

The Tumen River Area Development Programme:

Its History and Current Status as of 2004

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1. Background

The Tumen River Area Development Programme (TRADP) is a project aimed at using multilateral cooperation to develop the area adjacent to the lower reaches of the Tumen River, which covers the three countries of China, the DPRK and Russia. It is not clear who first advocated the idea of developing the Tumen River area, but in around 1990, when the Cold War mood began to show signs of thawing, academics in the countries of Northeast Asia began making moves towards regional cooperation.

In July 1990, at the Conference on Northeast Asian Economic and Technical Cooperation, a representative of the government of China's Jilin Province announced a development vision aimed at turning the Tumen River delta region into a hub for international transport, trade and industry. One of the factors providing the backdrop to this was the fact that Jilin Province was searching for an outlet onto the Japan Sea that would provide an alternative to the Dalian route, which had been used until then. The upper and middle reaches of the Tumen River, the source of which is on Mount Changbai-shan, run along the border between China and the DPRK, but from a point 15km upstream from its mouth, the river becomes the border between the DPRK and Russia. The possibility of using ports in Russia or the DPRK, or building a river port on the Chinese side to create a route that would provide a direct outlet onto the Japan Sea was considered. Furthermore, in 1992, the Chinese government opened up the city of Hunchun, which had hitherto been closed to outsiders.

During the same period, in December 1991, the DPRK government designated the Rajin-Sonbong area adjacent to the mouth of the Tumen River as a free economic and trade zone, in an attempt to introduce a market economy to the country. This is a special economic zone where various preferential measures have been introduced in order to try to attract foreign capital; this area is said to have been selected in line with the policy of the former leader of the DPRK, the late Kim Il Sung.

Meanwhile, in Russia's Primorsky Territory, the Nakhodka Free Economic Zone was established in 1990, while in 1992, after the collapse of the Soviet Union, the Russian government opened up the military city of Vladivostok, which had hitherto been off-limits to ordinary Russians, not to mention foreigners.

A common hope that economic liberalization would be kick-started by the end of the Cold War formed the background to the way in which the development vision took root in the countries of the Tumen River area, which was a military frontier during the Cold War.

As a result of these moves, the United Nations Development Programme (UNDP) decided in 1991 to support the development of the Tumen River area, designating it a priority project.

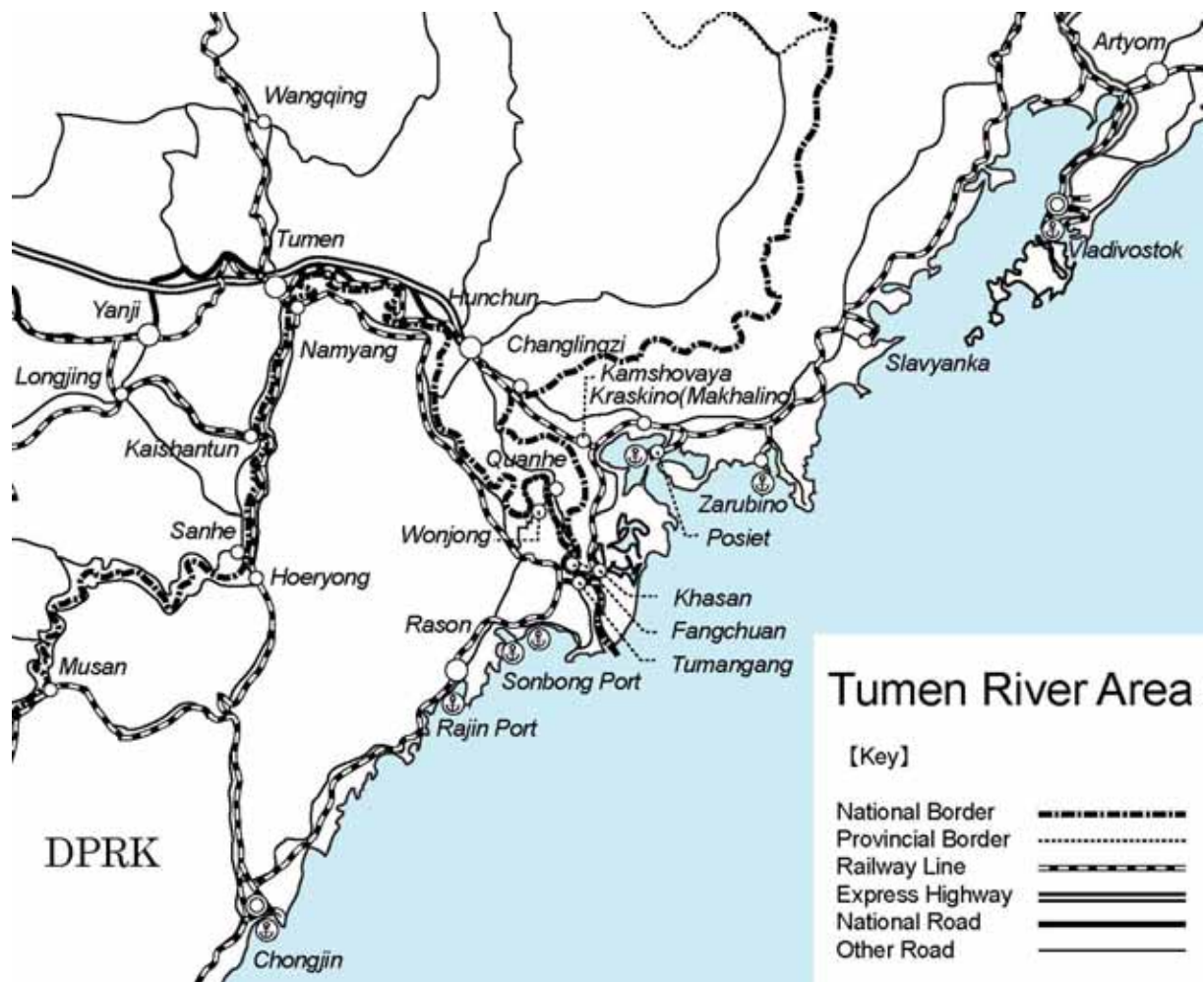


Table 1 Chronology of Tumen River Area Development

Year	Month	Major Events
1990	July	At the Conference on Northeast Asian Economic and Technical Cooperation in Changchun, the Chinese representative presents <i>The Tumen River: a Development Concept for the Golden Triangle</i>
	November	The Russian Parliament approves the Law on the Nakhodka Free Economic Zone
1991	July	Announcement that the UNDP is to support the development of the Tumen River area is made at the UNDP's Northeast Asia Subregional Programme Conference (Ulaanbaatar)
	October	UNDP presents the <i>Vision for the Development of the Tumen River Area</i> at the UNDP's TRADP Conference (Pyongyang)
	December	The DPRK government officially announces the establishment of the Rajin-Songbong Free Economic and Trade Zone
1992	January	Vladivostok opened up to outsiders
	February	1 st PMC meeting (Seoul)

