

# *The East by West Trade Corridor: Myth and Reality*

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In the mid-1990s, Washington State port officials became interested in establishing an East by West Trade Corridor (EWTC) to promote US transit trade via Russian Far East ports to China's Heilongjiang and Jilin provinces. The concept of the EWTC has a long history. In fact, interest in projects to involve US shippers with Russian-Chinese trade dates back to the mid-nineteenth century. In 1857, an American merchant named Bernard Peyton sailed from San Francisco to St. Petersburg and then made his way to Irkutsk where he approached Governor-General Murav'ev-Amurskii about creating a monopoly over Sino-Russian trade along the Amur River.<sup>1</sup> Although this plan was never realized, many American shippers who had come to California to make their fortune during the Gold Rush soon followed Peyton in seeking out new opportunities for commerce in Russia's Far East.

The EWTC under discussion today is a more recent example of a proposal to enhance trade and shipping ties between the US West Coast, the Russian Far East, and the Chinese Northeast. Preliminary discussions began in 1997. In June 1999, for the first time Chinese delegates were invited to the annual meeting of the US West Coast-Russian Far East Ad Hoc Working Group<sup>2</sup> so that representatives from all three countries could discuss the corridor in transportation sector meetings. Officials from Washington State, Primorsky Krai, Heilongjiang and Jilin provinces signed a protocol outlining issues to be addressed in order to move forward with the EWTC. Although the signatories recognized the need to attract more cargo to the route, the protocol focused on transportation and administrative issues. For the EWTC to be successful, however, it must be viewed as a trade project and situated within the context of existing trade and transportation networks in Northeast Asia.

## Rationale for the EWTC

US West coast shippers support the EWTC to reduce the cost of trade imbalances with Russia and China and to save shipping time to China. They see the corridor as a means of accomplishing the following interrelated goals:

### **1. Compensate for the Trade Imbalance with the Russian Far East**

Prior to the August 1998 Russian financial crisis, imports of US goods to Primorsky Krai were expanding and far outpaced exports. In 1997, the peak year for US trade with the region, US exports amounted to 119

million, while US imports of products from Primorsky Krai totaled just 7.6 million.<sup>3</sup> As a consequence, US West Coast shippers were bearing the high cost of shipping empty containers home. They saw the EWTC as a means of addressing this imbalance: by continuing on to Northeast China, they could fill the containers with Chinese goods for shipment back to the US. Although the volume of US exports to Primorsky Krai fell by more than 50% in 1998 to \$60.5 million and US purchases of products from the region increased to \$18.7 million,<sup>4</sup> the imbalance persisted. Russian exports to the US via West Coast ports have been increasing since 1999, but US exports also have regained their strength and continue to outpace Russian imports.

### **2. Provide Additional Containers for US China Trade**

Because of the US trade deficit with China, there is an insufficient number of containers for exports to the US. In 1998, for example, the US imported almost \$37 billion in Chinese products, but American imports amounted to just \$17 billion. Thus, the development of the EWTC also could help resolve an imbalance in US-China trade since use of the corridor would bring in additional containers from the Russian Far East. Promoting trade between the US West Coast and the Chinese Northeast also could open up a relatively untapped market for Sino-American economic cooperation, which has tended to focus on the southern coastal areas.

### **3. Reduce Shipping Time and Costs**

US shippers also view the EWTC corridor route as an opportunity to reduce their shipping time to northern China. Because the Primorsky Krai ports of Vostochny and Vladivostok are 1500 miles closer to Puget Sound ports than Dalian, shippers from Washington State could save a week or more in sailing time by shipping goods to these Russian ports and then overland to Harbin or Changchun. Shippers from Northeastern China also would save time—cargo from Dalian takes two to five days to ship overland to Changchun and Harbin, but in principle just one day to get from Russian Far East ports across the border to Heilongjiang and Jilin provinces. According to Russian cost estimates, US shippers could save \$1000 per 20-foot container. Chinese shippers dispute these cost savings, however, and claim that unpredictable fees and delays on the Russian side actually

<sup>1</sup> Norman Saul, "An American's Siberian Dream," *The Russian Review*, Vol. 37, No. 4, October 1978, p. 419.

