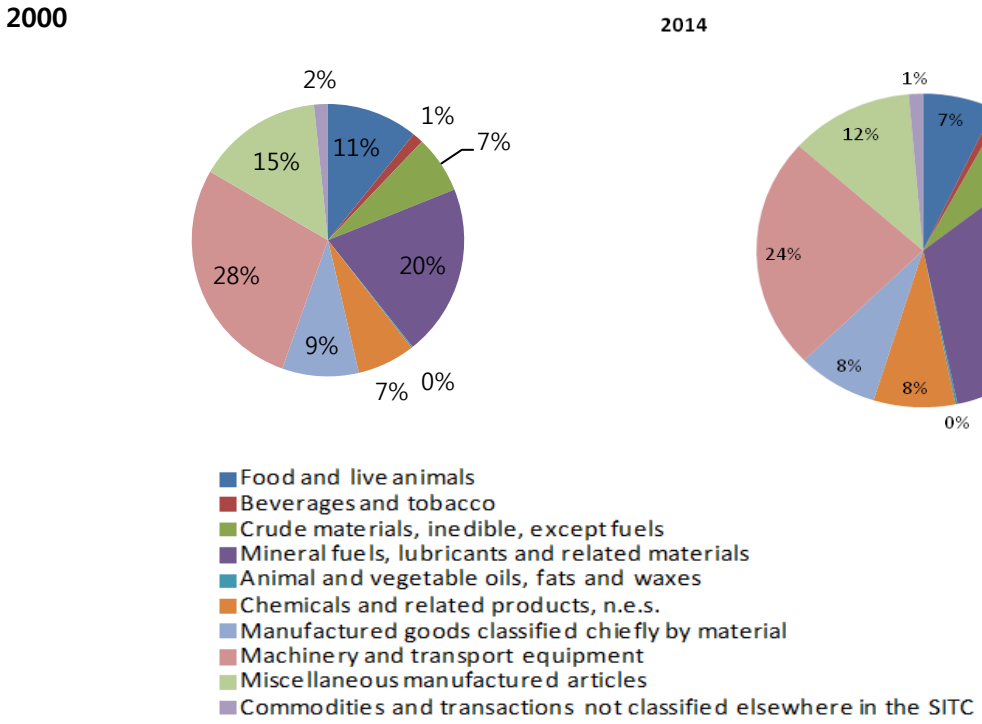


Note: Commodities of SITC, Rev.3

Source: United Nations Commodity Trade Statistics Database (UN Comtrade). (2015.11.23)

Figure 7.7 Import Structure of Japan

unit: %



Note: Commodities of SITC, Rev.3
Source: United Nations Commodity Trade Statistics Database (UN Comtrade). (2015.11.23)

7.3 Foreign Direct Investment

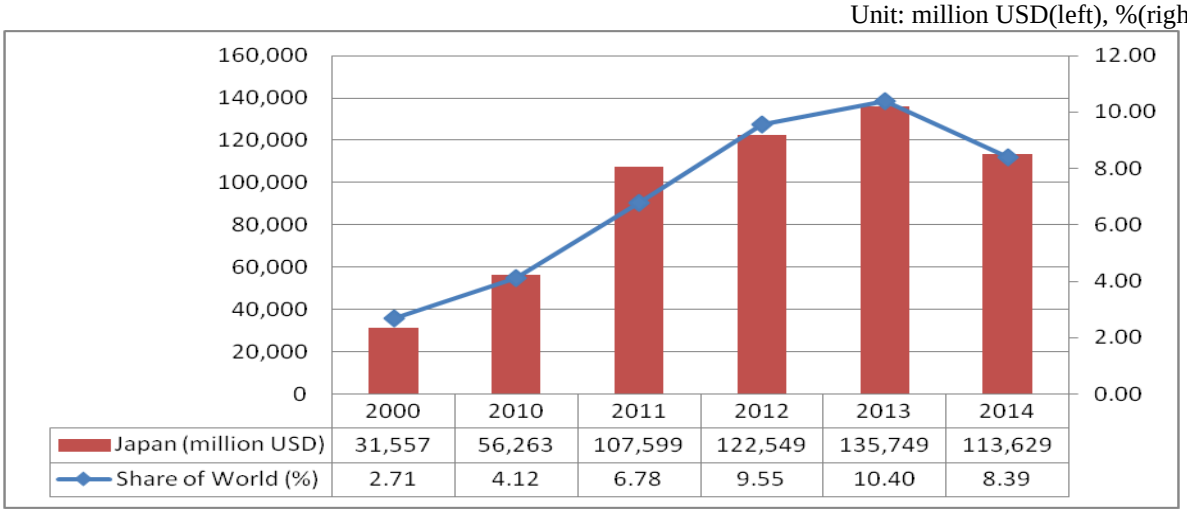
Japan's position in the world total investment is much smaller relative to trade. In terms of flow, Japan's inward FDI only accounts for 0.17% in world's total inward FDI flow in 2014 with only $2 billion. United States ranked as the top investor to Japan in 2014. Other important country partners included Hong Kong, Singapore, Taiwan and Luxembourg. Under the Japan Revitalization Strategy of 2014, Japan has set a target to double the outstanding amount of FDI in Japan to 35 trillion JPY by 2020 and willing to reduce the tax and administrative costs, simplifying licensing and approval systems to promote IFDI.

Japan's outward FDI's share in world total OFDI is much bigger than Japan's IFDI and

the share increased from 2.71% in 2000 to 8.39% in 2014. Japan's top OFDI's major destination is the United States, followed by the UK, Singapore, China, and Thailand in 2014. Korea ranked the 10th largest destination of Japan. As for sectoral distribution, manufacturing sectors represented 47.8% of Japan's total outward FDI and food accounted for the largest share in manufacturing with a 16.1% share followed by transportation equipment (7.5%).