	March October December	Hunchun opened up to outsiders 2 nd PMC meeting (Beijing) China and Russia sign an agreement regarding the development of the railway between Hunchun and Makhalino
1993	May	The Tumen River Development Corporation concept, tripartite land lease proposals and the development area are discussed at the 3 rd PMC meeting (Pyongyang)
1994	January July	At the Informal Meeting of Practitioners, the proposals for a Tumen River Development Corporation and tripartite land leases are dropped 4 th PMC meeting (Moscow) takes place, without the participation of the DPRK
1995	May October October December	5 th PMC meeting (Beijing) Yanbian Korean Autonomous Prefecture Investment Forum (Yanji) Regular container shipping route between Rajin and Busan established, linking Yanbian with Busan Agreements on the establishment of the Coordination Committee and the Consultative Commission signed at the 6 th PMC meeting (New York)
1996	April September October October November	1 st Coordination Committee and Consultative Commission meeting (Beijing) takes place; Tumen Secretariat established (based in Beijing) More than 400 people from 26 countries take part in the Rajin-Sonbong International Investment Forum 2 nd Coordination Committee and Consultative Commission meeting (Beijing) takes place Railway line between Hunchun and Makhalino connected Survey for the Zarubino Port Development Plan completed (Keidanren/ERINA)
1997	February November	Wonjon Bridge opened to Chinese and foreign travellers 3 rd Coordination Committee and Consultative Commission meeting (Beijing) takes place
1998	May September	Primorsky Territory International Investment Forum (Vladivostok) Hunchun International Investment Forum (Hunchun)
1999	June August	4 th Coordination Committee and Consultative Commission meeting (Beijing) takes place, without the participation of the DPRK Container shipping routes established between Posiet and Akita, and between Rajin and Niigata
2000	February March April	Cargo transport on the railway between Hunchun and Makhalino begins (carrying Russian timber to China) Trade and investment promotion workshop (Beijing) Zarubino – Sokcho ferry route established, Hunchun Export Processing Zone established
2001	February April	Hunchun Sino-Russian Common Market Zone established 5 th Coordination Committee and Consultative Commission meeting (Hong Kong) takes place
2002	June	6 th Coordination Committee and Consultative Commission meeting (Vladivostok) takes place
2003	November	Official opening of the railway between Hunchun and Makhalino

2. Coordination by the UNDP

After announcing its support for the development of the Tumen River area at the Northeast Asia Subregional Programme Conference held in Ulaanbaatar in July 1991, the UNDP presented its *Vision for the Development of the Tumen River Area* in October of the same year. This was a colossal vision for undertaking infrastructure development over 20 years using \$30 billion, in order to turn the region into the Hong Kong of Northeast Asia. The Programme Management Committee (PMC), consisting of government representatives from China, Russia, the DPRK, Mongolia and the ROK, was established in order to promote the region's development. The first PMC meeting took place in February 1992 in Seoul; thereafter, the PMC met six times, in Beijing (October 1992), Pyongyang (May 1993), Moscow (July 1994), Beijing (May 1995) and New York (December 1995). Meetings of working groups dealing with such issues as legal systems, finance, infrastructure, communications, investment and the environment were also held during this period.

At the PMC meetings, matters such as the selection of the area to be the focus of development, development frameworks and methods of procuring finance were discussed. With regard to the area to be the focus of development, it was initially proposed that, in addition to constructing a new international city in the smaller triangular area linking Hunchun, Rajin-Sonbong and Posiet and calling it the Tumen River Economic Zone (TREZ), the Tumen River Economic Development Area (TREDA) linking the larger triangular area (10,000 km²) of Yanji, Chongjin and Vladivostok be established, in order to support the TREZ. The larger triangular area was later expanded to include Nakhodka. Thereafter, further consideration was given to the area to be the focus of development and the double triangle concept was not used. Currently, TREDA is defined as encompassing the Yanbian Korean Autonomous Prefecture (China), Rajin-Sonbong (DPRK) and southern Primorsky Territory (Russia). The Tumen Region is considered to be TREDA plus the eastern part of Mongolia.

With regard to the framework for development, it was originally proposed that the UNDP would lease land from the three neighboring countries (China, the DPRK and Russia), establish the Tumen River Area Development Corporation (TRADCO) and construct a special economic zone under joint international management, but the proposal was dropped because the countries concerned could not reach an agreement. After the meeting for practitioners held in New York in January 1994, the UNDP altered its masterplan-focused approach, switching instead to progressive discussions. After the fourth PMC meeting, which took place in July of the same year, the UNDP handed over responsibility for leading the initiative to the countries concerned, with the UNDP taking on a supporting role. This structure, with each government taking responsibility for development in their own country and the UNDP coordinating this development, remains unchanged to this day.

In December 1995, the Tumen River Area Development Coordination Committee, consisting of China, the DPRK and Russia, and the Consultative Commission for the Development of the Tumen River Economic Development Area and Northeast Asia, consisting of the aforementioned three countries plus Mongolia and the ROK, were established in order to conduct coordination and discussion between the various countries in place of the PMC. In addition, the Memorandum of Understanding on Environmental Problems Relating to the Tumen River Economic Development Area and Northeast Asia, which dealt with environmental cooperation, was signed. The Tumen

Secretariat was set up in Beijing to implement these three agreements. Furthermore, it was decided that the Tumen Trust Fund should be established in order to provide technical assistance aimed at sustainable socio-economic development in the Tumen River area and Northeast Asia as a whole.

The Coordination Committee and the Consultative Commission held their first (April 1996), second (October 1996) and third (November 1997) meetings in Beijing, with the subsequent meetings being held in Ulaanbaatar (June 1999), Hong Kong (April 2001) and Vladivostok (June 2002). At these meetings, in addition to acting as a coordinator between the various countries, which have a tendency towards conflict, the UNDP Tumen Secretariat's activities cover a diverse range of areas, including commissioning research from external organizations, organizing local investment forums and holding workshops concerning such fields as transport, tourism, the environment and attracting investment. Moreover, it educates the international community about the programme by creating investment guides and promotional videos, publishing periodicals and brochures, and disseminating information via its homepage. Over the last few years, the Tumen Secretariat has started to broaden the scope of its activities to cover the whole of Northeast Asia. This could be seen as reflecting the stagnation of the development of the Tumen River area in its narrow sense, but there is a danger that the focus will become increasingly blurred as the target area is expanded, and that the necessary aid will not be delivered.

Furthermore, it has been resolved at every Consultative Commission meeting since the sixth PMC meeting to invite Japan to join the Commission, but the Japanese government has maintained its cautious stance and still retains its observer status.