<sup>2</sup> The Ad Hoc Working Group was formed in December 1994 as a component of the bilateral Business Development Committee, and the former Gore-Chernomyrdin Commission, now called the Joint Commission on Economic and Technological Cooperation.

<sup>3</sup> Primorsky Kraevoi Komitet Gosudarstvennoi Statistiki, *Vneshneekonomicheskaya deiatel'nost' v Primorskom Krae, Vladivostok: Goskomstat, 1999*, p. 9.

<sup>4</sup> *Ibid.*

might make the EWTC more expensive than the Dalian route.

#### Prospects for the Realization of the EWTC

In recent years, several organizations have been evaluating the feasibility of the East by West Corridor, either as a separate trade route or within the Tumen River economic development area.<sup>5</sup> Studies of the EWTC have focused on three sets of potential obstacles:

- 1) Capacity issues: These are likely to be a problem once cargo volume increases, and would cut into time savings.
- 2) Fees and procedures: High fees may cancel out any cost savings from the new route and cumbersome border-crossing procedures may reduce any time savings.
- 3) Market: An inadequately developed market for the trade route will limit its attractiveness and make investments in infrastructure unlikely.

US proponents of the EWTC have emphasized the priority of resolving transportation and administrative bottlenecks before focusing on the marketing of the corridor route.<sup>6</sup>

However, these three sets of issues must be addressed simultaneously. In effect a vicious circle has been created. Shippers may be unwilling to try a new route if there is insufficient demand, and if time and cost savings are not clear from the beginning.

Without sufficient cargo volume, however, there is little incentive for Russian and Chinese officials to work together to lower fees and simplify procedures, which would reduce costs and delays. Moreover, if ports are under-utilized, there will be no clear rationale for additional investment in infrastructure.

#### The Myth of Trade Imbalances

The idea behind the EWTC making use of empty containers used to export US goods to the RFE, by shipping them to Northeast China where they can be refilled is based on the mistaken assumption that US demand for goods from Northeast China would be as strong as for goods produced in southern coastal areas. In reality, the current volume of trade between the US and China's northeastern provinces is extremely low.

Although US-China trade turnover was more than \$50 billion in 1998, Heilongjiang reported \$261,377,000 in trade with the US, the province's fifth ranking trade partner, after Russia, Hong Kong, South Korea, and Japan. Jilin's foreign trade with the US was even less in 1998 \$148,490,000 although the US was the province's third largest trade partner (after Japan and South Korea). Thus,

for the EWTC to succeed, it must be viewed as a long-term US-China trade project.

It will be difficult to promote exports from Heilongjiang and Jilin to Washington State in the short term due to their incompatible trade structures. These provinces are known as natural resource producers, and they typically export coal and food products to neighboring countries. Exports to the US also include small quantities of textiles, clothing, and furniture. Although there is interest in Heilongjiang and Jilin in importing US equipment and consumer goods, US rules on food imports and efforts to reduce Chinese clothing exports will constrain the expansion of existing exports from these regions to the US West Coast.

Moreover, at present there are no direct air transportation links between Harbin, Jilin, and Seattle. Since Heilongjiang and Jilin have oriented their US West coast trade to Los Angeles, trading companies would have to open offices in Seattle to pursue opportunities in the EWTC. Given the low volume of trade and absence of convenient transportation, firms have little incentive to relocate.

Nevertheless, officials in Heilongjiang and Jilin expressed interest in the EWTC for two main reasons

- 1) they are interested in achieving access to the sea; and
- 2) they are eager to develop new markets. From their perspective, they doubted that the EWTC would save them time or money due to fees and delays on the Russian side. They urged the US to send a trade mission to evaluate the existing export mix and investigate investment opportunities in new production.

