

# Introduction

When talking about multilateral cooperation in Northeast Asia, most Japanese experts in the subject will immediately mention the development of the Tumen River area. In addition, interaction focusing on the Japan Sea/East Sea rim, which was developed in the 1990s principally by local authorities on the Japan Sea coast and private groups as a regional revitalization policy, has added momentum to this development program. ERINA, which was established with the aim of contributing to the formation and development of the Northeast Asia economic region, has taken multilateral cooperation as its central focus and has shown a strong interest in Tumen River area development as a symbolic case study.

Globally, moves toward economic integration are gathering pace, a trend that will not fail to have an impact on Northeast Asia. Northeast Asia is sandwiched between the ASEAN, EU and NAFTA regions, and is therefore affected by geopolitical developments in those regions; moreover, the Tumen River area is located at the point where the component countries of Northeast Asia intersect. China's presentation entitled *The Tumen River: A Development Concept for the Golden Triangle* given at the 1<sup>st</sup> International Conference on Northeast Asian Economic Development, which was held in the Chinese city of Changchun, Jilin Province in 1990, can be described as an historic event.

This second ERINA booklet, which provides an overview of the progress and results, and an evaluation of the last ten years of development in the Tumen River area, as well as relevant issues, is intended to contribute to the reference resources available to those with an interest in this subject. We have heard that, in China, which is said to be the most enthusiastic about the development of the Tumen River area, detailed reference books have already been compiled, and the consolidation of information is progressing in the ROK, which has a strong ethnic incentive to do so. Japan is seen to be the most passive of the component countries of Northeast Asia vis-à-vis development in the Tumen River area, so we hope that, having compiled an overall picture of development in that area from an objective perspective, this booklet will be of assistance in awakening fresh interest on the part of related individuals and groups.

This publication first outlines the progress made from the vision for Tumen River area development until the present day and the results achieved to date, before focusing on an evaluation of the program and related issues. In addition to presenting the perspectives of the countries concerned (China, the DPRK and Russia), related countries (Mongolia and the ROK), and the UNDP, which is based on multilateral cooperation, we have set out this booklet in such a way that the reader can glean information by topic (transport, the attraction of investment, tourism, the environment, etc.). Consequently, there are parts where descriptions have been duplicated, as we feel that readers may wish to approach this booklet from the sections of greatest interest. Moreover, as it was compiled with the aim of being distributed to a broad spectrum of interested parties, those readers who were hoping for a detailed research paper may not feel entirely satisfied, but we hope that they will permit us to leave this to other surveys and research papers. Our greatest wish with this series is to produce booklets that readers will want to keep to hand in their briefcases, rather than just sitting on their bookshelves.

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## 1.1 Background to the initiation of the development programme

### 1.1.1 Embryonic moves towards multilateral cooperation in Northeast Asia

During the Cold War period of east-west conflict, there was no multilateral economic cooperation at the regional level in Northeast Asia, which includes Japan, the Korean Peninsula, China, Russia and Mongolia, due to disparities in economic development and differences in ethnicity, language and culture, and most economic cooperation took the form of bilateral cooperation. As can be seen from the scale of GDP and volume of trade (Figure 1-1), Northeast Asia had a tripolar economic structure consisting of Japan, the ROK and China in 1990. However, the share of trade within Northeast Asia in the figures for these three countries did not exceed 10-25% of overall trade, and economic links within the region were not strong.

Figure 1-1 Macroeconomic Indices of Northeast Asian Countries (1990)

(Unit: US\$ billion)

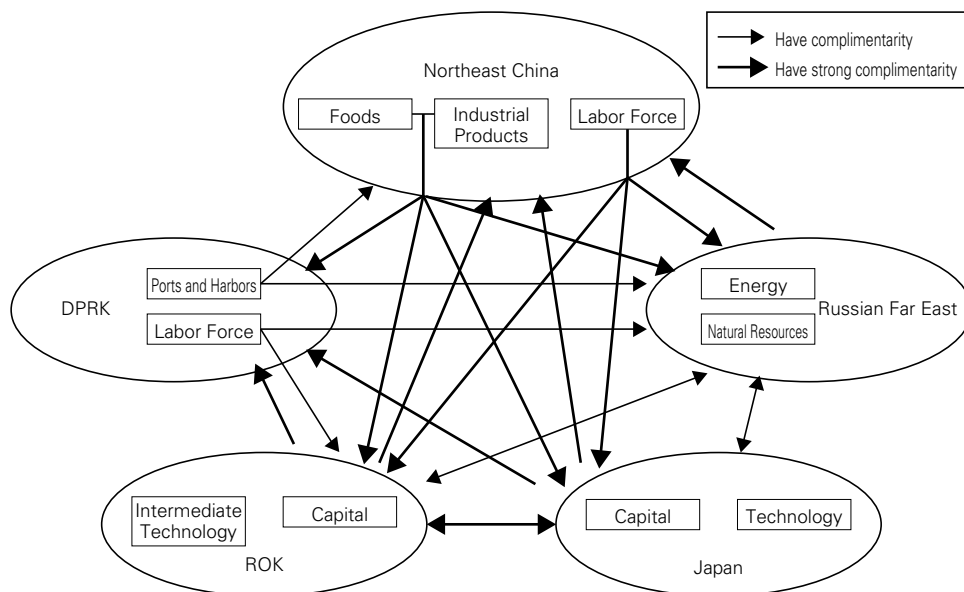
Country	Population Million	GDP Nominal	Per Capita GDP Nominal	Volume of Trade		Percentage of Trade Within Northeast Asia (%)	FDI		Foreign Exchange Reserves	External Debt Balance
				Export	Import		Foreign investment	Investment attracted		
Japan	123.6	2,970.0	2,402.9	287.68	235.31	10.3	50.49	1.78	78.5	-
ROK	42.9	254	592.1	63.23	71.36	25.3	1.05	0.79	14.79	31.70
China	1,135.0	388	34.2	71.75	60.22	19.9	0.83	3.49	29.59	52.55
Russian Far East	8.0	15.3	195.5	1.54	1.19	80.3	n.a	n.a	n.a	n.a
DPRK	20.2	23.1	114.6	1.97	2.76	78.0	n.a	n.a	n.a	7.86
Mongolia	2.1	2.2	108.0	0.66	0.92	81.1	n.a	0.001	n.a	0.015

(Note) Data for Russian Far East are as of 1992.

(Source) Economic Planning Agency, *Asian Economy in 2001*, IMF, *Direction of Trade Statistics*, DPRK data: National Statistical Office (ROK), *Results of an Estimate of the Population in North Korea* (August 1999), Bank of Korea, *Results of an Estimate of GDP in North Korea*, KOTRA, *Trends in the Foreign Trade of North Korea*, Ministry of Unification (ROK), *Trends in Inter-Korean Trade*, Russian Far East data: Institute of Economic Research, Far Eastern Branch of the Russian Academy of Sciences, *The Far East Economy: Reform and Crisis*. Other data are based on each country's statistical yearbook

However, the series of tectonic shifts in the international situation around 1990 gave birth to a new post-Cold War era. These changes included the normalization of Sino-Soviet relations (1989), the system change in Mongolia (1990), the normalization of ROK-Soviet relations (September 1990), the simultaneous admission to the UN of the ROK and DPRK (1991), diplomatic negotiations between Japan and the DPRK (1991-1992), and the normalization of Sino-ROK relations (August 1992). In particular, the transition of Russia and China to market economies has become the foundation for multilateral economic cooperation in Northeast Asia. As a result of this, discussions considering the possibility of an economic bloc reflecting Northeast Asia's regional characteristics gained ground. In other words, the necessary conditions are in place for economic development in Northeast Asia, including most of the natural resources in the Russian Far East (forest land, energy, minerals, marine produce), China's abundant workforce, the DPRK's good natural ports, and capital and technology from the ROK and Japan. Accordingly, it was thought that, if progress could be made with infrastructure development, it would be possible to realize complementary economic relationships within the region.

Figure 1-2 Diagram Showing Complementary Economic Relationships Between the Countries of Northeast Asia



(Source) Revised from the Macro-engineering Research Group's *Macro-engineering and the Concept of the Development of the Japan Sea Rim Economic Region*, 1994, p.95

Development projects involving the investment of capital from Japan and the ROK into Russia, Northeastern China and the DPRK began to be considered, in order to realize economic complementarities within Northeast Asia. These projects included the development of oil and natural gas offshore from Sakhalin, in the Russian Far East, the development of natural gas in Yakutia and Irkutsk, and the development of the Sanjiang Plain in China's Heilongjiang Province. Of these, the project on which the greatest emphasis was placed was the Tumen River Area Development Programme, under which international efforts have been made to achieve the development of the area where the borders of China, Russia and the DPRK meet.

### 1.1.2 Characteristics of the Tumen River area's location

The Tumen River (about 500km long, Korean name: Tuman River) is an international river which flows eastwards along the border between the northeastern part of the Korean Peninsula and China's Jilin Province, into the Japan Sea (Korean name: East Sea). The lowest reaches of the river, about 15km from the mouth, form the border between Russia and the DPRK.

Historically, the Tumen River was China's outlet onto the Japan Sea. It is believed that the lower reaches of the Tumen River formed the departure point for the Bohai embassy to Japan which began in 727 AD. As a result of the 1862 Sino-Russian Trade Agreement, free trade between China and Russia took place at Hunchun, which is situated near the border between China and Russia, on the lower reaches of the Tumen River, and the area evolved as an international free market. However, as a result of

Russia's abrogation of this agreement and the closing of the border in 1913, the Tumen River was only used as a trade route. After the establishment of Manchukuo in 1932, the lower reaches of the Tumen River were closed and China's exit onto the sea remained closed due to Sino-Soviet conflict from the establishment of the People's Republic of China up until 1990.

The Tumen River area encompasses such areas as China's Yanbian Korean Autonomous Prefecture in Jilin Province, Russia's Primorsky Territory, and the Rajin-Sonbong Zone of the DPRK (currently known as Rason City), but in a wider sense, Chongjin in the DPRK and Eastern Mongolia are also included from the perspectives of transport routes to the Tumen River area.

It goes without saying that the collapse of the Cold War structure around 1990 forms the background to the resurgence of interest in the Tumen River area. The concept of using multilateral cooperation to develop the Tumen River area, where the borders of China, Russia and the DPRK meet, surfaced as a model for multilateral cooperation in the new post-Cold War era in Northeast Asia. The following is an outline of the situation in this region.

Figure 1-3 Outline of the Tumen River Area

Country	Region	Total Population (thousand)	Major cities (Population, million)	Area (km <sup>2</sup> )	Major Industry
China	Yanbian Korean Autonomous Prefecture	2,138	Yanji (0.3) Tumen (0.14) Hunchun (0.18)	42,700	light industry, forestry products, agriculture, food processing, pharmaceuticals, tourism
DPRK	Chongjin City Rajin-Sonbong zone	670 130	Chongjin (0.67) Rajin-Sonbong (0.13)	746	light industry, agriculture, marine produce processing, tourism, transportation
Russia	Primorsky Territory	2,287	Vladivostok (0.67) Nakhodka (0.19) Khasan (0.04)	165,900	agriculture, food processing, mining, engineering, forestry products, tourism
Mongolia	Eastern Region	223	Choybalsan	287,600	mining, agriculture, livestock herding, tourism

(Note) Population is as of 1993.