Figure 7.8 Trend of Japan's Outward FDI

Unit: million USD(left), %(right)

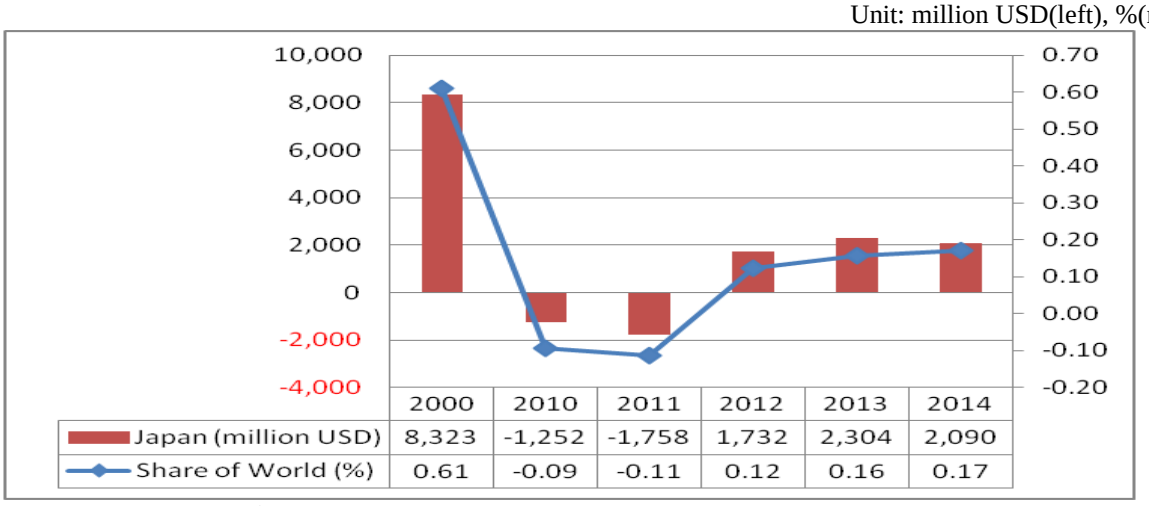


	2000	2010	2011	2012	2013	2014
Japan (million USD)	31,557	56,263	107,599	122,549	135,749	113,629
Share of World (%)	2.71	4.12	6.78	9.55	10.40	8.39

Source: United Nations Conference on Trade and Development Statistics Database (UNCTAD). (2015.11.26)

Figure 7.9 Trend of Japan's Inward FDI

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
Japan (million USD)	8,323	-1,252	-1,758	1,732	2,304	2,090
Share of World (%)	0.61	-0.09	-0.11	0.12	0.16	0.17

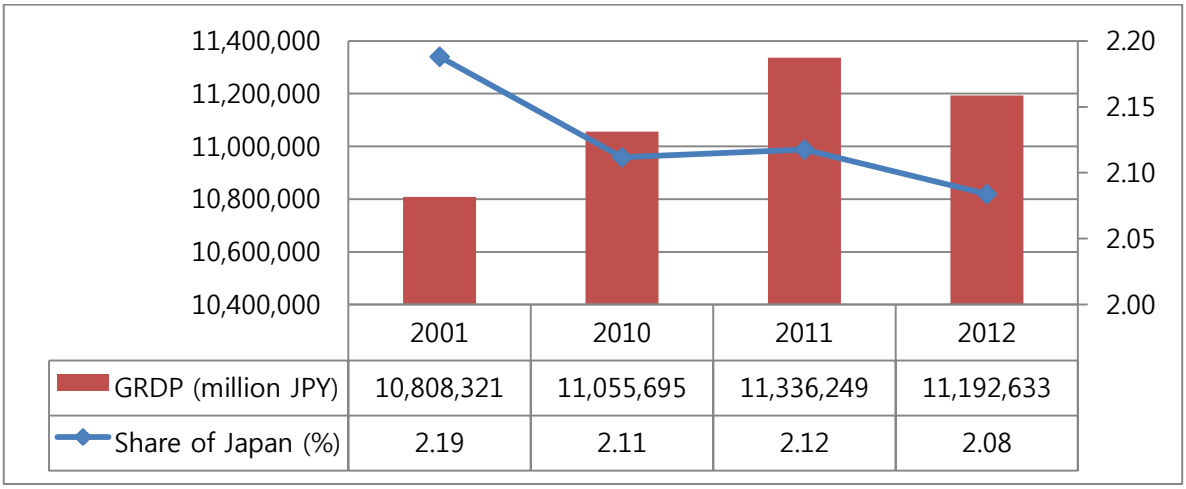
Source: United Nations Conference on Trade and Development Statistics Database (UNCTAD). (2015.11.26)

7.4 Regional Level Statistics

Japan consists of 47 prefectures, and while the Japanese government remains as an observer of the GTI, Niigata and Tottori prefectures are participating at the GTI local cooperation committee. Niigata ranks the fifth largest prefecture while Tottori ranks the 41th largest in Japan in terms of estimated areas, and both prefectures, in total, accounted for 2.08% of Japan's total GDP in 2012. As for the prefectures' GRDP growth rate, Niigata showed a similar, upper trend with the Japanese GDP growth rate trend except for the year 2012, whereas Tottori prefecture's growth rate showed a constant lower level growth rate compared to the nation's total GDP growth rate.

As for Japan GTR's export and import trend to the GTR countries, most trade activities were from the Niigata prefecture. Its export share to the GTR countries showed an increasing trend from 40.98% in 2000 to 49.7% in 2014. However, the share has slightly decreased in recent years due to a decreased exports share of Russia. Meanwhile, the import share has slightly decreased from 33.89% to 31.54%.