Transportation issues are secondary, although they continue to present significant long-term challenges. Without an expansion of trade along the corridor route, it will be difficult to find support for the reduction of fees, resolution of procedural problems, and investment in infrastructure. If provincial officials could point to a growing volume of trade along the EWTC route, they would be in a better position to lobby Beijing to introduce preferential tariffs, lower customs fees, and make infrastructure improvements. Customs officials and transportation officials in Vladivostok make the same point with respect to Moscow's cooperation.

#### Differences in Views in Heilongjiang and Jilin Provinces

The EWTC involves two possible routes:

- 1) Harbin-Suifenhe-Vladivostok/Vostochny

<sup>5</sup> Among the studies of the EWTC are: "The East by West Corridor: A Study of the Feasibility of Transporting Traded Goods between the U.S. West Coast and Northeast China, through the Russian Far East," prepared for the Ad Hoc Working Group Transportation Sector by the Washington State China Relations Council, June 2000; TREDATA: A Transport Forecast Study, prepared by the Northeast Asia Research Center, Northeast Normal University (Changchun, PRC) on behalf of UN/DESA and Tumen Secretariat, TRADP, July 1999; "A Report on the Border-Crossing Transportation Conditions between China and Russia," prepared by the Port and Airport Bureau of the Niigata Prefectural Government, March 1998; and Yaroslav Semenikhin, "Reality and Modern World Tendencies in Transit Shipping of Chinese-American Cargoes," FEMRI, Vladivostok, 1997.

<sup>6</sup> The same point has been made about TREDATA. See, for example, Carl Aaron, "What Sort of a Future for the Tumen Region, and How Will It Be Financed?" ERINA REPORT, Vol. 34, June 2000, pp. 7-8.

## 2 ) Changchun-Hunchun-Vladivostok/Vostochny

The two routes face similar problems, but there are significant differences in views about the EWTC in Harbin and Changchun.<sup>7</sup>

### 1. Views in Heilongjiang Province

Heilongjiang province is the more enthusiastic of the two, despite reservations about the instability of Russian conditions. This province has considerable (positive and negative) experience with economic relations with Russia. Viewing trade with Russia as a means of opening to the outside world, Heilongjiang was the first province to lobby Beijing to reopen border trade in the early 1980s. Economic ties between Heilongjiang and the Russian Far East have been important for the province's economy and for Sino-Russian relations as a whole. In 1993, for example, trade between Heilongjiang and Russia accounted for 1/3 of the total Sino-Russian trade balance. When regional authorities in the Russian Far East began to complain of unregulated border trade, unscrupulous Chinese traders, and shoddy Chinese goods, it was Heilongjiang that took most of the blame, although other Chinese provinces were involved.

In 1994 Sino-Russian trade fell by 34% overall from \$7.68 billion to approximately \$5 billion and has never recovered its 1993 momentum. During that year, Heilongjiang's trade with Russia fell by 26% to \$1.6 billion. Since then provincial officials have tried to ascertain the causes for the problems in Sino-Russian trade and find ways to reinvigorate it. Chinese commentary emphasizing recent increases in Sino-Russian trade should be interpreted in context—the increased trade reported in recent years should be viewed as recovery from the sharp downturn in 1994, rather than an absolute increase. In fact, Sino-Russian bilateral trade has stagnated between \$5 and \$6 billion per year since 1994.

Reviving it has proved to be a difficult process, and Heilongjiang's enthusiasm for the EWTC can be explained by the province's interest in finding alternative markets in Northeast Asia. Heilongjiang's strategy has become all the more urgent due to the Chinese government's new focus on development of China's western regions. A new rail link between Shenzhen and Shandong, with connections to Dalian and Harbin, will facilitate Heilongjiang's economic cooperation with China's more developed southern provinces. Expanding these economic linkages has been a key component of the province's strategy of "linking to the south, opening to north" since the early 1980s.

Although neither Heilongjiang nor Jilin can be seen as a major player in China's trade with the United States, Heilongjiang's trade with the United States is greater than Jilin's. The argument that the EWTC potentially could reduce travel time and costs finds more resonance in Heilongjiang, which is farther from Dalian than Jilin. By rail, Harbin is 944km from Dalian (and 548km from Suifenhe), while Changchun is 702km from Dalian (and 594km from Hunchun).