The Tumen River area has a number of advantageous conditions, including abundant natural resources in China and Russia, such as timber and minerals, a cheap workforce in China and the DPRK, and ice-free ports in the DPRK and Russia. The region can be linked to vast markets in Japan, the ROK and further away in Europe by means of marine and rail networks. However, it suffers from such disadvantages as poor infrastructure development and being located a long distance from major consumption centers. Figure 1-4 shows advantages and disadvantages in each country of the Tumen River area.

Figure 1-4 Advantages and Disadvantages in Each Country of the Tumen River Area

## 1) Yanbian Korean Autonomous Prefecture, Jilin Province, China

Strengths	Weaknesses
1. Geographical proximity to DPRK, Russia, and the sea: distances to DPRK, Russia, ROK, and Japan are shorter from Yanbian than elsewhere in China	1. Geographical distance from major domestic markets and ports of the three northeast provinces
2. Korean ethnic community (40.5% of the 1990 population): Yanbian has good relations with the DPRK and the ROK.	2. Landlocked location and lack of efficient access to east coast ports
3. A low-cost, skilled and disciplined labor force: FDI using new technologies, combined with monthly wages of US\$70-80, produce levels of productivity similar to southern China	3. Lack of supporting industries, including parts manufacturing
4. Natural resources including water, wood and herbs for traditional medicine	4. Inadequate social infrastructure in border towns, and underdeveloped facilities for tourists
5. Tourism resources: Changbaishan (Mt. Paekdu) is the holy mountain for all Koreans; Fangchuan in Hunchun near the sea could be a tourist attraction in the border area of the 3 countries.	5. Underdeveloped international access routes to Yanbian

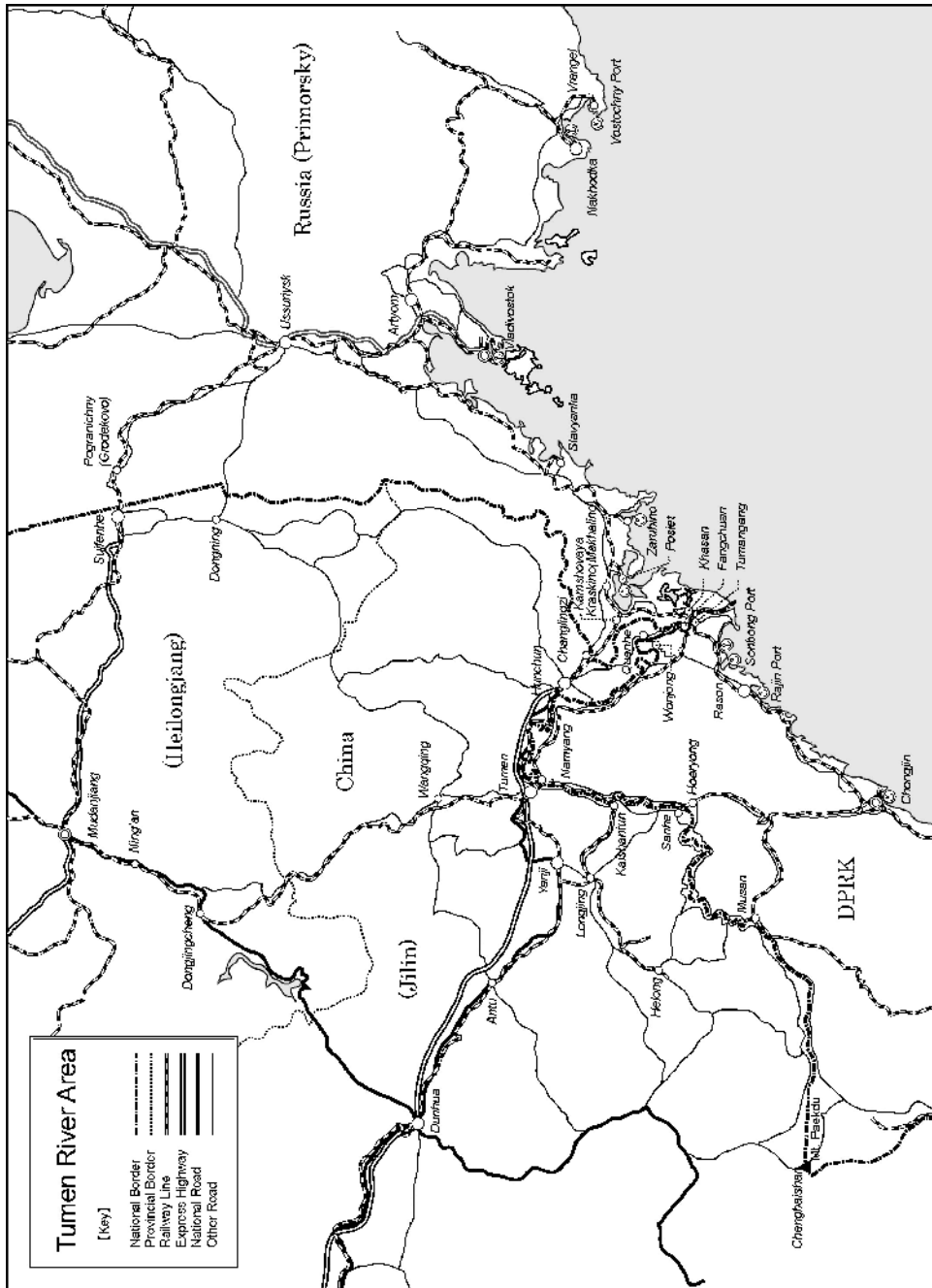
## 2) Rajin-Sonbong, DPRK

Strengths	Weaknesses
1. Rajin Port: the facility is old but in overall good condition, with a handling capacity of four million tons of cargo per year. The port is superior to Zarubino and Posiet, and has room for further expansion. There is dual gauge railway access to Khasan, Russia.	1. Poor infrastructure: the road network is underdeveloped and the condition of its surface is poor. The railway is old and in need of modernization. Electricity and fresh water supply are inadequate for future industrial and residential use. The waste treatment system is also inadequate, and social infrastructure, such as healthcare and housing facilities, is underdeveloped.
2. Tourism resources: the beautiful coastal beaches are a valuable tourist resource, and can easily attract tourists from inland China who want to enjoy swimming, fishing, and seafood. Mt. Chilbo, a beautiful coastal area, is about 145km from Rajin Port.	2. Geographical remoteness from domestic markets: domestic sources of demand are remote and underdeveloped, putting the RSZ at a disadvantage in any manufacturing industry.
3. Labor cost and quality: The entire workforce has completed 11 years of high-quality compulsory education.	3. Access for tourists is complicated, and tourism resources are underdeveloped.
4. Natural resources: the Zone is rich in marine resources and forest products such as pine mushrooms and oriental herbs.	4. Supporting industries (or functions) and business infrastructure are largely absent or inefficient (e.g. packaging, quality control, telecoms).

## 3) Primorsky Territory, Russia

Strengths	Weaknesses
1. There is a diversified network of international transportation infrastructure including port facilities (Vostochny, Nakhodka, Vladivostok), a rail network and an international airport. This makes the region an excellent transportation hub with efficient connections to continental Europe, Central Asia, Northeast China, Asia Pacific and North America.	1. Remoteness from major domestic markets
2. Primorsky has abundant supplies of a variety of natural resources (fish, timber, coal, minerals).	2. Poor living conditions (criminal, medical, water supply and sewerage systems)
3. An attractive tourist destination with the historic city of Vladivostok and areas of ecological interest.	3. Poor soft infrastructure (tax system, legal system, customs arrangements)

Figure 1-5 Map of the Tumen River Area





## 1.2 Moves to promote the development programme

### 1.2.1 Strategies and policies of related countries

#### 1) China: *Zou chu qu* (走出去) *Yin jin lai* (引进来)

China's open door policy can be summed up in the six characters 走出去, 引进来 (*zou chu qu, yin jin lai*: expanding overseas, while introducing foreign investment at home). Since the 1980s, China has been breaking new ground in terms of liberalizing external economic relations and has achieved economic development by opening up to foreign capital. Since the latter half of the 1980s, there has been lively debate about economic cooperation in Northeast Asia. The breakdown of the Cold War structure has been accompanied by a worldwide acceleration in moves towards economic integration, so creating a framework for multilateral economic cooperation in Northeast Asia has become an important issue in open door policies.

In China, Northeast Asian economic cooperation in the domestic sphere takes the form of the development of the three northeastern provinces. According to 1990 calculations, the three northeastern provinces accounted for 8.2% of the total landmass in China, the population of 99 million people accounted for 8.7% of the entire Chinese population, and in terms of economic strength, the regional GDP of RMB 199.3 billion accounted for 11.3% of GDP. In other words, the region can be said to account for about one-tenth of China's power in terms of a variety of aspects. The three northeastern provinces are endowed with abundant agricultural and natural resources, including oil and coal, and have come to rank as a hub for agriculture, heavy industry and the chemical industry. However, during the 1980s, there were seven years when the GDP growth rate of these provinces fell short of the national growth rate by between 1% and 4%.

The idea of trying to develop the Tumen River area in the Yanbian Korean Autonomous Prefecture, Jilin Province, by means of international cooperation, in order to develop the northeastern region, arose amid this situation in which the development of the three northeastern provinces is lagging behind. The Tumen River area development concept is a vision for multilateral economic cooperation that was born out of attempts by Jilin Province to search for an outlet onto the Japan Sea via the Tumen River, and China was the first to rouse international opinion on the subject. More specifically, at the First International Conference on Northeast Asian Economic Development, which was held in Changchun, Jilin Province, in July 1990, the Chinese representative's presentation on *The Tumen River: a Development Concept for the Golden Triangle* was the first international proposal.

As a result of these moves, the UNDP (United Nations Development Programme) decided in March 1991 to designate the development of the Tumen River area as a priority project in its fifth project plan (1992-1996). It compiled a research report and presented the *Vision for Tumen River Area Development* in October 1991.

After this vision was taken up as a UNDP project, China's central government decided to create preferential policies in order to promote the development of the Tumen River area; the State Council designated Hunchun as an "Open Border City" and approved the establishment of the Hunchun Border Economic Cooperation Zone. Moreover, the State Planning Commission ratified the *Principle of the General Development Plan for the*

*Lower Reaches of the Tumen River and the Hunchun Region* in the same year and initiated the development of roads and railways. China's development of the Tumen River area was promoted through the following three schemes.

a) Development of Fangchuan (initial scheme)

This was a plan to build a port in Fangchuan, a border village located about 15km upstream from the Tumen estuary, dredge it and create an outlet onto the Japan Sea. However, this plan was aborted due to the following problems:

- ◇ Agreement had not been reached between China, the DPRK and Russia regarding China's navigation rights
- ◇ The basin of the Tumen estuary is shallow, and even if it were dredged, the earth and sand that would be carried by the river would accumulate and every few years there would be an enormous bill for dredging.

b) Borrowing ports

This is a plan to secure an outlet onto the Japan Sea by using ports on the Japan Sea / East Sea coast of the DPRK and Russia. China's intentions in promoting both Russian and DPRK routes are likely to be to derive advantageous terms by placing both countries' ports in competition with each other and to secure alternative ports in both.