3. Initiatives and Outcomes in Each Country

1) China: Yanbian Korean Autonomous Prefecture

China has consistently taken a leading role in the development of the Tumen River area. For example, when visiting Hunchun in June 1995, President Jiang Zemin clearly indicated his active approach to tackling the issue, exhorting the city to “develop Hunchun and develop friendly relations with the countries of Northeast Asia.” Nonetheless, it is Jilin Province, and Yanbian Korean Autonomous Prefecture (hereafter referred to as Yanbian Prefecture) in particular, which has zealously thrown itself into the development of the Tumen River area; the issue does not feature at all highly on Beijing's list of priorities. As far as Beijing is concerned, Dalian is the trade port for the three northeastern provinces and views transit via the Tumen River as playing merely a supplementary role. In fact, as one moves from Beijing to Changchun to Yanji and then to Hunchun, the enthusiasm of the local people grows perceptibly.

China has been assiduously working on securing an outlet onto the Japan Sea from Yanbian Province, whose access to the sea is blocked at a point just 15km from the mouth of the river, and promoting economic development in the border area at Hunchun. China has proposed the Fangchuan plan, which involves building a river port at Fangchuan, which is located about 15km upstream from the mouth of the Tumen River, near the border, and then dredging the Tumen River as far as its mouth in order to create an outlet onto the Japan Sea. However, this plan suffered a setback as a result of a field survey conducted by the UNDP, which revealed various problems, such

as the fact that the river is too shallow and that continuous dredging would cost an enormous sum of money, as well as the fact that the three countries could not reach an agreement regarding navigation rights on the river. Nevertheless, it seems that China has not completely given up on this plan.

After this, China adopted a policy of using ports in Russia and the DPRK to gain access to the Japan Sea and has promoted cooperation with both countries. China hopes that, by promoting both the route via Russia and that via the DPRK, it will place the two routes in competition with each other, thereby allowing it to benefit from a stable, reasonably priced transport service.

The Russian route runs from Hunchun to the Khasan District via the Changlingzi border crossing and then reaches the sea via one of the nearby ports of Zarubino and Posiet. The DPRK route runs across the Tumen River to the DPRK from Yanbian Prefecture and then reaches the sea via either Rajin or Chongjin port.

The Chinese government has made active progress with the construction of a domestic expressway that would link up with both routes. New sections of expressway had been built between Changchun and Yanji, and Yanji and Tumen by 2002. In addition, a new road was built between Hunchun and Quanhe, around the same time. The remaining section, from Tumen to Hunchun, was due to be finished in 2005, thereby completing the construction of the expressway between Changchun and Quanhe (about 600km).

With regard to the development of the border area, following the opening up of Hunchun to outsiders in November 1991, Heihe, Suifenhe and Manzhouli were opened up in March 2002. Furthermore, the Hunchun Border Economic Cooperation Zone was established as a state-level economic cooperation zone and efforts to attract foreign investment began in earnest. In addition, there are province-level zones in the form of the Yanji Economic Development Zone and the Tumen Economic Development Zone. The government of Yanbian Prefecture has implemented special preferential measures for foreign investors, in addition to the more general preferential measures introduced by the national government (such as income tax reductions and exemptions).

In October 1995, the Yanbian Korean Autonomous Prefecture Investment Forum was held in Yanji on the initiative of the United Nations Industrial Development Organization (UNIDO), with the Hunchun International Investment Forum taking place in Hunchun in September 1998.

In June 1999, the Chinese government established a committee consisting of representatives from 20 ministries and agencies, such as the State Development Planning Commission, the Ministry of Foreign Trade and Economic Cooperation, the Ministry of Railways and the General Customs Administration, with the aim of creating a forum for discussing plans for the future. In April 2000, the establishment of the Hunchun Export Processing Zone was approved, with the establishment of the Hunchun Sino-Russian Common Market Zone being approved in 2001 with the aim of promoting border trade with Russia. As of January 2003, the former is already operating, while a trial run of the latter is underway.

During the ten years over which the development of the Tumen River area has been underway, the central government and the governments of Jilin Province and Yanbian Prefecture have apparently invested a total of around RMB 5 billion (about \$600 million) in developing such

infrastructure as roads, railways, airports and communications. It has then used this as a base from which to work on attracting foreign investment in various industrial sectors. It is clear that the Chinese government is very keen to continue to promote the development of the Tumen River area. However, as will be explained below, there is no change in the fact that trade cargo from Northeastern China still uses Dalian and ports nearby, with use of the Tumen River route limited even in Yanbian Prefecture.

2) DPRK: The Rajin-Sonbong (Free) Economic and Trade Zone

In December 1991, the DPRK government designated the Rajin-Sonbong area (now known as Rason; 621km²)¹ as a free economic and trade zone (FETZ), in an attempt to introduce a market economy to the country. This is an initiative aimed at actively trying to introduce foreign capital to the country by implementing various preferential measures. Specifically, these measures involve designating the ports of Rajin, Sonbong and Chongjin as free trade ports, and granting reductions and waivers of corporate income tax and exemptions from customs duty for foreign-invested companies in the zone. According to material published by the DPRK, Kim Il Sung came up with the idea of creating a free economic and trade zone in Rajin-Sonbong in February 1989.²

The objective of developing the zone is to create: i) a transit transportation center for international trade cargo; ii) an export-processing base that will become a center for light industry and high-tech processing industry; and iii) a base for international tourism.

However, as a result of the conflict between the US and the DPRK that arose from the so-called “nuclear allegations”, which began in March 1993 with the DPRK’s declaration that it would withdraw from the Nuclear Non-Proliferation Treaty (NPT), progress on the Rajin-Sonbong FETZ came to a standstill. Following the settlement of the nuclear development issue in October 1994 by means of the Geneva Framework Agreement, the first international investment briefing was published in Beijing in September 1995. The briefing disclosed the DPRK’s strategy of using foreign investment to fund the development of such infrastructure as railways, roads, ports, communications and electric power facilities, and stated that billions of dollars of investment were required in order to carry this out.

In September 1996, more than 400 people from 26 countries took part in Rajin-Sonbong’s first international investment forum, which was held with the support of UNIDO.³ Due to a lack of accommodation in the area, the 170 Japanese who participated arrived on a cruise ship. Eight investment contracts worth \$285 million were concluded during the forum, with 30 investment projects worth \$834.5 million being agreed upon. Of these, there were some that were actually translated into reality, such as the casino hotel built by the Emperor Group (Hong Kong), but many were later cancelled

In July of the same year, ahead of the forum, a delegation led by the late Kim Jong U, Chairman of the DPRK Committee for the Promotion of External Economic Cooperation, visited Japan and held investment briefings in various parts of the country.⁴ In these briefings, 50 priority investment projects that were being opened up to foreign capital were introduced; many of these were infrastructure projects, such as the development of Rajin Port, road construction, railway and airport

development, and the creation of industrial estates. Normally, when trying to attract foreign capital to special economic zones, it is standard practice for the host country to develop the basic infrastructure itself. Many interested parties were concerned by the DPRK authorities' overly optimistic expectation that "foreign investors will pay for infrastructure development"⁵ and these initial misgivings were later proved to be accurate.