Figure 7.10 Trend of Japan GTRs' GRDP



	2001	2010	2011	2012
GRDP (million JPY)	10,808,321	11,055,695	11,336,249	11,192,633
Share of Japan (%)	2.19	2.11	2.12	2.08

Source: Cabinet Office, Government of Japan. http://www.esri.cao.go.jp/jp/sna/data/data_list/kenmin/files/contents/main_h24.html

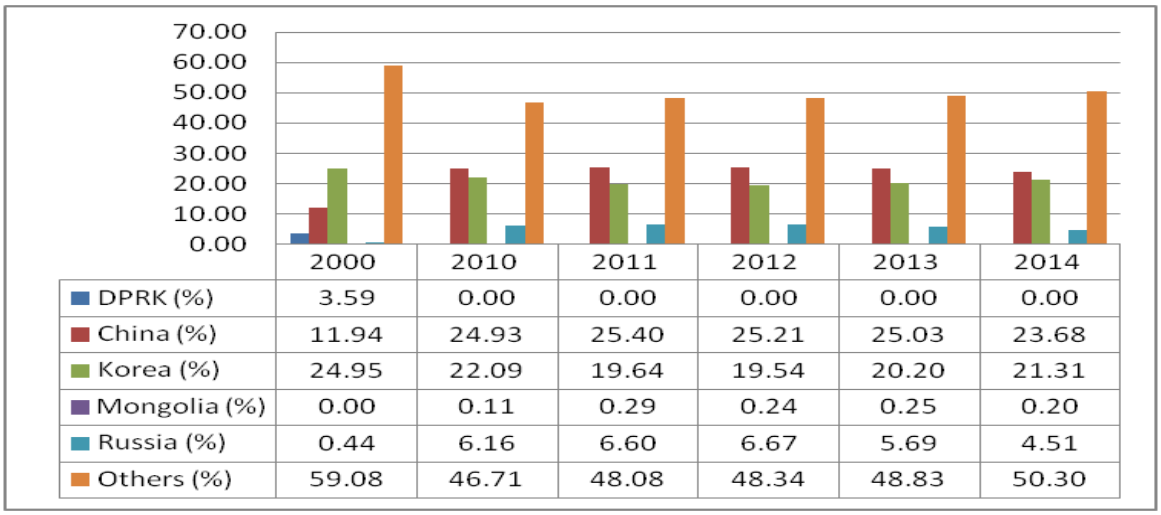
Table 7.3 Japan GTR's GDP Growth Rate

	2002	2008	2009	2010	2011	2012
Niigata	0.18	-3.05	-3.14	3.32	2.82	-1.41
Tottori	-2.23	-3.34	-3.42	-1.45	1.21	-0.59
Japan	0.71	-2.84	-4.08	2.65	2.25	0.33

Source: Cabinet Office, Government of Japan. http://www.esri.cao.go.jp/jp/sna/data/data_list/kenmin/files/contents/main_h24.html

Figure 7.11 Trend of Japan GTRs Export to GTR countries

unit: %

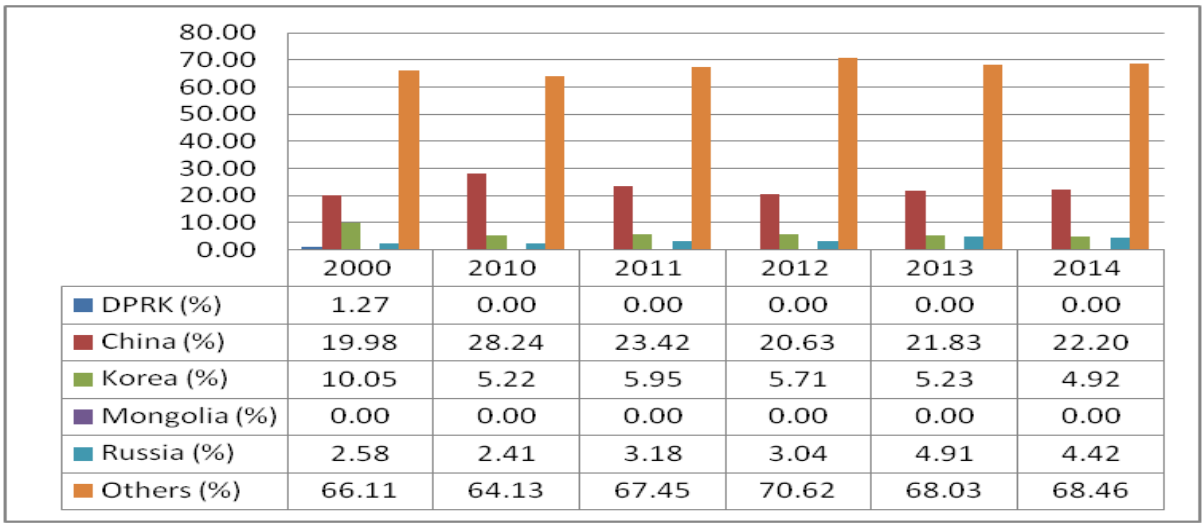


	2000	2010	2011	2012	2013	2014
DPRK (%)	3.59	0.00	0.00	0.00	0.00	0.00
China (%)	11.94	24.93	25.40	25.21	25.03	23.68
Korea (%)	24.95	22.09	19.64	19.54	20.20	21.31
Mongolia (%)	0.00	0.11	0.29	0.24	0.25	0.20
Russia (%)	0.44	6.16	6.60	6.67	5.69	4.51
Others (%)	59.08	46.71	48.08	48.34	48.83	50.30

Source: Ministry of Finance. http://www.customs.go.jp/toukei/srch/indexe.htm (2015.11.30)
Note: Japan GTR trade statistics includes customs branches trade of Niigata, Niigata airport and Sakaiminato.

Figure 7.12 Trend of Japan GTRs Import to GTR countries

unit: %



	2000	2010	2011	2012	2013	2014
DPRK (%)	1.27	0.00	0.00	0.00	0.00	0.00
China (%)	19.98	28.24	23.42	20.63	21.83	22.20
Korea (%)	10.05	5.22	5.95	5.71	5.23	4.92
Mongolia (%)	0.00	0.00	0.00	0.00	0.00	0.00
Russia (%)	2.58	2.41	3.18	3.04	4.91	4.42
Others (%)	66.11	64.13	67.45	70.62	68.03	68.46

Source: Ministry of Finance. http://www.customs.go.jp/toukei/srch/indexe.htm (2015.11.30)
Note: Japan GTR trade statistics includes customs branches trade of Niigata, Niigata airport and Sakaiminato.

8. Democratic People's Republic of KOREA

8.1 Economic Overview

DPRK was one of the founding members of GTI. Before withdrawing from the GTI in 2009, Rajin-Sonbong and Chungjin regions were included in GTR. DPRK is known as the world's most centrally planned, closed economy. Although the DPRK government advocates self-reliant development strategy, its economy is significantly dependent on international aids and trade with China. The country also suffers from shortage of power production and social infrastructure.