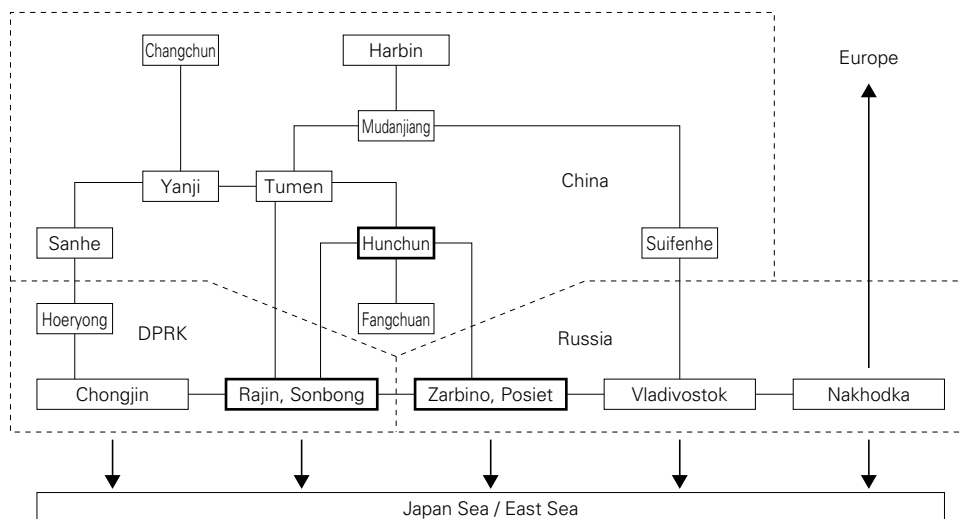
◇ **Russian routes**

- **Zarubino route:** Under this plan, 62km of railway was to be laid between Hunchun in Jilin Province and Russia's Zarubino Port, with the intention of making Zarubino an alternative outlet to Dalian Port for Northeastern China. Work began after an agreement was reached between Japan and Russia; the rails were linked in October 1996, the Hunchun-Kraskino section was officially opened in May 1999 and freight shipments began in February 2000. The Hunchun-Zarubino-Sokcho (ROK) cargo-passenger ship route was established in April 2000.
- **Posiet route:** Under this plan, Chinese access to such countries as Japan and the ROK was to be secured through the use of Russia's Posiet Port. Marine routes linking the port with the Japanese ports of Sakaiminato and Akita were promoted and eventually the Posiet-Akita route was established in August 1999.
- ◇ **DPRK route:** Under this plan, Chinese access to such countries as Japan and the ROK was to be secured through the use of Chongjin and Rajin ports. Efforts to establish routes using Chongjin Port failed, but the Rajin-Pusan container route was established in October 1995 and the Rajin-Niigata route in August 1999.

c) Developing Hunchun: implementing the "special economic zone" policy

In March 1992, China's central government opened up the city of Hunchun, which is adjacent to the borders with Russia and the DPRK, constructing the Hunchun Border Economic Cooperation Zone as a state-level economic cooperation zone, and stepped up its efforts to attract foreign investment. In June 1995, President Jiang Zemin visited Hunchun and presented the city with the motto "Develop Hunchun, develop the Tumen River, and develop friendly and cooperative relations with the countries of Northeast Asia". This signified that the Chinese government had adopted a policy of developing Hunchun as a hub for economic cooperation in Northeast Asia focusing on the Tumen

Figure 1-6 Tumen River Area Transport Routes



River area. In April 2000, the Hunchun Export Processing Zone was established with the approval of the State Council, followed by the Hunchun Sino-Russian Common Market Zone in February 2001.

Having promoted the aforementioned three strategies and measures for developing the Tumen River area, the Chinese government established the Interministerial Coordinating Committee for Tumen River Area Development, consisting of 20 ministries and agencies, in June 1999, in order further to promote the development of the Tumen River area. In April 2001, the Chinese government announced that it would ensure that the Yanbian Korean Autonomous Prefecture was included in the preferential policy for the development of the western areas of the country.

The regional government of Jilin Province, which is the main body at the regional level, has been implementing the following three stages of measures focused on Hunchun, with the aim of developing the Tumen River area.<sup>1</sup>

◇ Stage 1 (1995-2005): Construction of infrastructure and other elements of transport corridors

- Construction of an expressway between Changchun and Hunchun
- Opening and improvement of a road between Hunchun and Qianhe
- Internationalization of customs functions
- Establishment of international airline routes
- Establishment of international marine routes
- Expansion of border trade
- Establishment of a bonded area in Hunchun

◇ Stage 2 (2005-2010): Construction of economic and trade corridors

- Forming a China-DPRK-Russia transport network focusing on Hunchun; linking railways; linking the Chinese and Mongolian railways

<sup>1</sup> Interview with Dai Xiyao, Director (at the time) of the Tumen River Area Development Administration, Government of Jilin Province, 23<sup>rd</sup> August 2001.

- Improving flows of goods, people and information
  - Establishing collaborative administrative entities between China, the DPRK and Russia to oversee investment, trade, tourism, freight transport, banks and the prevention of dual taxation
  - Establishing a related committee consisting of China, the DPRK, Russia, the ROK, Japan and Mongolia
- ◇ Stage 3 (2010-2015): Nurturing economic growth hubs
- Forming a new regional economic bloc focusing on Hunchun through the development of the Tumen River area

In addition to China's general preferential measures vis-à-vis foreign capital, the government of Yanbian Prefecture, which is located in the Tumen River area development region, is providing the following incentives in order to promote foreign investment.

- From 2001 until 2010, companies that invest in the Yanbian region will enjoy preferential policies provided to promote development of the western areas (enterprise income tax of 15%).
- Depending on the scale of investment, income tax paid is repaid from the finances of the Yanbian government for between six and nine years after the company starts to make a profit.<sup>2</sup> From 2002, if the foreign-invested enterprise's value-added tax or business income tax exceeds RMB 1 million, the local authority reimburses the enterprise with 10% of the tax as a reward.
- In Hunchun, all companies that are recipients of foreign investment and have been operating for ten years or more are exempt from income tax for three years after turning a profit (two years in other regions).
- Special tax breaks for the Hunchun Export Processing Zone and the Hunchun Sino-Russian Common Market Zone (exemptions from value-added tax and customs duty, etc.)
- Land lease charges for manufacturing industry are lower than in other countries, being in the range of US\$17-20/m<sup>2</sup>, 20%-70% of which is reimbursed if paid as a lump sum, depending on the scale of the investment.

Furthermore, since May 1998 there has been a gradual improvement in various administrative charges, with regard to which foreign-invested companies had expressed great dissatisfaction. To be more specific, they have been integrated and simplified, with the rules for determining charges being made more transparent and some charges being reduced by half. In 2001, the regional government of Hunchun selected 32 types of project as priority development projects enjoying the preferential policies for western areas, including power stations, irrigation facilities, urban water systems, sewage treatment, waste disposal and road repairs, in order to make further progress in improving the investment environment.<sup>3</sup>

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<sup>2</sup> The refund of income tax paid is for the sixth year only in the case of investments in the RMB 2-5 million range, for the sixth and seventh year for RMB 5-10 million investments, for the sixth to eighth year for RMB 10-50 million investments, and for the sixth to ninth year in the case of investments exceeding RMB 50 million. See UNIDO, *China's Tumen River Area Investment Guide: Yanbian/Hunchun*, 1998, pp. 14-15.

<sup>3</sup> (Source) *Hunchun News*, 15<sup>th</sup> December 2001.

On 28<sup>th</sup> June 1999, the Chinese central government established the State Council Leading Group for Cooperation in Tumen River Area Development as an organization to lead the development of the Tumen River area, with representatives of the State Development Planning Commission and twenty ministries, including the Ministry of Foreign Trade and Economic Cooperation, Ministry of Railways, Ministry of Communications, General Administration of Customs, and the Ministry of Science and Technology. At the second plenary meeting on 19<sup>th</sup> June 2001, plans were discussed relating to such issues as the completion of infrastructure construction, the cultivation of Hunchun as a medium-class city of 500,000 people, the construction of the Hunchun Export Processing Zone and the Sino-Russian Common Market Zone, and the dynamization of trade and tourism. Moreover, proposals for specific measures aimed at the development of the Tumen River area included the completion and opening of the railway between Hunchun and Makhhalino, the establishment of Yanji International Airport, the establishment of a joint Sino-Russian bank, the authorization of Hunchun as a hub for tourism to the ROK, and the construction of a major international artery. In July 2002, a treaty was concluded between i) the Tumen River Area Development Administration, Government of Jilin Province, ii) the Tumen River Area Development Administration, Government of Yanbian Prefecture, iii) the Government of Hunchun, and iv) the Center for Northeast Asian Studies, Jilin University, and it was decided to establish the Tumen River International Development Institute. In September of the same year, the third plenary meeting of the State Council Leading Group for Cooperation in Tumen River Area Development was held and it formally signed up to this treaty. This institute carries out research into such areas as i) the development of the Tumen River, ii) the plan to establish economic collaboration zones between China and the DPRK, China and Russia, and China and Mongolia, and iii) the economic situation in the countries of Northeast Asia.

In order to dynamize foreign investment in the industrial sector, with the cooperation of such bodies as the UNDP's Tumen Secretariat and UNIDO, the regional government of Jilin Province and the regional government of the Yanbian Prefecture held the First Tumen River Area International Trade and Investment Forum in Yanji in October 1995; the Second International Trade and Investment Forum was held in September 1998 in Hunchun, and the third in Yanji in September 2002. This forum has been positioned as an opportunity to conduct business negotiations aimed at the joint international development of the Tumen River area, which focuses not only on China but also on Russia's Primorsky Territory and the DPRK's Rajin-Sonbong Economic and Trade Zone.

During the ten years of Tumen River area development, the central and provincial governments and the Yanbian prefectural government have invested a total of about RMB 5 billion (about US\$600 million) in developing infrastructure including roads, railways, airports and communications. They have worked to attract foreign capital in the industrial sector on the basis of this foundation. The strategy and measures employed by the Chinese government can be said to have been aimed at creating a hub for external liberalization in the country's northeastern region by means of international cooperation and the Chinese government's initial investment in infrastructure. The Chinese government has a strong inclination to promote the sustainable development of the Tumen River area.

## 2) DPRK: Implementing policies on a special economic zone

As one of the countries formed by the partition of the Korean Peninsula, the DPRK occupies a unique position in Northeast Asia. In particular, as the DPRK has adhered to a socialist planned economic policy, there has been antagonism between socialism and capitalism on the Korean Peninsula. The independent national economic policy, to which the DPRK also adheres as another basic economic policy, was forged amid such external circumstances as the cold war on the Korean Peninsula and economic sanctions imposed by the USA, with the aim of building a self-reliant economy dependent on the power of domestic resources and technology, and the people of the country. This situation has created a major bottleneck in relations between the DPRK and capitalist countries, particularly the ROK, Japan and the USA.

The changes in the international situation that took place around 1990, particularly the collapse of the socialist economic bloc, were a major ordeal for the DPRK and it became more oriented towards security through economic cooperation in Northeast Asia. This surfaced clearly in a speech by Professor Kim Su-Yong of Kim Il-Sung University, who gave the following explanation of the DPRK's external economic policy in Tokyo, in October 1995.<sup>4</sup>

"As a result of the relaxation of the Cold War structure, economic interaction that transcends ideals is becoming a worldwide trend, and the collapse of the socialist bloc, which once accounted for 70% of the DPRK's external economic relations, required a change in the country's economic policy of self-reliance. In December 1991, as a result of internal circumstances in the form of a need for domestic economic development and the external situation in which the global economy was shifting towards interaction and cooperation, the Rajin-Sonbong Free Economic and Trade Zone was established. In December 1993, a new economic liberalization policy was introduced in the summary of the third seven-year plan at the 21<sup>st</sup> general meeting of the 6<sup>th</sup> Central Committee of the Workers' Party. Its aims included i) the introduction of new technology, ii) achieving equilibrium in foreign currency and the balance of payments, iii) achieving peace and security in Northeast Asia by reinforcing regional cooperation, and iv) the implementation of a 'trade first' policy."