In June 1997, liberalization measures were implemented with the aim of improving the investment environment in Rajin-Sonbong.⁶ These include: i) the delegation of powers relating to investment to the Rajin-Sonbong zone authorities; ii) the introduction of market pricing systems, such as self-supporting accounting systems; iii) the unification of the exchange rate; iv) approval for independent enterprise; v) the establishment of a free market (Wonjong Market⁷); vi) the integration of the railway administration system; and vii) personnel training focusing on the market economic system. Meanwhile, 200 million won (\$1 million, based on the exchange rate in Rajin-Sonbong at the time) of state funding was invested in the development of infrastructure in the Rajin-Sonbong zone. At that time, the Rajin-Sonbong zone was thriving as the only area of the DPRK where a market economic system had been introduced.

However, in early 1998, Pyongyang applied the brakes to the rapid transition to a market economy, going as far as to demolish signs displaying the western commercial names of businesses in the area and closing the Wonjong Market. In addition, the designation 'free' was dropped from the official name of the 'free economic and trade zone' in April of the same year, turning it into merely an "economic and trade zone".

In July 1999, the Emperor Casino Hotel began operating temporarily, although it was still under construction, and many Chinese tourists began to visit the Rajin-Sonbong area in order to go and see the sea.⁸ The casino hotel began operating fully in October of the following year. Moreover, as a result of regular services on the Rajin – Busan shipping route, which began operating in October 1995, a cargo route linking Yanbian Prefecture with the ROK became firmly established and the zone began to function as a transit point for cargo. By 2000, of the aforementioned three development objectives, progress had been made in developing the transit base for international cargo and the base for foreign tourism, but no advances had been made in developing an export-processing base. The authorities admit that the reason why progress in this area has been delayed is that transport infrastructure has not been developed. Their overly optimistic assessment that "foreign investors will pay for infrastructure development" is weighing heavily upon them.

There is no investment in Rajin-Sonbong by companies from the ROK. Since 2000, the results of North-South economic cooperation have begun to be seen in such areas as the development of Mount Kumkang and undertaking outsourced production, but the ROK side has not taken a proactive stance with regard to Rajin-Sonbong, while the DPRK side has been passive with regard to accepting investment in the zone by companies from the ROK. In addition, the DPRK government's ardor with regard to Rajin-Sonbong has cooled and it is now moving towards the establishment of new special economic zones in Gaesung and Sinuiju instead.

3) Russia: Southern Primorsky Territory

Moves towards the establishment of an economic development zone in Russia's Primorsky Territory began in 1986, when Mikhail Gorbachev, then leader of the Soviet Union, announced his intention to establish a special economic zone, during a visit to Nakhodka. Nakhodka was selected as Russia's first special economic zone due to its geographical and strategic advantages in terms of the country's Asia policy. Boris Yeltsin, then Chairman of the Russian Supreme Council, visited Nakhodka in 1989; in November 1990, the Russian Supreme Council approved the Law on the Development of a Free Economic Zone in Nakhodka in Primorsky Territory and the development of the Nakhodka Free Economic Zone (FEZ) began.⁹ The Nakhodka FEZ is vast, covering an area of 4,611km² and encompassing the city of Nakhodka and the district of Partizan, which have a total population of 220,000. Initially, waivers of corporate income tax, preferential measures with regard to customs duties and procedures and streamlined company registration procedures were implemented for foreign investors in part of the FEZ, but the federal government scrapped preferential measures in all special free economic zones, including the Nakhodka FEZ in 1993, deeming that the entry of foreign-invested businesses into the FEZ posed a threat to domestic industry.

In order to overcome legal restrictions, the Nakhodka FEZ Administrative Committee tried to find a way to survive, coming up with the idea of "spot development" in smaller areas. A specific example of this is the Russia – South Korea Industrial Complex (RKIC) plan,¹⁰ which was undertaken by the Korea Land Corporation. This project involved the creation of a 330-hectare industrial complex for businesses from the ROK and an agreement was concluded between the governments of Russia and the ROK in May 1999. This specified the prerequisites for this project, including tax benefits for companies from the ROK and the acceptance of responsibility for infrastructure development on the part of the Russian side. However, the Russian parliament refused to accept these conditions and the issue is still unresolved. Thus, due to flaws in the legal system, Russia's special economic zones have failed to be at all effective and remain utterly unproductive, even today.

One Russian project that was directly related to the development of the Tumen River area is the development of Zarubino Port. Zarubino, which is located in the Khasan District, was originally a fishing port, but due to its proximity to the border with China (about 60km away) and the city of Hunchun (about 80km away), it was put forward as a candidate port in China's "borrowed port" policy. The Chinese side made approaches to Russia and the two countries reached an agreement on the joint development of Zarubino Port in August 1992; they also signed an agreement in December of that year, concerning the development of a railway linking Hunchun, Makhhalino, Sukhanovka and Zarubino. Of the section on which a new line must be built, 18km lies on Chinese territory, while 20km lies on Russian land; this section links up with the existing railway on the outskirts of Makhhalino. The construction work fell behind schedule, but the lines were connected in October 1996. As many other problems then occurred, cargo transport officially began in November 2003. Contrary to initial expectations, this stretch of railway linking Russia and China is mainly used for trade between China and Russia (mostly timber) rather than for transit trade via Zarubino Port.

The development of Zarubino Port began when Jilin Province requested Niigata Prefecture, with which it has a close relationship, to conduct a study. Niigata Prefecture first of all carried out a

preliminary survey and then, in September 1994, presented its report to the government of Russia's Primorsky Territory.¹¹ This survey was the focus of attention as Japan's first instance of regional ODA. Next, in August 1995, the government of Primorsky Territory requested that the Japanese side draw up a feasibility study. In response to this, the Japan-Russia Business Cooperation Committee of the Keidanren was instrumental in establishing the Zarubino Feasibility Study Implementation Council in March 1996, with financial contributions from the governments of prefectures on the Japan Sea coast, the Japanese government and various businesses. ERINA was commissioned to carry out the feasibility study by the Council and published it in November of that year.¹²

The feasibility study predicted future volumes of transit cargo destined for or originating in China and proposed that the necessary work on developing the port be conducted in three phases, which would continue until 2010. In this report, it is stated that two of the prerequisites for the success of the project are an increase in the involvement of the central governments of both China and Russia and their cooperation with regard to funding. However, Zarubino Port was privatized, and the government's involvement did not encompass its management; neither did the Russian government provide any guarantees with regard to the project. Ultimately, hardly any of the measures advocated in the feasibility study were implemented and Zarubino Port handles very little Chinese transit cargo.