In 2000s, the trend of DPRK's economic growth was barely positive except for 2010. The negative GDP growth in 2010 is possibly because of the aftereffects of monetary reform in 2009 and the 5.24 measure in 2010. To tackle hyperinflation and market activities, DPRK implemented monetary reform by introducing new currency in 2009. But it was failed with continuous hyper-inflation, declining in real wage and accelerating dollarization. The 5.24 measure prohibits new investments in the DPRK and bans trade between the two Koreas except for the Gaeseong Industrial Complex. In 2011, however, the GDP growth bounced back to positive numbers but still remain as low as 1% growth.

As for the DPRK's industrial structure, mining and manufacturing dominates the economy, contributing about 34.4% to the national economy, followed by the service sector and agriculture contributing 31.3% and 21.8% respectively. Other industries, such as power, gas production and water supply (4.3%), Construction (8.2%) consist less than 10% of the economy (BOK, 2014).

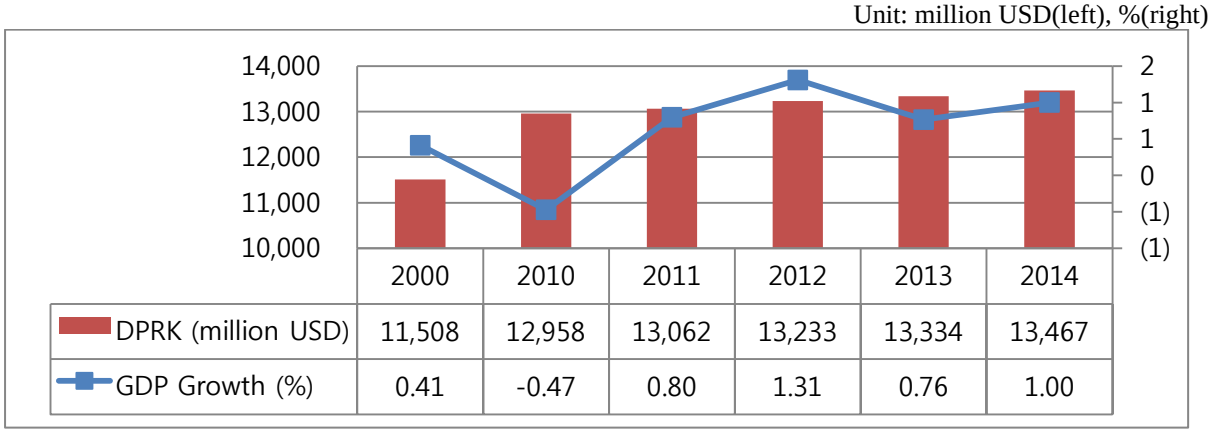
DPRK has been attempting to gradually introduce marketization in the country. Most

recently, in 2012, the DPRK presented the 'New Economic Management Improvement Measure (6.28 policy and 5.30 measures)'. As the result of the implementation of the measure, planning mechanism in production process has been downscaled and some of market mechanism is adopted. Also, in 2013, series of special economic zones has been expanded all over the country to attract foreign investment. Development of SEZs has accelerated at the central government level, while new economic development zones are being established in large numbers at the provincial level.

Tough sanctions have been repeatedly imposed against the DPRK in response to the country's nuclear experiments and military threats. In addition to UN sanctions, individual countries including neighbor countries such as Korea and Japan also implemented economic sanctions on DPRK. For instance, ROK has implemented 5.24 measures which prevents all inter-Korean trade in response to the Cheonan sinking incident. The situation of North Korea's isolation from the international community is expected to be worsened.

Figure 8.1 Trend of DPRK's GDP and GDP growth

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
DPRK (million USD)	11,508	12,958	13,062	13,233	13,334	13,467
GDP Growth (%)	0.41	-0.47	0.80	1.31	0.76	1.00

Source: United Nations Conference on Trade and Development Statistics Database (UNCTAD). (2015.11.30)

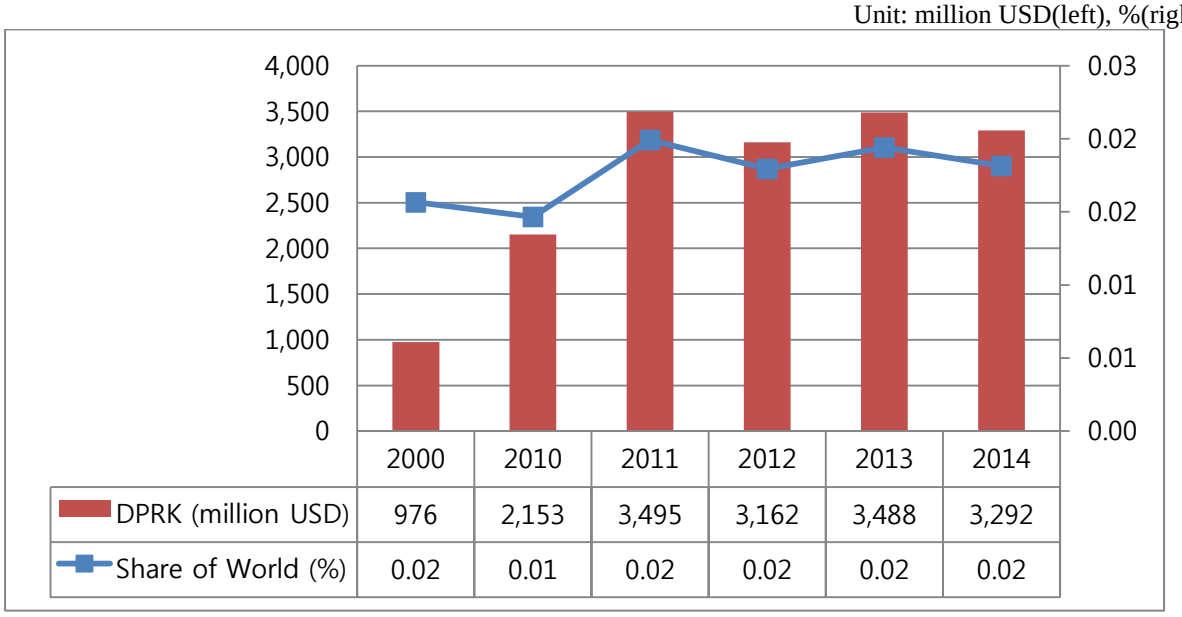
8.2 Trade

Although DPRK's international trade recovered compare to 1990s, the current trend of its

international trade is highly restricted due to the international sanctions. ROK was DPRK's second largest trading partner behind China before 5.24 measures. But because the 5.24 measures prohibit inter-Korean trade except for the Geaseong Industrial Complex, the DPRK economy has become more dependent on Chinese economy. DPRK's share of world trade accounts only 0.02% in 2014 and there were virtually no changes during a decade. The overall volume of trade has decreased from 8,696 million dollars in 2013 to 8,174 million dollars in 2014. The country's export has decreased from 3,488 million dollars in 2013 to 3,292 million dollars in 2014. The country's import is also dropped 5,208 million dollars in 2013 to 4,882 million dollars in 2014.