Hitherto, the DPRK had declared that it had no intention of establishing a special economic zone, stating that, "The establishment of a special economic zone in China is suited to the situation in China. We do not anticipate establishing a special economic zone in the DPRK."<sup>5</sup> However, from the 1990s, it seems that the DPRK has been trying to achieve economic development and "peace and security in Northeast Asia" through its policy on a special economic zone.

According to materials published by the DPRK, in February 1989, President Kim Il-Sung conceived the idea of creating a free economic and trade zone in the Sonbong area.<sup>6</sup> In fact, the DPRK government has been an active participant in the Tumen River Area

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4 At this lecture, which was held on 25th October 1995 by the Korea-Japan Export and Import Corporation, Professor Kim spoke on the subject of The DPRK's External Economic Policy and Prospects for the Rajin-Sonbong Free Economic and Trade Zone.

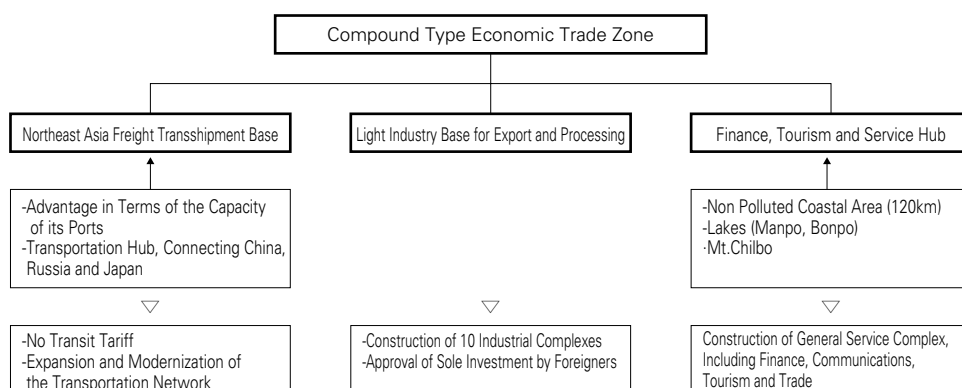
5 (Source) Yun Ki-Bok, Vice Chairman, Economic Policy Commission of the Central People's Committee, "The law created in our own unique way so that joint ventures suit our country", *Korean Central News*, 15<sup>th</sup> October 1984

6 (Source) International Economy and South-South Cooperation Institute, Academy of Social Science, *Investment in the Rajin-Sonbong Economic and Trade Zone*, May 1998, p.7

Development Programme from the outset, and it announced its plan to create a free economic and trade zone (FETZ) in the Rajin-Sonbong (now known as Rason City) region at the UNDP's First Northeast Asia Subregional Programme Conference, which took place in Ulaanbaatar, Mongolia in July 1991. The UNDP's Second Northeast Asia Subregional Programme Conference (16<sup>th</sup> October 1991) was held in Pyongyang, DPRK. As a result of this conference, the UNDP announced its special programme, the Tumen River Area Development Programme (24<sup>th</sup> October 1991, in New York). On 28<sup>th</sup> December the same year, the DPRK proclaimed the founding of the Rajin-Sonbong Free Economic and Trade Zone in Decision No.74 of the Administrative Council, and made a formal decision to implement preferential measures, including designating Rajin, Sonbong and Chongjin ports as free trade ports, waiving enterprise income tax for foreign-invested companies in that region, and introducing exemptions for customs duties.

The content of this was designed to develop the Rajin-Sonbong Zone as "a preferential area for transit transport and trade, processing of export goods, financing and services" (Article 2 of the Law on the Rajin-Sonbong Free Economic and Trade Zone).

Figure 1-7 The DPRK's Rajin-Sonbong (Free?) Economic and Trade Zone Development Concept



In terms of taxes, the DPRK's system of preferential measures for foreign-invested companies in the Rajin-Sonbong Zone is better than those in China and Russia.

- Enterprise income tax is 14% (10% for high technology, natural resource development and infrastructure construction, scientific research and technical development sectors); it is waived for the first three years after income is generated, and is reduced by 50% for two years thereafter.
- With regard to customs tariffs, there are waivers on i) imports of items to be processed for export, ii) commodities necessary for production and operations, iii) transit cargo, iv) commodities necessary for the construction of the Rajin-Sonbong Zone, and v) goods exported from the Rajin-Sonbong Zone.
- With a maximum rate of 18% (tobacco, alcohol, cars, etc.) on imported goods, customs duty is lower than in China and Russia. Turnover tax is in the range of 3%-9%, making it lower than value-added tax in China (17%).

<sup>7</sup> The name 'Rajin-Sonbong Free Economic and Trade Zone' was changed to the 'Rajin-Sonbong Economic and Trade Zone' in April 1998, with the expression 'free' being dropped.

The government of the DPRK has promoted a series of development-related measures, including the formation of a general development plan for national land relating to the Rajin-Sonbong Zone (1993), the development of investment-related laws (1992-present), and the expansion of the Rajin-Sonbong Zone (from 612km<sup>2</sup> in 1992 to 746km<sup>2</sup>). However, the framework for international cooperation in the DPRK emphasized that country's own rights rather than a framework for multilateral cooperation, and prioritized international cooperation focusing on itself. To be specific, while supporting the UNDP's Tumen River Area Development Programme, it rejected the idea of joint development through international joint administration, taking the stance that each country should independently establish special economic zones and undertake cooperative development only as needed.

There were no significant advances in the policy on the Rajin-Sonbong Zone until the end of 1994, due to such factors as the conflict between the DPRK and the USA resulting from the issue of the former's suspected development of nuclear weapons, which began with the DPRK's announcement of its withdrawal from the Nuclear Non-Proliferation Treaty (NPT) in March 1993. As a result of the Geneva Agreed Framework in October 1994, the issue of nuclear weapons development was settled and some signs of international cooperation in the development of Rajin-Sonbong Zone were seen, but as a result of a serious food crisis arising from such natural disasters as floods and droughts, which occurred from 1995 onwards, and a reduction in the rate of operation of factories due to shortages of power, raw materials and resources, the DPRK plunged into an economic crisis.

Amid this economic crisis, the DPRK had no domestic sources of development finance and had to depend on foreign sources. In September 1995, at the First International Investment Conference, held in Beijing, plans for infrastructure construction, as shown in Figure 1-8, were presented and capital requirements of billions of dollars were alluded to.

The strategy of the DPRK government, which was trying to develop such infrastructure as railways, roads, ports, communications and electrical power by means of the investment of foreign capital, continued even after 1996. In September 1996, the first International Investment and Business Forum in the Rajin-Sonbong Zone was held, when the government conveyed its hope to attract about US\$1 billion of foreign capital for infrastructure (railways, roads, ports) development and investment in 101 industrial sectors.

In June 1997, in order to improve the investment environment in the Rajin-Sonbong Zone, the DPRK government implemented the following: i) the wide-ranging delegation of power relating to investment to the Rajin-Sonbong Zone authority (a one-stop system), ii) the introduction of a market price system (abolishing the rationing system and implementing an independent profit and loss accounting system for enterprises), iii) the creation of a unified exchange rate (about 200 won/\$), iv) permission for private enterprise and the establishment of a free market, v) the integration of the rail administration system, and vi) the propagation of a market economic system (nurturing human resources). On the other hand, in order to develop infrastructure in the Rajin-Sonbong Zone, about 200 million won (about US\$1 million, based on the Rason



Figure 1-8 Infrastructure Construction Plans for the Rajin-Sonbong Zone

	First Stage (until 2000)	Second Stage (2001-2010)
Railway Construction	<ul style="list-style-type: none"> <li>- Electrification of railways between Namyang and Haksong (92km) completed in 1995</li> <li>* 100% of the North Belt Line has been electrified.</li> <li>- Construction of a new rail bridge for 4-rail track between Tumangang and Khasan (580m)</li> <li>- Connection of railway between Sambong and Kaisantun (4km)</li> <li>- Construction of Chosan-ri Station, which is adjacent to Tumangang Station</li> <li>- Construction of broad gauge railway between Rajin and Chosan-ri</li> <li>- Change and straightening of lightweight rails between Hoeryong and Haksong</li> <li>- Construction of a railroad bridge between Hunyung and Hunchun in cooperation with China and the DPRK</li> <li>* Will result in annual transport capacity between Rajin and Tumangang rising to 3 million tons</li> </ul>	<ul style="list-style-type: none"> <li>- Construction of double track railway between Rajin and Hunyung (122.5km)</li> <li>- Construction of broad gauge double track railway between Rajin and Chosan-ri (49.5km)</li> <li>- Automation of facilities at stations between Chongjin, Hoeryong, Namyang and Rajin</li> <li>* Will increase annual transport capacity to 60 million tons</li> </ul>
Road Construction	<ul style="list-style-type: none"> <li>- Construction of Wonjong customs office was completed in 1995</li> <li>- Expansion of roads from 6/7m to 9/12m <ul style="list-style-type: none"> <li>Between Rajin and Hoeryong (80km)</li> <li>Between Chongjin and Rajin (90km)</li> <li>Between Rajin and Saeppeol (110km)</li> <li>Between Sonbong and Tumangang (9km)</li> </ul> </li> <li>- Construction of expressway <ul style="list-style-type: none"> <li>Between Undok and Wonjong (7km)</li> </ul> </li> <li>* Will increase annual transport capacity to 7 million tons</li> </ul>	<ul style="list-style-type: none"> <li>- Construction of expressway <ul style="list-style-type: none"> <li>Between Chongjin, Rajin and Tumen River (114km)</li> <li>Between Chongjin and Hoeryong (75km)</li> <li>Between Rajin, Saeppeol and Namyang</li> </ul> </li> <li>* Will increase annual transport capacity to 28.4 million tons</li> </ul>
Ports		
Rajin Port 3 million tons/year	<ul style="list-style-type: none"> <li>- Construction of new berths, including No. 4 and No. 5</li> <li>* Will increase freight handling capacity to 17 million tons</li> </ul>	<ul style="list-style-type: none"> <li>- Construction of new berths for containers only, including No. 6 and No. 7</li> <li>* Will increase freight handling capacity to 100 million tons</li> </ul>
Sonbong Port 2.6 million tons/year	<ul style="list-style-type: none"> <li>- Increase capacity for handling crude oil to more than 4 million tons</li> </ul>	<ul style="list-style-type: none"> <li>Will increase to 15 million tons</li> </ul>
Chongjin West Port 7 million tons/year	<ul style="list-style-type: none"> <li>- Increase to 10 million tons</li> </ul>	
Chongjin East Port 1 million tons/year		<ul style="list-style-type: none"> <li>- Will increase to 10 million tons</li> </ul>
Airport	<ul style="list-style-type: none"> <li>Construction of international airport at Bupo-ri, Sonbong (2,500m)</li> <li>* Passengers (12million/year)</li> <li>* Freight (1 million tons /year)</li> </ul>	<ul style="list-style-type: none"> <li>- Airport expansion (4,000m×2)</li> <li>* Passengers (20 million/year)</li> <li>* Freight (1.5 million tons/year)</li> </ul>
Electric Power	<ul style="list-style-type: none"> <li>- Increase capacity of Sonbong thermal power plant (0.2 million kW) to 0.4 million kW</li> <li>- Construction of Rajin thermal power plant (0.3 million kW, coal)</li> </ul>	
Communication	<ul style="list-style-type: none"> <li>- Construction of a communication center with 40,000 lines</li> <li>- Construction of branch offices for satellite communication with 120,000 lines</li> </ul>	<ul style="list-style-type: none"> <li>- Construction of branch offices for automatic communications</li> <li>Laying fiber-optic cable between Rajin and Posiet</li> </ul>
Service Water	<ul style="list-style-type: none"> <li>- Construction of reservoirs <ul style="list-style-type: none"> <li>Muchang reservoir (12 million m<sup>3</sup>)</li> <li>Rokya reservoir (93 million m<sup>3</sup>)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Construction of reservoirs <ul style="list-style-type: none"> <li>Kumsong, Raksaeng reservoir (260 million m<sup>3</sup>)</li> </ul> </li> </ul>
Tourism	<ul style="list-style-type: none"> <li>- Construction of Rajin Hotel</li> <li>- Development the area between Anju (Daecho Island) and Sinhae (Bipa Island)</li> <li>- Development of the area between Uam and Gulpo (Bonpo)</li> <li>- Construction of Rajin-Sonbong International Hotel</li> </ul>	<ul style="list-style-type: none"> <li>- Construction of international hotels at Ungsang and Tumangang</li> </ul>