### 2. Views in Jilin Province

In Jilin Province, officials are focusing their attention on the development of the Tumen River area. They are interested in the EWTC to the extent that it would support the goals of the Tumen project. Moreover, many of the obstacles to the resolution of the Tumen project also impede the EWTC. For example, a dispute over fees between the Primorsky Krai Administration and the company administering the Kraskino border port delayed the Tumen Project and limited the EWTC route to the Harbin-Suifenhe variant. Despite its official opening on July 1, 1999, the Hunchun-Kraskino link did not become operational until early 2000. Generally in Jilin there were more negative views about dealing with Russia, in no small part due to the frustrations of the Tumen project.

In Jilin there was interest in linking the EWTC to the Tumen project more explicitly. Due to the small amount of trade between Jilin and the US, the US could get involved with transit trade in food products from Jilin to Japan and South Korea and then export Japanese and South Korean goods via the EWTC to Seattle/Tacoma. This trade could be expanded through investment in food processing in or other offshore production in Jilin. Since the Tumen project involves Posiet and Zarubino, in Jilin there was a preference to developing the EWTC through these ports to maximize resources infrastructure development and due concentrate cargo there. Although transit trade through these ports to South Korea and Japan has begun, the volume is quite low.

### The investment climate in Heilongjiang and Jilin provinces

Both of these provinces were among the first in China to become industrialized in the 1950s, and many of China's heavy industries are located there. Unlike the southern coastal regions, the planned economy continues to play a key role in China's Northeast, and foreign investment has been much more limited. Firms in these regions with US foreign investment tend to produce goods for domestic use in China; for example, John Deere produces agricultural equipment in Heilongjiang, while Pepsi and Ford have operations in Jilin.

In Heilongjiang, there are 6903 firms with foreign investment; 60-70% of these firms are in state-owned enterprises. Currently the US has signed agreements pledging investment of \$683 million, and \$343 million has been invested already. This is a relatively small amount, considering that in 1998 the US contracted to invest almost \$7 billion in China as a whole. Nevertheless, the United States is Heilongjiang's second most important investment partner after Hong Kong. South Korea, Taiwan, and Japan rank third, fourth, and fifth. The leading sector for US foreign investment is wood processing, although US firms also have invested in electronics and food processing industries. Other potential areas for US investment include linen, furniture, and measuring equipment.

In Jilin, as of October 1999 \$4.68 billion had been

<sup>7</sup> The following discussion is based on research carried out on behalf of the Washington State China Relations Council in November 1999. The views expressed in this article are solely those of the author.

invested in 3,829 firms. Only about 1% of Jilin's joint ventures have foreign investment. The US ranks fourth in terms of the region's investment partners, after Hong Kong, Germany, and South Korea. The United States' share is \$580 million. Food processing and the automotive industry attract the most foreign investment. Volkswagen is one of the larger foreign ventures in the province, and Bass Ale also has a joint venture. Generally food processing is viewed as a promising area for US investment.

#### New Developments in Northeast Asia and the EWTC

Two recent developments in Northeast Asia may help promote trade along the EWTC route. China's entry into the World Trade Organization (WTO) and US congressional approval of Permanent Normal Trading Relations (PNTR) with the PRC will open up new opportunities for Sino-American trade. The dramatic progress in normalization talks on the Korean peninsula may lead to a political climate more conducive to long-term investment and economic cooperation in Northeast Asia.

### **1. China's Accession to the WTO and US Granting PNTR**

China is likely to join the WTO by the end of the year. Last month the US House of Representatives passed PNTR and at the end of July the Senate is likely to approve this status for China as well. This is a perfect time for US and Chinese businesses to seek out new markets. The EWTC could be a beneficiary of these new opportunities in US-China economic relations as firms in both countries seek out new ventures in newly opened sectors.