Figure 8.2 Trend of DPRK's Export (FOB)

Unit: million USD(left), %(right)

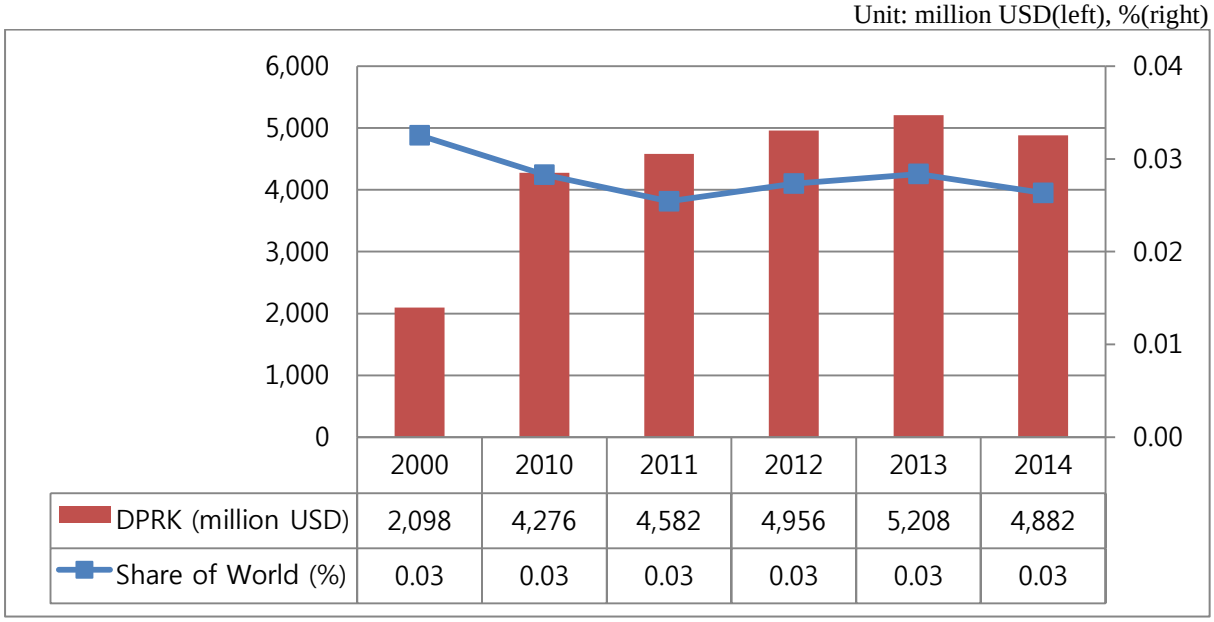


	2000	2010	2011	2012	2013	2014
DPRK (million USD)	976	2,153	3,495	3,162	3,488	3,292
Share of World (%)	0.02	0.01	0.02	0.02	0.02	0.02

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

Figure 8.3 Trend of DPRK's Import (CIF)

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
DPRK (million USD)	2,098	4,276	4,582	4,956	5,208	4,882
Share of World (%)	0.03	0.03	0.03	0.03	0.03	0.03

Source: IMF.2015.Direction of Trade Statistics(2015.11.23).

As for trade, China has constantly occupied the largest share for DPRK's trade during the last decade. China is the largest trade partner of DPRK with 78.5% share of its international trade. The share of DPRK's exports to other countries is fairly low with 21% share of DPRK's international trade. Japan was an important trade partner for DPRK in 2000. But the trade between DPRK and Japan has been banned due to abduction of Japanese citizens, nuclear program and international sanctions. The amount of trade between DPRK and Russia accounts only a small share (0.28% in export, 1.85% in import) of the country's international trade.

Table 8.1 Top Export Partners of DPRK

	2000	2010	2011	2012	2013	2014
1	Japan	China	China	China	China	China
2	Brazil	India	Sri Lanka	India	Netherlands	India
3	Costa Rica	Brazil	Dominican Republic	Saudi Arabia	Saudi Arabia	Saudi Arabia
4	Bangladesh	Dominican Republic	Netherlands	Myanmar	Myanmar	Myanmar
5	Spain	Netherlands	Saudi Arabia	Indonesia	India	Ghana
6	Saudi Arabia	Saudi Arabia	Myanmar	Brazil	Brazil	Bangladesh
7	Hong Kong	Myanmar	Brazil	Ghana	Ghana	Taiwan
8	China	Egypt	Bangladesh	Sri Lanka	Taiwan	Brazil
9	Lebanon	Vnezuela	Ghana	Taiwan	Venezuela	Thailand
10	Germany	Ghana	Paraguay	Guyana	Bangladesh	Venezuela