(Source) CPEEC of the DPRK, *Investment Climate of Rajin-Sonbong Free Economic and Trade Zone*, September 1995

exchange rate) of public funds was invested in roads, railways and hotels from 1996 until mid-1997.<sup>8</sup> The Rajin-Sonbon Zone became the only region in DPRK in which the principles of the market economy had been introduced.

However, as a result of the Asian currency crisis, which occurred while the DPRK was experiencing its own economic crisis, the DPRK intensified its negative stance vis-à-vis the global market economy. In 1998, the Rajin-Sonbong Zone's official name changed from the "Free Economic and Trade Zone" to the "Economic and Trade Zone", with the expression "free" being expurgated. Moreover, between 1998 and 2000, the government of the DPRK reinforced its previous economic policy of prioritizing heavy industry. Nevertheless, at the first session of the 10th Supreme People's Assembly, which was held in September 1998, the constitution was revised and practical improvement clauses governing the economy were created. In the the new constitution, these included the easing of constraints on individual ownership, the emphasis on such concepts as prime costs, prices and profits in economic management, and the stipulation of a special economic zone. In September 1998, at a business seminar held in the Rajin-Sonbong Zone, it was reported that there was a need to attract about US\$960 million of investment in a total of 116 projects in the industrial sector. Moreover, Rajin Market, which opened in the autumn of 1998, was established as a large free market with about a thousand traders.

During the economic crisis which began in the mid-1990s, the government of the DPRK hoped that the development of the Tumen River area, which encompasses the Rajin-Sonbong Zone, would promote cooperation, trade, and both economic and technological exchange between the DPRK and the countries of Northeast Asia, as well as countries across the globe.<sup>9</sup> The strategy and measures seeking to promote economic development and regime security by means of a policy on the special economic zone can be described as coherent. With regard to this, Kim Si-Jin, the then Vice-Chairman of the Committee for Promotion of External Economic Cooperation, who participated in the Ninth Northeast Asia Economic Forum (secretariat: East-West Center, Hawaii), held in Tianjin in October 1999, confirmed the following.

"Our people will continue to give maximum play to the economic potential of the country, expand and develop close cooperation with the Tumen River riparian countries, and contribute to the prosperity and economic development of Northeast Asia while adhering strongly to the socialist principle based on our own socialist economic structure."<sup>10</sup>

With regard to the development of laws relating to the Rajin-Sonbong Zone, after the formulation of various basic laws, such as the Law on Foreign Investment, the Law on Contractual Joint Venture and the Law on Wholly Foreign-Owned Enterprises, more than fifty related regulations were put in place by 1994. Under a decree issued by the Standing Committee of the Supreme People's Assembly (26<sup>th</sup> February 1999), nine related laws were revised, with another five regulations being revised by means of

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8 (Source) Kim Song-Jun, Maeng Chol-Ho, *Current Status and Policy on the Development of the Rajin-Sonbong Free Economic and Trade Zone* ERINA REPORT Vol.20, December 1997

9 (Source) International Economy and South-South Cooperation Institute, Academy of Social Science, *Investment in the Rajin-Sonbong Economic and Trade Zone*, May 1998, p.6

10 (Source) <http://www.tradp.org/textonly/dprkspeech.htm>

cabinet decisions by May 1999. The target area for foreign investment was limited to the Rajin-Sonbong Zone and the central government's administrative functions were reinforced. Moreover, since 2000, new laws relating to foreign investment have been formulated. These include the Regulations on Financial Management of Foreign-Invested Enterprises in the Rason Economic and Trade Zone (13<sup>th</sup> May 2000, Cabinet Decision No. 35), the Processing Trade Law (26<sup>th</sup> December 2000, the Ordinance No. 1978 of the Presidium of the Supreme People's Assembly), the Bankruptcy Law for Foreign-Invested Enterprises (19<sup>th</sup> April 2001, Ordinance No. 1504 of the Presidium of the Supreme People's Assembly), the Regulations on Introduction of the Latest Technologies by Foreign-Invested Enterprises (24<sup>th</sup> August 2001, Cabinet Decision No. 44) and the Land Planning Law (adopted on 27<sup>th</sup> March 2002 at the 5<sup>th</sup> session of the 10<sup>th</sup> Supreme People's Assembly). These regulations reveal the policy of the DPRK government of trying to reinforce cooperative economic relations with foreign countries. In particular, clause 24 of the Regulations on Financial Management of Foreign-Invested Enterprises in the Rason Economic and Trade Zone provides a clear guarantee with regard to foreign investment, stipulating that, "Capital of a foreign-invested enterprise shall not be nationalized or seized by the Zone". The Regulations on Introduction of the Latest Technologies by Foreign-Invested Enterprises set out preferential measures for foreign-invested enterprises as an incentive to introduce cutting-edge technology, reducing enterprise income tax to 10%, and being exempt from enterprise income tax for three years from the first profitable year, as well as reducing it by up to 50% for the following two years.<sup>11</sup>

The policies on the Rajin-Sonbong Zone currently adopted by the DPRK government are i) the implementation of preferential measures for foreign capital, ii) the attraction of foreign capital for infrastructure development (roads, railways, communications and electrical power), and iii) the attraction of foreign capital to fields in which cooperation is possible, such as marine produce. The focus is on the development of infrastructure, manufacturing and service industries by attracting foreign capital, with priority being given to investment in the development of entrepot trade and the tourism industry. The Rajin-Sonbong Zone authority is making haste to secure a supply of capital for transport development, having designated this a top-priority issue. The Zone Authority has suggested that the minimum amount of money required for infrastructure development is about US\$100 million, including US\$24 million for roads (Sonbong-Wonjong), US\$46 million for railways (Rajin-Namyang) and US\$20 million for the development of Rajin Port.<sup>12</sup>

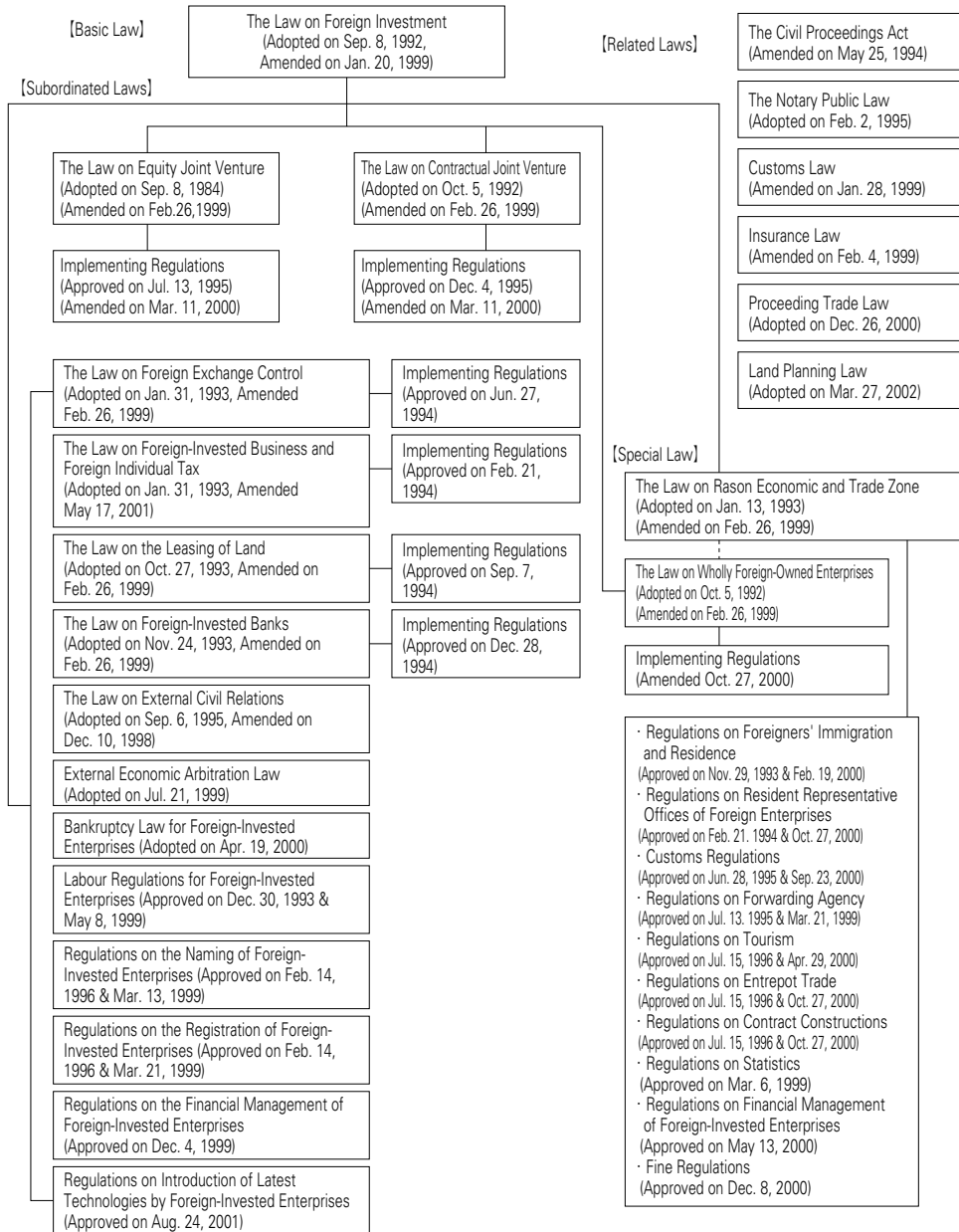
Moreover, plans are being made to improve the railway between Russia and the DPRK, and extend it to the ROK. According to the rail linkage plan agreed by the DPRK and Russia in July 2001, the Russian railway will run to the ROK via Rajin-Sonbong. It is hoped that the Rajin-Sonbong Zone will become a transit hub for cargo originating in and destined for China and Russia.