In comparison with the other two countries, Russian interest in the Tumen River area was and still is rather limited, both in the central government and in the government of Primorsky Territory, within whose jurisdiction the area falls. The fundamental reason for this is that the Khasan District, which adjoins the Tumen River, is sparsely populated and located quite a long way from Primorsky Territory's main cities of Vladivostok and Nakhodka, with poor access. Accordingly, the UNDP took steps to attract interest from the Russian side, including Vladivostok in the initial development plan (TREDA) and then expanding the area to include Nakhodka. However, it would be fair to say that the majority of people in Vladivostok showed absolutely no interest in the development of the Tumen River area. They believe that the development of Primorsky Territory and the development of the Tumen River area are two completely different things. Given the existence of such large ports as Vladivostok, Nakhodka and Vostochny, and the fact that they have excess capacity, many of those involved in the sector have opposed the development of Zarubino Port, suggesting that it would be unwise to build a new port that would be a competitor to these.

4) ROK

The ROK has been steadfast in its extremely enthusiastic support for the development of the Tumen River area. It has participated in UNDP-led conferences from the outset and has consistently provided substantial financial support for UNDP activities. In 1992, it decided to provide \$5 million of support and had contributed \$4.063 million by the end of 2000.

One of the reasons for the ROK's enthusiasm concerning the development of this region is the fact that many ethnic Koreans live in Yanbian Prefecture (accounting for 40% of the population) and a great number of companies from the ROK are expanding into the area. A second reason is that the country has adopted a stance of improving relations with and providing support to the DPRK by means of multilateral cooperation. The ROK has not been involved in any cooperation in

Rajin-Sonbong as yet, but it has played a significant role through its support of the UNDP's activities.

5) Mongolia

Mongolia is a long way from the Tumen River area, but it has demonstrated a great deal of interest in the development of the region. One of the factors behind this is the fact that Mongolia is a landlocked country with only limited access to the sea. At present, it uses Tianjin as its main trade port, but the roads and railways en route to Tianjin are rather congested. Accordingly, with a view to the future, Mongolia is focusing its attention on the Tumen River area as a new route to the sea. If eastern Mongolia and Jilin Province were linked in the future, a new path to the sea using the "borrowed ports" that China is in the process of developing would be opened up.

6) Japan

Although resolutions with a view to inviting Japan to become a member have been passed at every UNDP meeting since the 2nd Consultative Commission, which took place in Beijing in October 1996, Japan has still not accepted this invitation and it still retains its observer status.¹³ The reason for the Japanese government's caution with regard to participation is considered to be related to the fact that the DPRK, with which it has no diplomatic relations, is a major member. It cannot be denied that the Japanese government's failure to participate is a major factor in the lack of progress in obtaining financial assistance.

However, it is not the case that, in declining to become a member of the Consultative Commission, Japan has refused to cooperate at all. Looking at individual projects, both the public and the private sector were unstinting in their assistance in the formulation of the feasibility study for the Zarubino Port development project, while many private sector companies participated in the Rajin-Sonbong International Business Forum in 1996. Moreover, NPOs have been heavily involved in providing cooperation with regard to various aspects of development, such as the International Development Center of Japan, which compiled the *Study on the General Regional Development Plan for China's Jilin Province (Changchun – Hunchun)*. If, in the future, the investment environment is improved and Japanese businesses begin to look towards the Tumen River area, it is likely that the government will be required to provide more support.

4. The Development Status of Transportation Corridors

Now let us look at the situation with regard to the development of international transportation corridors, projects that are crucial to the development of the Tumen River area.

1) DPRK Route (Yanbian Prefecture – Rajin-Sonbong)

This route first came under the spotlight in October 1995, when Dong Long Shipping Co., Ltd., a joint venture between a South Korean company and a company in Yanbian Prefecture, established a regular container service between Rajin and Busan. Services on this route carry containers and bulk cargo and are used by companies from the ROK which have expanded into Yanbian Prefecture. In 1999, more than 5,000 TEU of cargo was carried on this route. In August 1998, Niigata was added as a port of call on the container route, but this section of the route has lain dormant since

2000, due to a lack of cargo.

The advantage of this route is that the infrastructure at Rajin Port, which was built in 1938, is still in comparatively good condition, even today. It is estimated that it has the capacity to handle 4 million tons of cargo annually. It has also been equipped with cranes for handling containers, which were funded using money invested by Yanbian Hyuntong Shipping Group Co., Ltd.

The overland transport section of the aforementioned transit transport mainly relies upon road transport. The main road route used is Hunchun – Quanhe – Wonjong – Sonbong – Rajin (about 95km).¹⁴ Since the Quanhe – Wonjong border crossing was opened to third parties in February 1997, use of it by Chinese tourists and merchants visiting Rajin has increased, in addition to its use for cargo transit. In June 2001, a regular bus service began operating between Hunchun and Rajin (Table 2)

The drawback of the road route is the fact that there is a range of mountains a thousand meters high on both the Chinese and DPRK sides. To put this in a Japanese context, the topography is similar to that in Kobe, where Mount Rokko dominates the skyline behind Kobe Port. Until around 1998, there were no tunnels between Hunchun and Quanhe, and between Wonjong and Sonbong, with vehicles having to wind their way along terrible unpaved roads that clung to the contours of the mountains. China began work on improving the road in 1997, building a new road that included two new tunnels between Hunchun and Quanhe (2000). As a result of the opening of the new road, the distance was cut from 54km to 39km, with the time taken to travel that distance halved from the one hour that the journey had taken hitherto. However, work on improving the road on the DPRK side is lagging behind. The section between Wonjong and Sonbong (about 45km) is an unpaved mountain road with many sharp bends; when it rains or snows, the wheels of trucks become stuck in the mud and the whole road becomes gridlocked, leading to chaos. What the DPRK should do is excavate a tunnel and build a straight road, as the Chinese have done, but there is no hope of improvement because of the vast sums of money required for this.

The rail route runs from Tumen in Yanbian Prefecture, across the Tumen River, and links up with the Namyang – Rajin line (160km). The railway between Namyang and Rajin was electrified in 1996 and it is used for the transport of transit cargo, but various problems have become apparent, such as the decrepit state of railways and tunnels, the lack of freight wagons and locomotives, and power shortages; these have reduced efficiency on this route, leading to a fall in its use. In a survey carried out in 1997 in collaboration with China, with the aim of upgrading the line, it was estimated that around \$46 million of investment was necessary, but the DPRK has been unable to secure these funds, so progress has not been forthcoming.