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

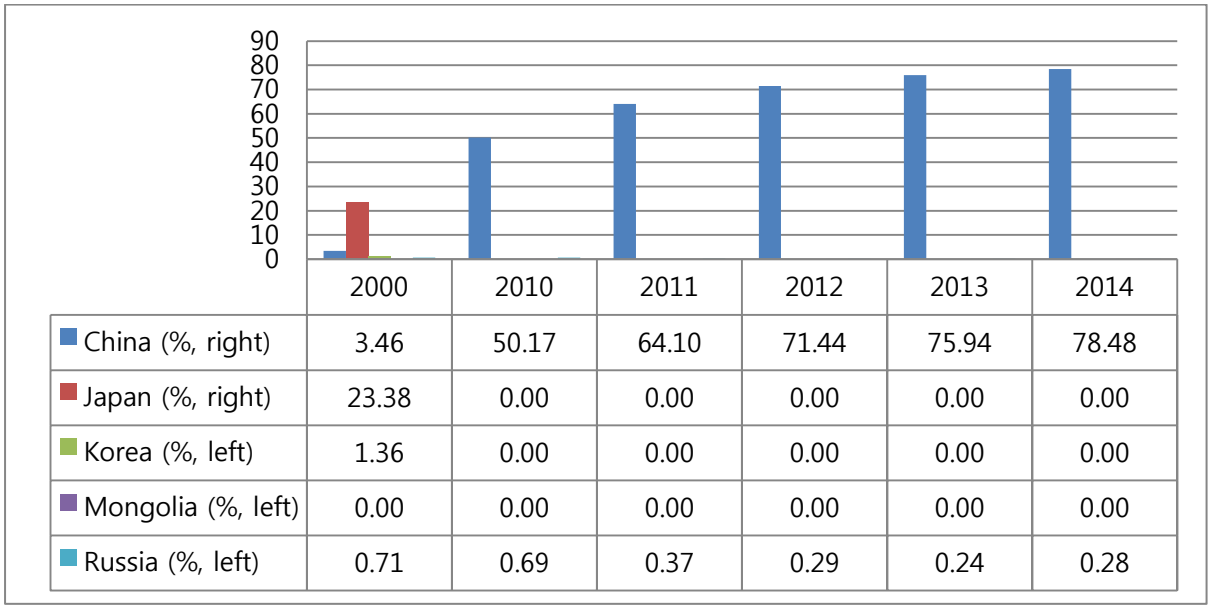
Table 8.2 Top Import Partners of DPRK

	2000	2010	2011	2012	2013	2014
1	China	China	China	China	China	China
2	Japan	India	Congo	India	India	Congo
3	Thailand	Egypt	India	Congo	Congo	Thailand
4	Congo	South Africa	Russia	Saudi Arabia	Russia	Saudi Arabia
5	India	Congo	Saudi Arabia	Myanmar	Saudi Arabia	Russia
6	Brazil	Saudi Arabia	Myanmar	Russia	Thailand	India
7	Algeria	Myanmar	South Africa	Hong Kong	Myanmar	Myanmar
8	Qatar	Singapore	Sri Lanka	Qatar	Singapore	Singapore
9	Hong Kong	Russia	Peru	Singapore	Honduras	Philippines
10	Germany	Italy	Italy	Thailand	Ukraine	USA

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

Figure 8.4 Trend of DPRK's Export to GTR countries

unit: %

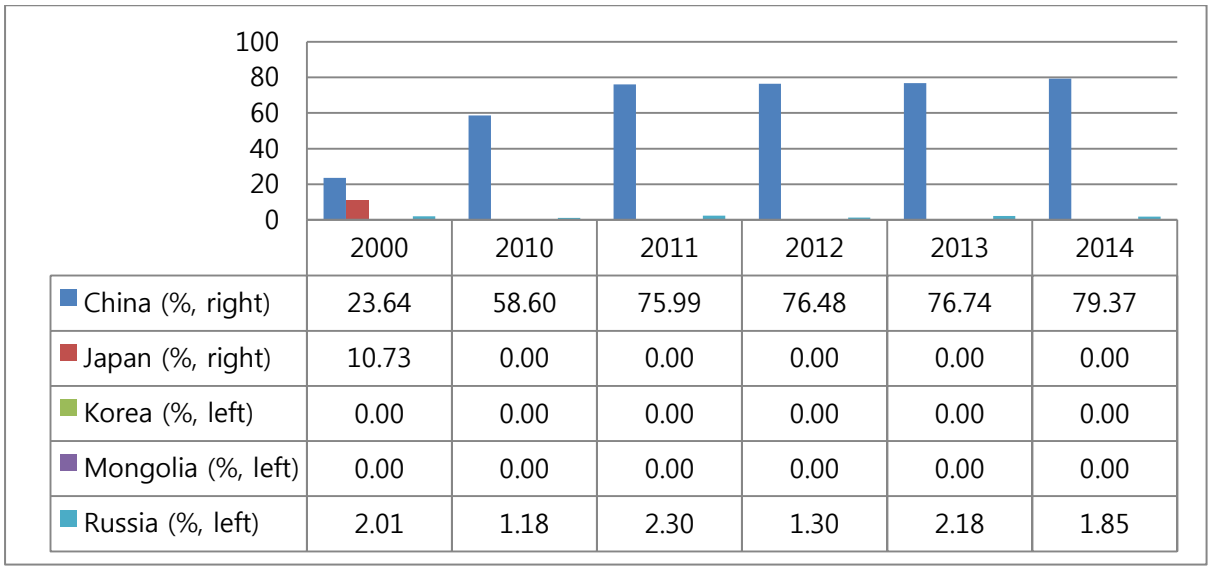


	2000	2010	2011	2012	2013	2014
China (%, right)	3.46	50.17	64.10	71.44	75.94	78.48
Japan (%, right)	23.38	0.00	0.00	0.00	0.00	0.00
Korea (%, left)	1.36	0.00	0.00	0.00	0.00	0.00
Mongolia (%, left)	0.00	0.00	0.00	0.00	0.00	0.00
Russia (%, left)	0.71	0.69	0.37	0.29	0.24	0.28

Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

Figure 8.5 Trend of DPRK's Import to GTR countries

unit: %



	2000	2010	2011	2012	2013	2014
China (%, right)	23.64	58.60	75.99	76.48	76.74	79.37
Japan (%, right)	10.73	0.00	0.00	0.00	0.00	0.00
Korea (%, left)	0.00	0.00	0.00	0.00	0.00	0.00
Mongolia (%, left)	0.00	0.00	0.00	0.00	0.00	0.00
Russia (%, left)	2.01	1.18	2.30	1.30	2.18	1.85