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11 These preferential measures are the same as those applicable to the Rason (Rajin-Sonbong) Economic and Trade Zone

12 (Source) Interview conducted during a visit to the DPRK by the Japanese Committee of the Northeast Asia Economic Forum (the Kanamori Committee) in July 2000.

Figure 1-9 The DPRK's System of Foreign Investment-Related Laws (Rajin-Sonbong Zone, as of July 2002)



### 3) Russia

Russia, which implemented radical market reforms of its socialist economy after the collapse of the Soviet Union, has inclined towards "Atlanticism", focusing on the USA and Europe. Of all Russia's regions, the Russian Far East has lagged far behind, its population shrinking, its infrastructure outdated and its processing industries deteriorating, rather than becoming a hub for Russian expansion into the Pacific region.

With the economic stagnation in the Russian Far East in the mid-1990s becoming more serious, the Interregional Association of Economic Coordination "Far East and Zabaikalie" proposed the formulation of the *Federal Programme of Economic and Social Development of the Russian Far East and Zabaikalie in the Period 1996-2005*, which was approved by the Russian government in 1996. However, due to insufficient coordination between the targets for regional development set out in the programme and the actual capacity of the federal and regional budget, and also because of the 1998 financial crisis, it was ultimately not possible to achieve the programme's targets. Later, in July 2000, after President Putin called for sweeping revisions to the programme, the *Federal Programme of Economic and Social Development of the Russian Far East and Zabaikalie in the Period 1996-2005 and Up to 2010* was created, and was approved in a government decree on 19<sup>th</sup> March 2002. The aims of this programme are to put in place the economic conditions for sustainable development of the region, the development of the necessary infrastructure and an advantageous investment environment in order to promote the development of priority economic sectors and multilateral cooperative projects, and achieving social standards that take into account regional peculiarities. The priority sectors for development are the fuel and energy industry, the fishing industry, non-ferrous metals engineering, the forestry and wood processing industry, transport, mining and the development of the social infrastructure sector. Specific projects include the development of a system of transport corridors and an oil and natural gas trunk pipeline network, the structural modernization of the aforementioned priority sectors, and the improvement of conditions for the development of small and medium-sized enterprises. The total cost is 441.2 billion roubles, about 85% of which is due to be funded by the private sector. In contrast to the previous programme, rather than investing in overall development, this programme focuses on the concentrated investment of funds in priority fields.

Russia's strategy and measures signify that the Russian government has adopted a stance of prioritizing the development of the wider Far East and Zabaikal regions, rather than treating the Tumen River area as a special development region. Compared with China and the DPRK, the other countries involved, Russian government interest in the vision for Tumen River area development has been weak from the outset, both within the central government and within the government of Primorsky Territory, which holds jurisdiction over the relevant area. The government of Primorsky Territory supported the *Development Concept of the Greater Vladivostok Free Economic Zone* (1991), which Vladivostok requested UNIDO to carry out, but it is conceivable that one reason for this was that the vision would compete with the Tumen River Area Development Programme. However, due to the difficulty of securing the vast quantity of funding required for development and the impracticality of the plan itself, the government scrapped the *Development Concept of the Greater Vladivostok Free Economic Zone* and switched to a more practical plan involving the upgrading of existing ports, such as Nakhodka and Vostochny in the Nakhodka Special Economic Zone and Vladivostok, and linking this to development. The Nakhodka Free Economic Zone (NFEZ) was established on 24<sup>th</sup> October 1990, when the Russian Federation Supreme Soviet adopted the *Resolution on Making the Far Eastern Port City of Nakhodka and its Environs a Free Economic Zone*, but it ran into problems regarding the supply of finance for infrastructure

development. The NFEZ covers an area of 4,611km<sup>2</sup> and has a population of 233,000 people.

Meanwhile, the authorities of the Khasan District, which adjoins the Tumen estuary, concluded an agreement with China in 1992, regarding the joint development and management of Zarubino Port, fitting in with speculation that China is seeking an outlet onto the sea in that area. In December of the same year, China and Russia signed an agreement relating to the development of the Hunchun-Changlingzi-Makhalino-Sukhanovka-Zarubino railway, and a joint venture company (the Golden Link Railway Company) was established in March 1993 in order to develop the railway between China and Russia.

It is likely that the Russian side had the intention of trying to take advantage of Chinese demand for transit freight transport, but progress thereafter was sluggish and the plan came to a standstill due to such issues as Russia's economic stagnation, finance problems on both the Chinese and Russian sides, and internal circumstances in the form of the Russian government's desire to give priority to the development of Vladivostok and Nakhodka ports. The railway tracks were linked in October 1996 and the line was officially opened in May 1999.

The government of Primorsky Territory began to tackle the development of the Tumen River area in earnest in 1995, focusing on the Khasan District. On 17<sup>th</sup> July 1995, the Russian federal government formulated Governmental Degrees No. 732 *The Russian Federation's Participation in the Implementation of the UNDP's Tumen River Area Development Programme* and No. 990 *About the Khasan Marine Commercial Port Transit Transport Hub*, and decided the following.

- i) An interministerial committee to be established to guarantee the promotion of socio-economic development in the Khasan District.
- ii) The following proposals to be made by the end of January 1998.
  - The construction of international transit facilities for passengers and cargo between Kraskino and Hunchun, promoting the construction of the Golden Link Railway, the refurbishment of Posiet and Zarubino ports, and the development of a regional telecommunications network.
  - The repair of roads between Kraskino and Posiet, Kraskino and Zarubino, and Kraskino and Lasdolie.
  - A stable electricity supply for the Khasan District.
  - Development of the region's fishery, fur and agricultural industries.
  - Development of tourism infrastructure in the region.
  - Natural development that takes into consideration the conservation of biological resources, including living marine resources.

As a result of these preparations, the then Governor Nazdrachenko of Primorsky Territory issued the directive *On Policies for Promoting the Development of the Khasan District of Primorsky Territory* on 12<sup>th</sup> February 1998. The main focus of this was the modernization of facilities and securing of finance for developing small and medium-sized fishing fleets and nurturing the marine produce processing industry, and securing a workforce (using workers from China or the DPRK), as well as nurturing agriculture and the livestock industry, mining and exporting coal, and developing Zarubino and Posiet ports. In order to make a success of this development plan, the government has

actively promoted cooperation with Japan, while on the Japanese side, ERINA and Keidanren in particular have been instrumental in supporting the development of the Khasan District and the upgrading of Zarubino Port.

The Russian government's switch in policy towards Northeast Asia boosted Primorsky Territory's policy on Tumen River area development. Russia's policy vis-à-vis Northeast Asia is outlined in the *Vision for the Foreign Policy of the Russian Federation* (1998), *Military Doctrine of the Russian Federation* (2000) and *Major Development Policies to 2010* (2000), and is as follows:

- i) In geopolitical terms, the policy is that of maintaining regional stability. To this end, the development of relationships in Northeast Asia is emphasised.
- ii) In economic terms, the policy is that of economic development in Siberia and the Russian Far East. To this end, it is necessary to expand economic relations with neighboring countries, promote infrastructure development and improve standards of living for the people.

In order to carry out these policies, the Russian federal government has tried to implement such initiatives as i) the use of bilateral government links in Northeast Asia (relations with China, the DPRK, the ROK and Japan), and participation in Northeast Asia's security and economic cooperation system; and ii) investigating Russia's role in the international division of labor in Northeast Asia (the supply of energy, the dynamization of the Trans-Siberian Railway (TSR). In particular, a plan to run through services across the Russia-DPRK border using the TSR and the Korean Peninsula railway, and absorb transit cargo to China's three northeastern provinces is being promoted.

Meanwhile, in November 1997, in order to attract foreign capital to Primorsky Territory, the regional government formulated the *Law on Investment Activities in Primorsky Territory*, which stipulated that foreign and domestic companies were to receive fundamentally equal treatment. However, the tax rates imposed on foreign companies were extremely high compared with taxes on similar firms in other countries, the changes were profound and the format was complicated. The preferential measures for foreign companies with more than 30% share capital in an enterprise were as follows:

- An income tax holiday for the first two years (followed by 75% and 50% reductions in the third and fourth years respectively) for manufacturing, agro-processing, consumer goods production, pharmaceutical products, and housing construction. However, the share of sales from the project's "core" activity should be at least 70% during the first two years and 90% thereafter.
- An additional 50% reduction of income tax (Primorsky's share) for the period of complete recovery of investment costs, but for no longer than three years
- Companies in the lease industry have their income tax reduced by 90% for the first two years and by 50% for the next three.
- Customs duties and value-added tax on major capital goods such as machinery and equipment are either reduced or waived, and duties paid on raw material imports for processing and re-export are refunded by the Primorsky authorities.

The policies currently adopted by the government of Primorsky Territory vis-à-vis the development of the Tumen River area include i) the development of Vladivostok, Nakhodka and Vostochny ports and the increase of international intermediate trade, ii)

the expansion of intermediate trade involving Chinese cargo by developing Zarubino Port and other parts of the Khasan District, and iii) international cooperation in order to nurture the fishery, agriculture and livestock farming industries in the Khasan District and cultivate industry in Primorsky Territory. As the Russian government has insufficient financial capability, it is hoped that investment from Japan and the ROK will be forthcoming.

#### 4) ROK

Taking the opportunity presented by the systemic transformations in Eastern Europe and the former Soviet Union around 1990, the ROK government implemented its "Northern Policy" and became active in cooperation and exchange with socialist countries. After beginning with the normalization of diplomatic relations with Hungary (1989), it formed diplomatic links with most Eastern European countries, as well as normalizing diplomatic relations with the former Soviet Union in 1990 and with China in 1992. The ROK also opened cabinet-level political dialogue with the DPRK in 1991/2. In December 1991, along with the DPRK, it adopted the *Agreement on Reconciliation, Nonaggression, and Exchanges and Cooperation Between South and North Korea*.

The ROK has been an active participant from the very first stages of the Tumen River Area Development Programme, which was proposed along with such post-Cold War moves. The first meeting (February 1992) of the Tumen River Area Development Programme Management Committee, which consisted of the countries participating in the UNDP-led Tumen River Area Development Programme (China, Russia, the DPRK, the ROK and Mongolia), was held in Seoul. The reasons for the ROK's display of interest in multilateral economic cooperation in the Tumen River area include the pursuit of improved links with the DPRK, not to mention political consideration of the fact that the Tumen River area, as well as being the region where the the borders of China, Russia and the DPRK meet, is home to many ethnic Koreans.

However, the tension between the US and the DPRK from 1993 onwards, arising from the issue of nuclear weapons development, complicated the international situation in Northeast Asia and made players in the region aware that it would not be all that simple to dismantle the Cold War structure in Northeast Asia, in particular with regard to the DPRK. The partition of the Korean Peninsula is at the heart of the Cold War structure in Northeast Asia and it has become clear that the security issues surrounding the DPRK must be solved together for the sake of international cooperation in the region.

Since 1993, the international situation surrounding the DPRK has become tense, but the ROK has been undertaking large-scale investment activities in the Tumen River area. In particular, there has been an upsurge in investment in China's Yanbian Korean Autonomous Prefecture. The reason for this is that, due to wage increases and shortages of manufacturing capacity and labor in the ROK economy in the latter half of the 1980s, the relocation of production bases overseas began and China became the largest recipient of investment, being an appropriate focus for such relocation. Within China, the Bohai Gulf Rim region, consisting of such areas as Shandong Province, Tianjin and Liaoning Province, which have an advantage in terms of logistics, was the main target for foreign investment, but the ROK engaged in large-scale investment in the Yanbian Prefecture, due to such factors as the fact that about 40% of the



population is ethnically Korean, sharing the same culture and language as the ROK, as well as such advantages as cheap labor and land prices. As a result, Yanbian Prefecture accounted for 5.6% of all ROK investment in China in 1996.