Table 2 Passenger and Cargo Volumes Crossing the Border Between Hunchun (Quanhe) and the DPRK (Wonjong)

(unit: cargo: tons; passengers: people)

	1996	1997	1998	1999	2000	2001	2002	2003
Cargo (tons)								

China -> DPRK	15,032	58,777	38,205	108,493	144,111	147,209	106,000	100,016
DPRK -> China	8,741	11,204	3,182	8,291	15,734	15,184	23,568	24283
Passengers (departing/entering)	11,992	71,371	99,436	143,301	127,349	162,089	181,624	154,362

Source: Hunchun Customs Bureau

2) Russian Route (Hunchun – Zarubino/Posiet)

This is a route that runs from Hunchun into Russia's Khasan District via the Changlingzi border crossing, reaching the sea at one of the nearby ports, either Zarubino or Posiet. The advantages of this route are the fact that it is shorter than the DPRK (Rajin) route, the terrain is flat, the road and railway both run in almost completely straight lines, the road is paved and the railway facilities are new. The roads between Hunchun and Posiet (about 60km), and Hunchun and Zarubino (about 80km) are both flat. The rails between Hunchun and Makhalino were connected in October 1996, with the first cargo being transported along this railway in February 2000, followed by an official start of operation in November 2003. As China and Russia use different gauges for their railways, it was planned to build transshipment stations on both sides of the border, with two sets of rails being laid between the two, but as construction of the Russian transshipment station has been delayed, cargo is currently transshipped on the Hunchun side. At present, the railway is used solely for trade between China and Russia, rather than for transit cargo, as had initially been anticipated.

One of the problems with this route is the fact that the cargo handling capacity of both Zarubino and Posiet ports is extremely limited. Zarubino Port is estimated as being able to handle 1.2 million tons of cargo annually, while the estimate for Posiet is 1.5 million tons. In 1996, a feasibility study regarding the modernization of Zarubino Port was published with Japanese collaboration, but the expansion plan it detailed has not been implemented for a variety of reasons. In early 1999, Posiet Port installed a container crane and began improving its facilities, but it is hampered by the fact that the site occupied by the port is relatively small, so there is insufficient space for a decent-sized container yard.

In August 1999, a regular container route between Posiet and Akita was established. Cargo volumes on this route were consistently low, so services became irregular since May 2003.

In April 2000, a ferry service run by Dongchun Shipping, a joint venture uniting the city of Hunchun and a company from the ROK, began operating between Zarubino and Sokcho (ROK). It is mainly used by tourists and individual traders (peddlers) from the ROK; as a result of cooperation between the Chinese and Russian authorities, travelers from the ROK can complete immigration and departure inspection procedures simultaneously at Zarubino Port, and it is hoped that those crossing the border between China and Russia by bus will be afforded the convenience of being able to cross without having to stop and undergo inspection procedures. In October 2001, this ferry began to be used by Chinese travelers as well. Furthermore, this ferry was extended to Vladivostok from November 2003. There have been remarkable increases in the volumes of both passengers and cargo, pushing up the number of people crossing the border between China and Russia. This route linking Hunchun, Zarubino and Sokcho is able to compete with the Rajin – Busan route both in terms

of frequency of service (three sailings per week) and freight fares; accordingly, given that improvements to the roads in the Rajin-Sonbong area are now lagging well behind schedule, it is possible that Rajin Port will be dropped in favor of Zarubino Port for container transport.

Table 3 Passenger and Cargo Volumes Crossing the Border Between Hunchun and Kraskino

	1996	1997	1998	1999	2000	2001	2002	2003
Cargo (tons)								
China -> Russia	4,139	13,205	12,901	19,165	32,650	37,138	25,479	29,715
Russia -> China	3,007	1,055	1,703	1,789	7,137	13,033	22,100	32,375
Total	7,143	15,358	14,604	20,954	39,787	50,171	47,579	62,090
Passengers								
China -> Russia	2,166	2,596	5,875	20,862	72,724	107,111	67,142	108,214
Russia -> China	2,357	2,669	5,696	20,429	73,457	108,288	67,477	107,800
Total	4,523	5,265	11,571	41,291	146,181	215,999	134,619	216,014

Source: Hunchun Customs Bureau

3) Problems Concerning the Transportation Corridors

Each route is gradually beginning to show signs of life, but the only one that is taking root and carrying a constant volume of cargo is the one linking Yanbian Prefecture and the ROK. The route linking Japanese ports with the Tumen River area is still experiencing a slump, while those linking up with third countries via the ROK port of Busan are hardly used. In fact, most of the companies in Yanbian Prefecture continue to use Dalian Port. In addition, companies from the ROK that are based in Hunchun also use the Dalian route for cargo destined for Seoul or Japan. The reasons why there has been no increase in use of the Tumen River route include the following:

- i) The DPRK route and Russian route are considerably less price competitive than the Dalian route.
- ii) Both the shipping network of and the frequency of sailings to/from ports in the Tumen River area are limited. There are no direct services to Europe, the US, Southeast Asia or the Pacific coast of Japan. Furthermore, there are problems between the shipping companies with regard to transshipment at Busan, resulting in a loss of competitiveness in terms of time and money.
- iii) Port facilities, particularly those at Zarubino and Posiet ports, are inadequate.
- iv) The border crossing procedures for both passengers and cargo are cumbersome. The Russian customs checkpoint at Kraskino is particularly inefficient.
- v) The condition of transport infrastructure (roads and railways) in the DPRK is poor.
- vi) There is little cargo between Yanbian and Japanese ports on the Japan Sea coast.

Economies of scale have a significant impact in ports, as well. As large ports have frequent sailings of large ships to hub ports around the world, the waiting time is short and costs are cheap, no matter where in the world the cargo is destined. Looking at it in this context, we can see that it is

extremely difficult for the small ports of the Tumen River area to compete with Dalian. Possible measures for increasing their competitiveness include increasing the frequency of services to Busan, in order to make the ports in the Tumen River area feeder ports for Busan, and ensuring that transshipment at Busan is coordinated with all the shipping companies, in order to make it swifter and cheaper. The key to solving the problem lies in making the cost of transit cheaper than transit via Dalian.

5. The Investment Environment and Attracting Investment

The initial aim of developing the Tumen River area was to improve the investment environment and attract direct investment from both within the country and overseas. The development of the transportation corridors forms part of the improvements to the investment environment. The total figure for investment attracted by 2001 was \$550 million in Yanbian, \$640 million in Primorsky Territory¹⁵ and \$90 million in Rajin-Sonbong (figure for investment up to 1998). One thing that the three areas have in common is the fact that investment reached a peak in 1996 and has declined since then, with the drop experienced in 1997-8 being particularly steep, due to the Asian economic crisis. Thereafter, investment in Russia’s Primorsky Territory recovered to a certain extent, but recovery in Yanbian Prefecture is lagging far behind.