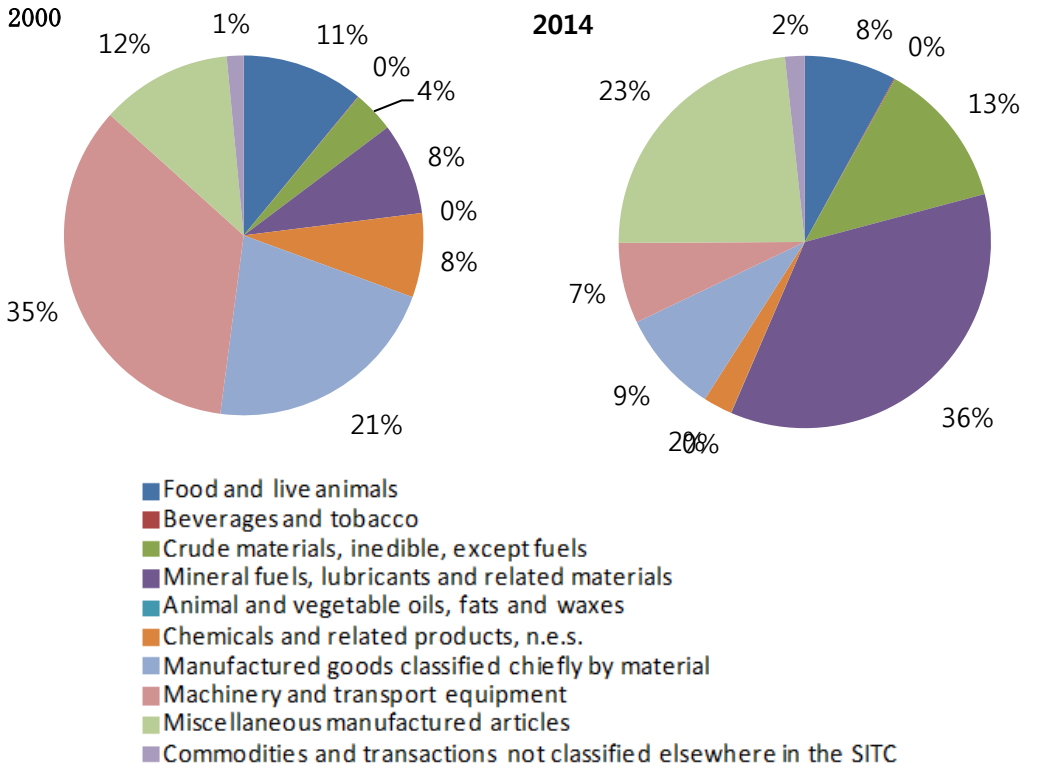
Source: IMF.2015.Direction of Trade Statistics (2015.11.23).

As for sectoral distribution, the export structure of DPRK has significantly changed during 2000-2014. In 2010, DPRK's top three products of export were Beverages and tobacco (35%), manufactured goods classified chiefly by material (21%) and miscellaneous

manufactured articles (12%). But the share of Beverages and tobacco and manufactured goods classified chiefly by material has decreased, while that of miscellaneous manufactured articles has increased. In 2014, DPRK's top three products of export are mineral fuels, lubricants and related materials (36%), Miscellaneous manufactured articles (23%) and crude materials, inedible, except fuels (13%). It reflects the increasing demand of China for those products.

Figure 8.6 Export Structure of DPRK

unit: %



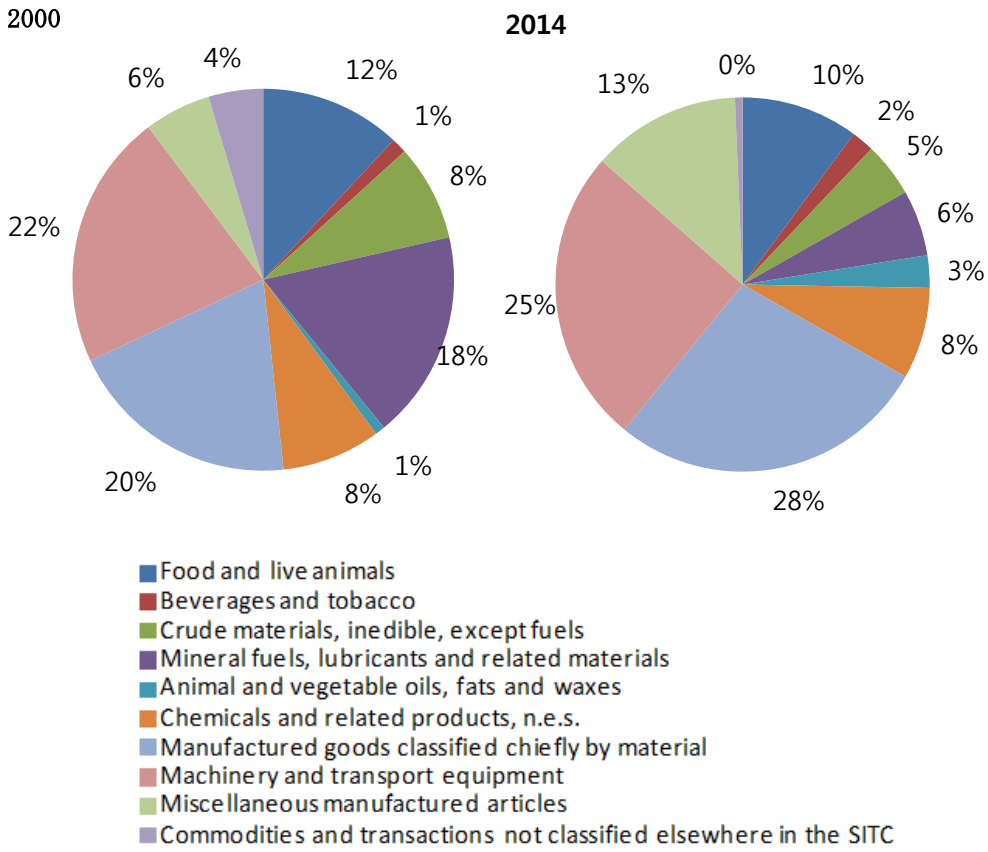
Note: Commodities of SITC, Rev.3
Source: United Nations Commodity Trade Statistics Database (UN Comtrade). (2015.11.23)

Meanwhile, the DPRK's import has experienced structural changes in the top ranking products. In 2000, the top three products of import were machinery and transport equipment

(22%), manufactured goods classified chiefly by material (20%) and mineral fuels, lubricants and related materials (13%). However, in 2014, the share of mineral fuels, lubricants and related materials has decreased by 12%p, the share of machinery and transport equipment has increased with 3%p, and manufactured goods classified chiefly by material has also increased with 8%p.