The ROK, stricken by economic stagnation as a result of the currency crisis in late 1997, promoted economic liberalization policies and structural reforms in line with the IMF's policy guidance. Moreover, it switched to a policy of engagement with regard to the DPRK, with the aim of improving North-South relations and achieving peaceful coexistence. To be more specific, details of this policy included i) no tolerance of any act of armed provocation from North Korea, ii) no absorption of North Korea and iii) active promotion of inter-Korean reconciliation and cooperation. The ROK government's positive attitude towards alleviating the tension on the Korean Peninsula led to the North-South Summit being held in Pyongyang in June 2000. The "June 15<sup>th</sup> Joint Statement" by the leaders of the ROK and DPRK announced that they had agreed that the Korean people would undertake unification and socio-economic cooperation through their own efforts. With this, the ROK and DPRK officially recognized each other's governments, and the international political situation relating to the Korean Peninsula, such as US-DPRK and Japan-DPRK relations, has begun to move towards the easing of tension.

Since 2001, amid signs of a resurgence of tension in Northeast Asia as a result of the deterioration in relations between the USA and the DPRK, there have been no fundamental changes in the ROK's policy of peaceful coexistence with the DPRK.

The ROK government's cooperation with the development of the Tumen River area can also be seen in the area of financial backing. In 1992, the ROK government decided to provide the UNDP with US\$5 million of support for use in the Tumen River Area Development Programme and had paid US\$4.06 million of this by the end of 2000. This endowment is being used as shown below.

Figure 1-10 The ROK Government's Financial Support to the Tumen River Area Development Programme (as of December 2000)  
(Unit: US\$ thousand)

	Budget	Projects	Cost	Balance
UNDP/ROK National projects	2,063	Evaluation of the TRADP by section	320	1,058
		Feasibility study for the TRADP Commercial Bank	370	
		Feasibility study for the development of Changbaishan (Mt. Paekdu)	290	
		Running expenses for the Tumen Secretariat	25	
Trust fund projects <sup>13</sup>	2,000	Project for promoting investment in Primorsky Territory	150	1,075
		Environmental assessment in Hunchun	100	
		Tumen Region Investor Service Network	675	
Total	4,063		1,930	2,133

(Source) Ministry of Finance and Economy (ROK)

Given these policies, the strategy of the ROK government can be said to be the creation of a framework for regional cooperation by playing a coordinating role in multilateral economic cooperation in Northeast Asia while also assisting in its development, as well as promoting peace, stability and sustainable economic growth in the region, focusing on the

<sup>13</sup> In April 1996, the Memorandum of Understanding Between the ROK and UNDP Regarding the Trust Fund was concluded and US\$1 million was transferred into the trust fund's account from the UNDP and ROK account for state projects. In February 2002, the second tranche of US\$1 million was transferred to the trust fund.

Korean Peninsula. The aim of maintaining channels of dialogue between North and South, which was said to be the ROK government's objective in participating in development in the Tumen River area, has become somewhat more dilute than it was in June 2000 during the North-South Summit, but given that the future link between Russia's Trans-Siberian Railway and the ROK will run through the Tumen River area, it is predicted that the ROK government will maintain its participation.

#### 5) Mongolia

In Mongolia, a landlocked country sandwiched between Russia and China, economic cooperation in Northeast Asia is an extremely important issue that will lead to economic growth and security. At present, the countries of Northeast Asia, *viz.* Russia, China, Japan and the ROK, account for 60% of all foreign capital invested in Mongolia and 70% of all trade with the country, and Mongolia's economic development is closely intertwined with Northeast Asia. Accordingly, the Mongolian government has a great deal of interest in the creation of a framework for multilateral economic cooperation in Northeast Asia, and is taking a stance of supporting all proposals made with the aim of promoting cooperation in the region. Mongolia places particular emphasis on the UNDP's Tumen River Area Development Programme, and has participated in this programme from its initial stages, with a view to creating a mechanism for multilateral development cooperation. The First Northeast Asia Subregional Programme Conference, which was the first international conference relating to the development of the Tumen River area organized by the UNDP, took place in July 1991 in the Mongolian capital of Ulaanbaatar. The Mongolian government came up with a vision for a transportation route linking the Tumen River area with Eastern Mongolia. As it would create a new outlet onto the sea for Mongolia, the Mongolian government is attaching great importance to this vision. In Mongolia, there are hopes that this route will contribute not only to Mongolia's trade and economy, but also to the development of trade and a transportation network for the whole of Northeast Asia.

The Mongolian government is emphasizing three projects as targets for Northeast Asian economic cooperation, and is tackling the issue of securing finance from overseas. The three projects are i) connection of the railway from Eastern Mongolia to Northeastern China, ii) support for the opening of a border-crossing point, and iii) the development of tourism on the steppes of Eastern Mongolia.

### 1.2.2 UNDP development cooperation

#### 1) Preparatory Phase: March 1991~August 1993

The UNDP has actively carried out a supporting role since the initial preparatory phase. In March 1991, it decided to take up the development of the Tumen River area as a priority issue in the UNDP's Fifth Project Plan (1992-1996). In July 1991, the UNDP-organized First Northeast Asia Subregional Programme Conference (in which representatives from China, Russia, the DPRK, the ROK, Mongolia and the US participated) took place in Ulaanbaatar, and the Tumen River Area Development Programme was recognized as the first UNDP-supported development project in Northeast Asia. In August and September of the same year, three UNDP experts visited the Chinese, DPRK and Russian parts of the Tumen River area; in October, the Second

Northeast Asia Subregional Programme Conference took place in Pyongyang, and the survey report, having undergone adjustments by the relevant countries, was published on the 24<sup>th</sup> of that month as the *Vision for Tumen River Area Development*.

This report pointed out that, "the resources of Northeast Asia and the complementarities between the countries of the region are most promising, while the Tumen River area has great potential for intermediate trade and the development of industries engaging in intra-regional cooperation, but the cooperation of the three (adjacent) countries is an important prerequisite for realizing this." A proposal was presented, which outlined the areas to be the focus for this development: the Tumen River Economic Zone (TREZ), defined as the small triangle (1,000km<sup>2</sup>) linking Hunchun, Rajin-Sonbong and Posiet and Zarubino ports, and the Tumen River Economic Development Area (TREDA), defined as the large triangle (10,000 km<sup>2</sup>) linking Yanji, Chongjin and Nakhodka Port.

Moreover, the report estimated the total cost of developing the Tumen River area to be about US\$30 billion, with the objective being to construct about ten modern quays and a city in which around a million people can live, including the development of such infrastructure as roads, ports, railways, airports and electrical power and the nurturing of the necessary human resources. It predicted the development period to be about twenty years, including two years for a study of the area, four to five for construction projects and seven to twelve years for the formation of industrial zones.

Figure 1-11 Estimate of Development Costs in the Tumen River Area (Unit: US\$ billion)

Infrastructure for regional society	Value	Transportation infrastructure	Value	Others	Value	Total
Urban development	8	Port improvements	4	Development of education and human resources	1	
Energy (electricity)	2	Fluvial port improvements	1	Others	2	
Communications	1	Inland port improvements	1			
Drinkable water	1	Airport improvements	2			
Waste disposal	1	Train	2			
		Railway improvements	2			
		Road improvements	2			
Total	13		14		3	30

(Source) UNDP, *Report on the Development Study in the Tumen River Area*, October 1991

At the aforementioned conference in Pyongyang, the following ideas regarding the construction of a special development zone were proposed.

- i) Each country should establish at least one special trade zone in its own part of the region. Coordination should then take place regarding the administrative and policy-related aspects of these special trade zones. (Supported by the DPRK)
- ii) The three neighboring countries should establish a special zone in the region where their borders meet, while respectively maintaining their territorial sovereignty. Coordination between the three administrations in terms of policies and procedures should then take place.
- iii) The three countries should jointly designate a region as a special economic zone and jointly undertake administrative coordination with regard to its development and management. (Supported by China and the UNDP)

Moreover, at the Pyongyang conference, in order to realize multilateral cooperation

with the aim of achieving development in the Tumen River area, the UNDP established the Programme Management Committee (PMC), consisting of governmental representatives at vice-ministerial level from the five member countries of China, the DPRK, Russia, the ROK and Mongolia, as a forum for the coordination of opinions between the relevant countries regarding the direction in which development should progress.

The first plenary meeting of the PMC took place in February 1992 in Seoul. At the meeting, discussion focused on the problems of selecting the area for development and ways of procuring finance. With regard to the selection of the development region, Russia expressed a wish for the Tumen River area to interlock with Vladivostok, while China requested the development of the large triangle that includes Yanji.

The second plenary meeting of the PMC took place in Beijing in October 1992. In addition to experts from the five relevant countries and the UNDP, representatives of the World Bank, Asian Development Bank, Japan and Finland also attended as observers. At the meeting, Russia's participation in the PMC was formally confirmed. In addition, the issue of establishing the following three bodies was discussed for the first time.

- i) An intergovernmental cooperative advisory committee consisting of the five relevant countries
- ii) A coordinating cooperative committee consisting of the three countries of the Tumen River area
- iii) A limited company to undertake development in the Tumen River area

The third plenary meeting of the PMC took place in Pyongyang in May 1993. In addition to the five relevant countries, Japan and Finland participated as observers. The main issues discussed included the establishment of institutions, the drafting of a treaty and finance. Although this was the period when the issue of the DPRK's withdrawal from the Nuclear Non-Proliferation Treaty had become a crisis, there were no changes in the DPRK's stance vis-à-vis the UNDP project. As a result of this meeting, the Tumen River Area Development Programme formally entered its first phase.

## 2) Phase I: September 1993 ~ December 1995 (Collapse of the plan for a joint international special economic zone)

The first phase of the UNDP-led Tumen River Area Development Programme began in September 1993. The main issue was that of realizing the UNDP's proposal to lease land from the three neighboring countries (China, the DPRK and Russia) and build a special economic zone under joint international management. About US\$30 billion was said to be required for the development of the joint international special economic zone. However, the DPRK and Russia opposed the lease of land, and the various countries raised the issue of the problems involved in procuring such vast sums for development.

At the fourth plenary meeting of the PMC, which took place in Moscow in July 1994, the UNDP's initial proposal was revised considerably. After this, the UNDP relinquished the leadership of the programme to the various countries involved, with the UNDP itself taking on a supporting role.

At the fifth plenary meeting of the PMC (Beijing) in May 1995, three treaties setting out a multilateral cooperative framework on an intergovernmental basis were initialed.

These treaties were: i) *The Agreement on the Establishment of the Tumen River Area Development Coordination Committee (Coordination Committee)*, involving China, Russia and the DPRK, ii) *The Agreement on the Establishment of the Consultative Commission for the Development of the Tumen River Economic Development Area and Northeast Asia (Consultative Commission)*, which involved the ROK and Mongolia, in addition to the aforementioned three countries, and iii) *The Memorandum of Understanding on Environmental Principles Governing the Tumen River Economic Development Area and Northeast Asia*, involving the aforementioned five countries.