Table 4 Foreign Direct Investment in the Tumen River Area (actually implemented) (unit: million dollars)

	1985-93	1994	1995	1996	1997	1998	1999	2000	2001	Cumulative
Yanbian Pref.	42	61	78	134	95	47	33	29	32	551
Rajin-Sonbong	1	1	4	31	26	25	NA	NA	NA	88
Primorsky	141	2	53	97	95	56	54	78	66	642
Total	184	64	135	262	216	128	87	107	98	1,281

Source: UNDP Tumen Secretariat

1) Yanbian Korean Autonomous Prefecture (China)

The biggest investor in Yanbian Prefecture is the ROK, accounting for 63.5% of all investment implemented, followed by Hong Kong (11.0%), Japan (9.9%), Malaysia (8.5%) and Taiwan (4.2%). Almost all investment (98.3%) comes from Asian companies. The reason for the mass influx of companies from the ROK is the fact that a considerable proportion of the prefecture’s population is ethnic Korean (40%) and, as most of them speak Korean, companies expanding into the area have high expectations of being able to employ cheap labor with which they can also communicate. As a result of this, the area was directly affected by the Asian currency crisis in which the ROK’s economy became entangled in 1997-8. Both the opening in 1995 of the trade corridor linking Busan, Rajin and Yanbian, and the fact that there is a steady flow of cargo are thanks to companies from the ROK. However, it has recently been rumored that the interest of companies from the ROK has shifted from Yanbian Prefecture to Dandong.

In contrast, investment by Japanese companies is small and the shipping routes that link this

region to Niigata and Akita suffer from a lack of cargo.

Table 5 Investment in Yanbian Prefecture by Country (cumulative figures to 2001)

Investor Country	Value of Investment Implemented (million dollars)	Share (%)
Gross Total*	657.89	--
Identified Total**	410.30	100
ROK	260.48	63.5
Hong Kong	40.13	11.0
Japan	40.64	9.9
Malaysia	34.74	8.5

Source: Statistical Yearbook of Yanbian 2002

* Gross Total includes projects with investors whose country is unknown

**Identified Total covers 567 projects with investing companies that have been identified.

The main sectors in receipt of foreign capital include timber processing, textiles and apparel, foodstuffs and the service sector. Examples of large-scale investment projects include the Ssangbangwool textile factory, the Kabool textile factory, the Daewoo hotel (all invested in by companies from the ROK), the Ahnli timber processing factory (a joint Malaysian/Japanese project), the Jilin Fudun timber processing factory (Hong Kong), the Jinfa wood processing factory (Hong Kong) and the Guiwan food processing factory (Japan).

Companies that have expanded into Yanbian Prefecture have noted the following problems with the investment environment.

- i) Laws and systems change frequently.
- ii) Access to markets is poor.
- iii) Energy prices are relatively high and have to be paid in advance.
- iv) Drainage and waste disposal systems are poor.

2) Rajin-Sonbong (DPRK)

The total value of investment implemented in Rajin-Sonbong totaled \$88 million by 1998. The main fields of investment are infrastructure construction, hotels, communications and tourism. Of the 113 completely foreign-financed firms, 56% are Chinese companies, but many of these are small in scale and involved in trade, and account for just 20% of the total value of investment. Examples of large-scale investment projects include the Emperor Casino Hotel, which began operating in October 2000 (Hong Kong), and the communications system project financed by Loxley (Thailand). Investment by Japanese companies mainly takes the form of investment by Korean businesspeople living in Japan, with around 20 companies having invested in such sectors as hotels, catering, marine produce processing and timber processing by 1998. ROK firms have demonstrated a strong interest in Rajin-Sonbong, but there are no examples of ROK firms having registered as investors.

Investment figures for 1999 onwards have not been published, but as of July 2000, contracts

worth a cumulative total of \$5.2 million were said to have been concluded, with implemented investment quoted at \$2.2 million.¹⁶

The following problems have been cited by foreign companies that have invested in Rajin-Sonbong:

- i) Infrastructure such as roads has yet to be developed and there are problems in crossing the border, so it is difficult to visit the zone.
- ii) It takes a considerable amount of time for permission to be obtained from the central government.
- iii) Foreign companies have to employ staff via the zone authority's labor mediation office, so they cannot employ staff freely or set wages flexibly.

3) Southern Primorsky Territory (Russia)

As seen earlier, data released by the UNDP states that the total value of foreign investment attracted to Primorsky Territory by 2001 was \$640 million. However, this figure includes reinvestment in rubles, export finance and commercial loans; the value of foreign direct investment from 1990, when foreign investment began, until 1999 is estimated at around \$230 million.

Looking at the situation by investing country, the shares of each country in the cumulative total of investment between 1994 and 2000 are as follows: ROK 40%, Japan 21%, USA 13% and Singapore 8%.

The main fields of investment include transport, communications, hotels, food processing and timber processing. One large-scale investment project in the transport sector is the VICS container terminal at Vostochny. Investors in the telecommunications sector include a joint venture between Japan's KDD and Nissho Iwai, Cable & Wireless of Hong Kong, Korea Telecom of the ROK and US West and Global Telesystems of the USE. Other instances of investment include a hotel financed by the ROK's Hyundai Group, a plywood factory financed by Sumitomo Corporation and a bottling plant financed by Coca-Cola of the USA. However, it should be emphasized that these investment projects are concentrated in large cities such as Vladivostok and Nakhodka, with the Khasan District, near the Tumen River, being left behind. It is economic activity in what should be classed as a different economic subregion, located more than 100km away from the Tumen River.

The following problems concerning the investment environment have been cited by foreign companies that have expanded into Primorsky Territory:

- i) Laws are altered frequently and preferential measures are often applied in a discriminatory fashion.
- ii) The banking system does not function properly.
- iii) The rate of taxation is high and various labor costs are incurred.
- iv) Crime is rife and the medical system, water supply and sewerage systems and waste disposal system lag behind those of more developed countries.

6. Issues and Prospects

1) What Has Been Obstructing Development?

Ten years have passed since the idea of developing the Tumen River area first made an appearance. Development during this period has fallen well short of initial expectations. The reasons for the lack of progress in developing the area are due to the following factors:

- i) Access problems: China is dissatisfied with the current status of routes via ports in the DPRK and Russia, which it uses in order to gain access to the sea. Hard infrastructure such as roads, railways and ports, soft infrastructure such as border-crossing procedures, and expensive transit fees are still a problem.
- ii) Loss of momentum in the DPRK: When developing Rajin-Sonbong, the DPRK initially hoped that it would be able to use foreign capital as a shot in the arm to finance the construction of infrastructure, but it was difficult to depend on private sector finance and it was unable to obtain public finance as it was not affiliated to any international financial institutions. Moreover, it can be seen from the Chinese success story that bold steps towards introducing the market economy are needed in order for special economic zones to be successful, but Rajin-Sonbong is still tightly regulated. Furthermore, the political instability surrounding the DPRK makes it a high-risk country, giving rise to anxiety among investors. The lack of awareness regarding the nature of special economic zones and the passiveness of the central government have been major factors in the failure of the Rajin-Sonbong zone to take off.
- iii) Failure of Russia to realize its potential: The economic cornerstone of Russia's Primorsky Territory is the Vladivostok area, which is located a long way from the Tumen River, and businesspeople in Primorsky Territory have demonstrated a lack of interest in the development of the Tumen River area from the outset. Throughout the 1990s, Russia was in a parlous economic state and the government did not have the wherewithal to engage in fresh economic development in the Khasan District. As long as Khasan remains empty, it will be impossible to connect Vladivostok to the Tumen River area. Ultimately, there has been a lack of progress in developing Zarubino Port and members of the Primorsky Territory administration, who were initially enthusiastic, eventually lost interest in the Tumen River area and the Khasan District.
- iv) Regional and central government: The Tumen River area is located a long way from the seats of government of China, Russia and the DPRK. Even though the local administrations of Yanbian Prefecture, Khasan District and the Rajin-Sonbong zone are enthusiastic about it, it is difficult to attract the attention of and secure development finance from Beijing, Moscow and Pyongyang.
- v) Procuring development finance: All three countries have experienced difficulties in procuring development finance. In China, the efforts of the government of Jilin Province have led to its securing funding for such infrastructure projects as road construction, but this has not been possible in the DPRK. Development finance has failed to be procured in Russia too, as can be seen from the example of Zarubino Port. Unfortunately, there have been no injections of funding from international financial institutions or ODA from developed countries to finance the development of the Tumen River area.

2) What is Needed for the Future?

- i) Improved access: It is necessary to modernize the DPRK's roads and railways. Improved border-crossing procedures and the development of ports are required in Russia. In China, it would be preferable if Yanji Airport could be elevated to the status of an international airport. Furthermore, transit at Busan on the Rajin-Busan route should be made smoother and a broader range of destinations should be sought.
- ii) Involvement by the central governments of each country: In the Mekong Delta development project being coordinated by the Asia Development Bank (ADB), commitment on the part of central governments is emphasized. It is precisely because the Tumen River area is located a long way from the seats of government of the three countries involved that commitment on the part of the respective central governments is essential.
- iii) Cooperation on the part of the Asia Development Bank: The UNDP, which has carried out a coordinating role in the development of the Tumen River area, is not a financing organization. The involvement of the ADB, which has the ability to cooperate in providing finance, is still awaited. The ADB has a proven record of achievement as a coordinating institution in multilateral cooperative projects, such as the development of the Mekong Delta, and it is apparently interested in the Tumen River area as well. In order for it to become involved, it is first of all necessary for Russia and the DPRK to join the ADB.
- iv) A proactive attitude on the part of the DPRK and international cooperation: Recently, the DPRK has ranked the Rajin-Sonbong special economic zone as a failure and is moving towards trying to establish new special economic zones in Gaesung and Sinuiju. This leads to the creation of 'disposable' special economic zones and will not give rise to any learning effect. Would it not be better if the DPRK were to rebuild Rajin-Sonbong and then use this as a learning experience when tackling the construction of other special economic zones? When establishing other special economic zones, it is necessary for the DPRK to gain the trust of other countries and join international financial institutions, thereby mitigating its country risk. Investors are not interested in high-risk countries.
- v) Japanese participation: Although Japan is geographically close to the area, neither its public nor private sector have demonstrated any interest in the project. In the past, Japan was passive because it had a poor image as a result of its colonial-era rule of this area, but it is necessary to move forward and build friendly relationships with neighboring countries. Japan should accept the invitation to join the Consultative Commission that is regularly extended to it.

¹ Under Decision No.315 of the Central People's Committee, issued in September 1993, part of Wonjong Village and other areas in Undok County were incorporated into the FETZ, increasing its area to 746km². The administrations of Rajin City and Sonbong County were merged to create the new city of Rajin-Sonbong (under the direct control of the central government). The name of the city was changed once more in 2000, becoming Rason City.

² Institute of World Economy and South-South Cooperation, Korean Academy of Social Sciences, *Investment in the Rajin-Sonbong Economic and Trade Zone*, May 1998.

³ A special feature on the international investment forum was carried in the ERINA Report Vol.13, October 1996.

⁴ A list of investment briefings in Japan and investment projects highlighted was carried in the ERINA Report Vol.12, August 1996.

⁵ Statement by Hwan Jong Nam, Director of the External Economic Cooperation Promotion Committee, at the Rajin-Sonbong Zone Business Promotion Seminar held in Japan in July 1996.

⁶ Yoichi Kageyama, *Recent Developments in the Rajin-Sonbong Free Economic and Trade Zone (in Japanese)*, ERINA Report Vol.20, December 1997.

⁷ In June 1997, an outdoor free trade market was established in Wonjong, near the border with China, with the aim of facilitating trade with ethnic Koreans from Yanbian Prefecture and brisk trading took place. For a description of the situation in the area at the time, including the hustle and bustle of Wonjong Market, see Hisako Tsuji, *Crossing the Borders of Three Countries in the Tumen River Area (in Japanese)*, ERINA Report Vol.21, February 1998.

⁸ Hisako Tsuji, *New Trends in Rajin-Sonbong (in Japanese)*, ERINA Report Vol.30, October 1999.

⁹ Svetlana J. Vikhoreva, *The Development of Free Economic Zones in Russia*, ERINA Report Vol.38, January 2001.

¹⁰ The Russia – South Korea Industrial Complex took shape after ethnic Koreans, who had been forced to migrate to Central Asia during the Stalin era, petitioned the Russian government in early 1992 to allow them to move en masse to the Russian Far East. In January 1992, the ROK government recommended that the government of Primorsky Territory establish a Korean Economic Zone. In November of that year, an agreement between the two countries was formulated regarding such issues as the legal system and the development of infrastructure and facilities, when President Yeltsin visited the ROK.

¹¹ Niigata Prefecture Bureau of Ports and Airports *et al.*, *Report on a Study of the Development of New Shipping Routes on the Japan Sea Rim*, March 1994.

¹² ERINA, *Report on a Study of the Development Plan for Russia's Zarubino Port*, November 1996; Hisako Tsuji, *Prospects for the Zarubino Port Development Project*, ERINA Report Vol15, February 1997.

¹³ Lhagvaagiin Demberel, *Japan Expected to Become a Member of the Consultative Commission for the Tumen River Development Area and Northeast Asia*, ERINA Report Vol15, February 1997.

¹⁴ There are also local China – DPRK corridors between Tumen and Nanyang, and between Hunchun, Shatuozhi and Seppyor.

¹⁵ It is only the southern part of Primorsky Territory that is defined as being part of the Tumen River area, but statistical constraints mean that figures for the whole of the territory have had to be used here. It should be noted, however, that the major cities of Primorsky Territory are located in the south of the territory.

¹⁶ According to an interview conducted by the Kanamori Committee during a visit to the DPRK (July 2000).