Figure 8.7 Import Structure of DPRK

unit: %



Note: Commodities of SITC, Rev.3
Source: United Nations Commodity Trade Statistics Database (UN Comtrade). (2015.11.23)

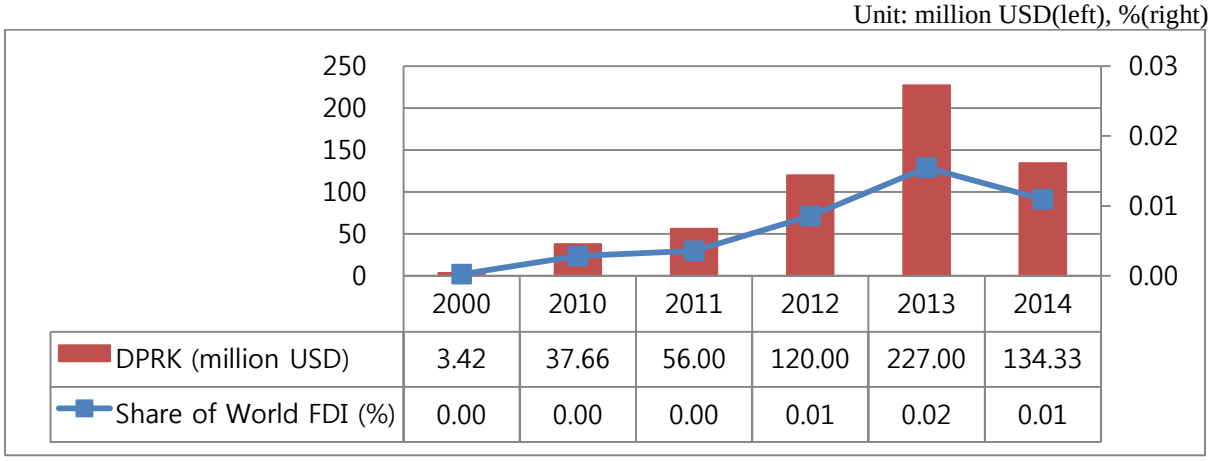
8.3 Foreign Direct Investment

In DPRK, foreign investment is tightly controlled by the centralized state. Only limited foreign participation is allowed in the economy through special economic zones and FDI is approved on a case by case basis. In 2013, 13 numbers of economic development zones were established all over the country. Now, there are 5 special economic zones (Rajin-Sunbong, Sinuiju, Hwanggeumyeong/ Wiwha Islands Mt.Kumkang, and the Gaeseong) and 19 economic development zones. In recent years, DPRK is trying to improve its investment environment by revising foreign investment law and enacting an economic development zone law. In the series of the law, the country emphasizes that the property rights will be assured by the state and that incentives will be provided to investors who invest in infrastructures

According to UNCTAD statistics, DPRK's IFDI has increasing trend from 2000 to 2013. But it is decreased from 227 million dollars in 2013 to 134.33 million dollars in 2014. It means that, despite of their strong effort to attract FDI, the country is still struggling with attracting foreign investment.

Figure 8.8 FDI trends of DPRK(Inward)

Unit: million USD(left), %(right)

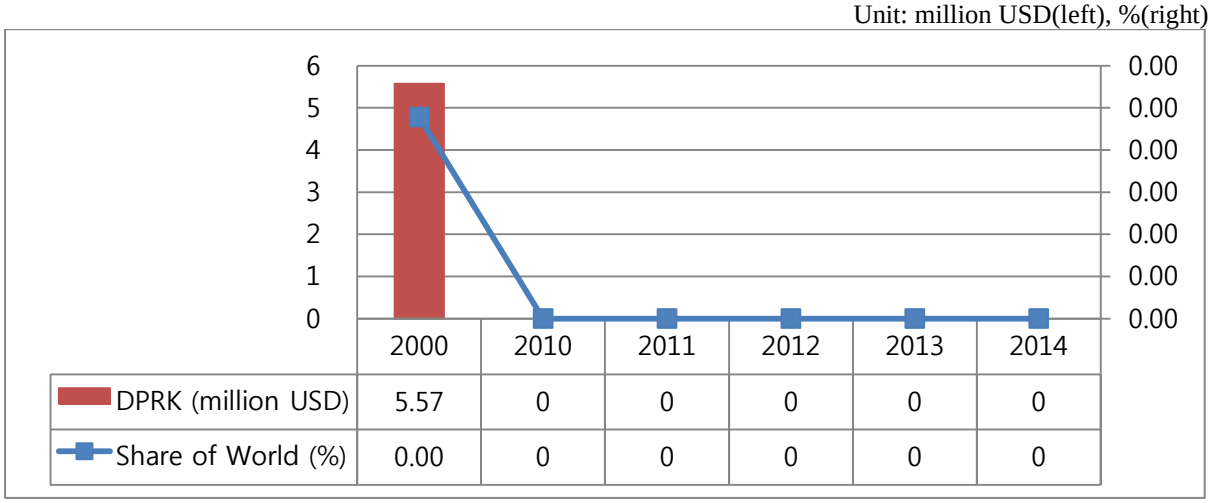


	2000	2010	2011	2012	2013	2014
DPRK (million USD)	3.42	37.66	56.00	120.00	227.00	134.33
Share of World FDI (%)	0.00	0.00	0.00	0.01	0.02	0.01

Source: United Nations Conference on Trade and Development Statistics Database (UNCTAD). (2015.11.26)

Figure 8.9 FDI trends of DPRK(Outward)

Unit: million USD(left), %(right)



	2000	2010	2011	2012	2013	2014
DPRK (million USD)	5.57	0	0	0	0	0
Share of World (%)	0.00	0	0	0	0	0

Source: United Nations Conference on Trade and Development Statistics Database (UNCTAD). (2015.11.26)

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