The question is how to call attention to these new opportunities. A trade mission that would investigate opportunities for US firms in the Chinese Northeast in general could be planned. Trade promotion agencies in Harbin and Changchun would need to work with the US consulate in Shenyang to provide advance information about possible areas for cooperation.

The Internet also could provide information. There are mechanisms already in place at the US Department of Commerce, which do this already: BISNIS and the China Market Information Service. US West Coast shippers should work with the Commerce Department and the US Consulates in Vladivostok and Shenyang to coordinate information and promote business interest in the EWTC, for example, by establishing an EWTC link on the Commerce Department web page or by setting up EWTC sections within BISNIS or the China Market Information Service.

### **2. Improved Climate of Relations between North and South Korea**

The past several months have seen a burst of diplomatic activity in Northeast Asia, including normalization talks between North Korea and Japan, and the landmark summit in Pyongyang on June 13-15, 2000 between Kim Jong-Il and Kim Dae Jung. The reduction of tensions on the Korean peninsula may have real

implications for the Changchun-Hunchun-Vladivostok corridor route, which overlaps with the Tumen river area development project.

The process of normalization of relations could pave the way for increased investment in the region. This would generate additional cargo and improve overall infrastructure along this route. In particular, infrastructure improvements in North Korean ports could lead to competition with Russian and Chinese ports for cargo and lead to overall reductions in fees. Japan and South Korea already are involved in transit trade via Posiet and Zarubino, and cooperation with these countries would be useful in moving forward with transit trade plans involving Vostochny and Vladivostok.

Nevertheless, such cooperation will be difficult to achieve because there is very little coordination between departments of US agencies responsible for Russia and for Asia. Russia continues to be viewed in the context of European affairs bureaus. This means that even though a project like the EWTC has implications for US Asia policy, departments dealing with Asia typically would not be involved.

One way of more effectively integrating the EWTC in US Asia policy and coordinating US efforts with those of Russia, China, Japan, and South Korea, would be to create a task force on the EWTC within relevant committees of the Asia-Pacific Economic Cooperation forum (APEC) and the Pacific Economic Cooperation Conference (PECC), since all five countries are members of both organizations.

APEC : Working with APEC would help situate the EWTC as an Asian trade and transportation initiative. APEC has working groups on Trade Promotion and Transportation, where EWTC issues could be raised effectively. For example, there is an intermodal task force within APEC's Transportation working group and this task force plans to meet in October 2000 in Miyazaki, Japan. Proponents of the EWTC should take advantage of the US APEC delegation's location in Seattle to press for discussion of the corridor at relevant APEC meetings.

PECC : Since the PECC aims to involve private industry in areas of concern to APEC, this forum also could be useful in marketing the EWTC. The current make-up of the PECC delegations would facilitate this. The President of Boeing is the head of the US delegation, the Korean trade promotion agency KOTRA chairs the South Korean delegation, and Viktor Ishaev, governor of Khabarovsk Krai, heads the Russian delegation. Expert level talks on harmonizing customs practices and reducing impediments to trade could be undertaken within PECC task forces on transportation and trade promotion.

#### Conclusions

To move forward with the EWTC, this project needs to be viewed in the context of Asian trade and transportation networks. In this way, the corridor can take advantage of opportunities for transit trade in Northeast Asia and make use of existing Asia-wide institutions to address problems with harmonizing regulations and

procedures.

In the short-term, although there may not yet be sufficient volume now along either of the two corridor routes, the US could participate in existing transit trade involving China, Japan, South Korea, and the Russian ports of Posiet and Zarubino and to coordinate our efforts with Japan and South Korea within Asia-wide institutions such as APEC and the PECC. Also, EWTC supporters should work with the US Commerce department and Chinese and Russian trade promotion agencies to facilitate

access to information about potential trade and investment opportunities along the EWTC route.

In the long-term, the EWTC should be seen as part of a broader trade and investment strategy for Northeast Asia. Recent developments in US-China trade and normalization on the Korean peninsula will provide opportunities for investment by private firms, foreign governments, and international donors, in previously untapped markets. The EWTC may be a beneficiary of a new climate of economic and political integration in Northeast Asia.

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