At the sixth plenary meeting of the PMC (New York) in December 1995, the above agreements and memorandum were formally signed, establishing the Coordination Committee and the Consultative Commission, to replace the PMC. The Tumen Secretariat was established as the secretariat for both the committee and commission in order to translate these three treaties into reality. Furthermore, the establishment of the Tumen Trust Fund was decided, with the objective of undertaking technological support aimed at the sustainable development of the economy and society of the Tumen River area and Northeast Asia as a whole. At the sixth plenary meeting of the PMC, the consultative committee resolved to request that the Japanese government become a member, but the Japanese government maintained its cautious attitude and remained an observer.

As a result of the conclusion of these three treaties, the Tumen River Area Development Programme moved into its second phase: the practical stage.

### 3) Phase II: January 1996 ~ December 2000 (Cultivating an international cooperative framework)

The second phase is significant because it was the period when the plan for a jointly managed special economic zone proposed by the UNDP during Phase I failed and the development of the Tumen River area, which had been left up to the initiative of the governments of the countries concerned, returned once more to a framework for regional cooperation. The Coordination Committee and the Consultative Commission had met a total of four times by the end of 2000. The plans agreed in November 1997 and implemented in the following three years up to the end of the second phase in 2000 are as follows.

- Regular meetings of the Consultative Commission and Coordination Committee, the operation of the Tumen Secretariat, and the establishment of National Teams in the relevant countries
- Pursuit of an investment strategy
- Implementation of an environmental conservation programme
- Improvements in problems relating to border crossings, construction of roads and railways, increasing trade and transport by making improvements in institutional problems, and securing regular marine transport between China and the ROK and Japan, via the DPRK and Russia.
- Promotion of tourism in the Tumen River area.

Figure 1-12 Details of Meetings of the Consultative Commission and Coordination Committee Held During Phase II

	Period	Place	Major content of discussion
First meeting	April 1996	Beijing	*Establishment of Tumen Secretariat, the secretariat for the two committees, in Beijing
Second meeting	October 1996	Beijing	*Passed a resolution to invite official affiliation of Japan
Third meeting	November 1997	Beijing	*Agreed on the second stage development plan by 1999 *Major issues, including trade barriers, promotion of investment, tourism, environment and transportation
Fourth meeting	June 1999	Ulaanbaatar	*The DPRK was absent from the meeting. The meeting of eminent persons was held simultaneously. *Announcement that the ROK was to donate an additional US\$1 million to the Tumen Trust Fund *UNDP emphasized transportation and environmental protection *UNDP suggested the establishment of an investment company for development *Implementation of cooperative project with more than two countries

During the development stage of Phase II of Tumen River area development, the UNDP's Tumen Secretariat acted as a catalyst in many areas. It supported the Investment Forum of the three countries of the Tumen River area, initiated the Tumen Region Investor Service (TRIS), an investment service project for the Tumen River area, in 1998, and, as a related project, implemented a study of the investment environment in the Tumen River area in September 1999, with the cooperation of such bodies as the World Bank and ERINA. Moreover, cooperation in the tourism field, in which foreign currency could be earned just by means of small-scale investment and improving immigration systems, began in earnest in 1998. With regard to the environment, based on the *Memorandum of Understanding on Environmental Principles*, concluded in December 1995, the Secretariat supported the implementation of economically sustainable environmental impact assessments that reconcile development and the environment, as well as meeting international standards, and supported the development of domestic regulations.

Figure 1-13 Major Activities of the Tumen Secretariat

Activity	Period	Place
Presentation on investment environment for Tumen River area development	February 1996	Niigata
Rajin-Sonbong Investment Forum	September 1996	Rajin
Investment promotion workshop	January 1997	Beijing
Environment workshop	May 1997	Vladivostok
Meeting for foreign investment promotion in Mongolia	Jun 1997	Ulaanbaatar
Transportation infrastructure workshop	November 1997	Beijing
Workshop on measures for improving investment promotion	February 1998	Vladivostok
Primorsky Territory international investment business forum	May 1998	Vladivostok
Tumen River investment promotion meeting	July 1998	Yonago
Tourism workshop	July 1998	Yanji
Environment workshop	September 1998	Vladivostok
Hunchun investment forum and Rajin-Sonbong investment mini-forum	September 1998	Hunchun, Rajin-Sonbong
Transportation workshop	December 1998	Yanji
Tourism workshop	January 1999	Changchun
Meeting on East-West transportation corridor	June 1999	Vladivostok
Tourism workshop	August 1999	Hunchun
Research on investment environment by World Bank and others	September 1999	Tumen River area
Trade and investment promotion workshop in Tumen River area	March 2000	Beijing
Research on development of tourism	April 2000	Tumen River area
Tourism workshop	May 2000	Vladivostok
Workshop for restructuring Tumen River Area Development Programme	December 2000	Beijing

4) Phase III: January 2001 onwards (In search of new development: expansion of the region, enhancing the role of participating countries)

During the first and second phases of the Tumen River Area Development Programme, various studies were carried out and policies implemented in such fields as attracting investment, the environment and tourism, but there were still many obstacles to regional integration, the pace of development was snail-like, and it was not possible to meet investment targets. Due to an awareness of such problems, the representatives of the member countries agreed the following at the meeting of the National Coordinators in October 2000.

- The Tumen River area is too small to attract significant national and international interest, and the member governments should work to see the Programme in the larger context of Northeast Asia while also considering appropriate ways and means to associate Japan with the Programme.
- The UNDP will remain involved in the Programme, but the nature and role of its involvement should change so that the member countries assume greater ownership of the Programme. In this respect, the roles of the Tumen Secretariat, National Teams and Working Groups need to be redefined and a clearer distinction be drawn between the Tumen Programme and UNDP support.
- Existing Working Groups (WGs) should be maintained and a Communications WG be established. Member countries should take the lead in organizing WG meetings, assisted by the Tumen Secretariat.

Based on this agreement, at the restructured workshops for the programme that took place in December 2000 in Beijing, the plan for the new stage of the Tumen River Area Development Programme was discussed and the third phase began in 2001. The following were taken up as the two main issues for Phase III.

- i) The reinforcement of a stable framework for international cooperation and the change in leadership (from the Tumen Secretariat to member countries)
- ii) Contributing to economic development in the region through concrete activities in five fields (trade and investment, transport and communications, the environment, tourism and energy)

In order to reinforce the stability of the cooperative framework, the member countries decided to send experts to the Tumen Secretariat, with the financial burden being covered by each country. The UNDP's role was set out as being the elimination of obstacles between nations and supporting the policies of participating countries, as a means of creating a political framework for the sustainable development of Northeast Asia that includes Japan and the ROK. At the Fifth Meeting of the Consultative Commission, which was held in April 2001 in Hong Kong, a medium-term plan for the programme between 2001-2003 was signed; a total of US\$2.19 million was secured for projects and the UNDP's financial support was reduced, with the UNDP contributing \$1.81 million of the total amount (down from US\$3.09 million in 1997-1999). At the Sixth Meeting of the Consultative Commission, which was held in June 2002 in Vladivostok, it was agreed that i) the UNDP would negotiate with the Japanese government on behalf of the five countries with a view to accepting Japan as a formal member, ii) as the participation of the ADB is important in terms of finance and investment, given its experience in the development of the Greater Mekong Subregion

(GMS), a request should be made for Russia and the DPRK to be admitted to the ADB, and iii) emphasis should be placed on the contribution of industry, commerce and NGOs to development in the Tumen River area, and the governments of member countries should pay greater attention to the role of NGOs.

Figure 1-14 Meetings of the Consultative Commission and Coordination Committee During Phase III

	Period	Place	Major content of discussion
Fifth meeting	April 2001	Hong Kong	<ul style="list-style-type: none"> <li>*Official affiliation of Japan is necessary</li> <li>*Expansion of the project area (from Tumen area to Northeast Asia as a whole)</li> <li>*Reduction of the role of UNDP and enhancement of the role of member countries</li> <li>*Confirmation and signing of yearly plan for 2001 to 2003</li> </ul>
Sixth meeting	June 2002	Vladivostok	<ul style="list-style-type: none"> <li>*Tasks for the third phase               <ul style="list-style-type: none"> <li>I. Specification of projects and fund-raising</li> <li>II. Formal affiliation of Japan</li> </ul> </li> <li>*Emphasis on Russian energy development projects</li> </ul>

The UNDP's main project support activities during the third phase involved the promotion of trade and investment. As a part of these endeavours, Tumen River Investment Service (TRIS) Centers were established in each country of the Tumen River area. The organizational structure of each center includes the establishment of a supervisory board with strong private sector participation, supporting potential investment from the private sector overseas. TRIS Centers were established in Yanji in August 2001 and in Ulaanbaatar in October of the same year, and as of December 2002, the establishment of TRIS Centers in Russia's Primorsky Territory and the DPRK's Rajin-Sonbong Zone was being promoted.

### 1.2.3 Institutional preparations for international cooperative development

The institutional framework for the development of the Tumen River area was developed through the establishment at the Sixth PMC Meeting (New York) in December 1995 of the Tumen River Area Development Coordination Committee, the Consultative Commission for the Development of the Tumen River Area Economic Development Zone and Northeast Asia, and the Tumen Secretariat, which functions as a secretariat for both committees.

The Consultative Commission consists of vice-ministerial level representatives of the five member countries, and meets every year. The Coordination Committee consists of vice-ministerial level representatives of the three countries of the Tumen River area (China, Russia, the DPRK), and coordinates issues relating to cooperation in various fields, including the promotion of trade and investment, environmental problems and cross-border transport.

The five member countries of the Tumen River Area Development Programme have created related organizations in each country as well as setting up Working Groups (WGs) for projects in various fields. At present there are six WGs consisting of technical experts and policymakers from the member countries, which have the aim of forging concrete achievements from regional cooperation. The Working Groups meet annually to formulate policy for economic cooperation in the sectors concerned, review progress, and prepare the annual sector Action Plan.

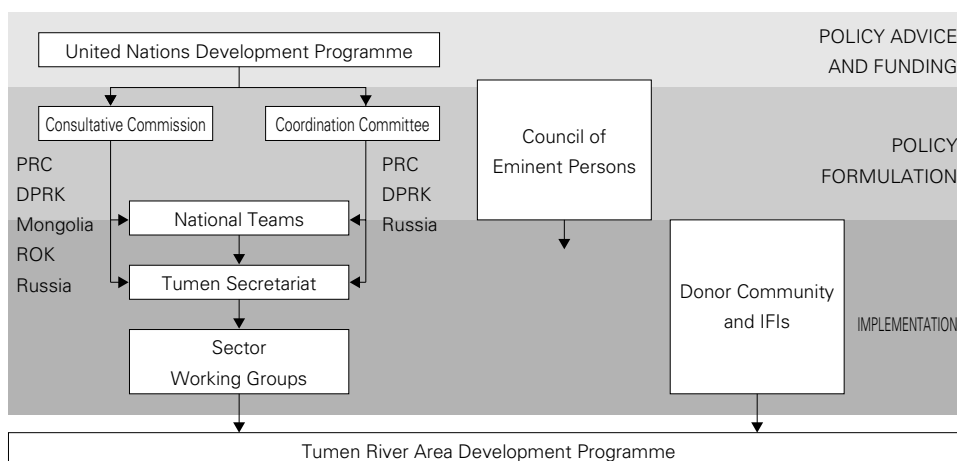


<u>Field</u>	<u>Leader</u>
Trade & Investment	China
Transport	DPRK
Environment	Russia
Energy	Russia
Tourism	ROK
Communications	Mongolia

The Tumen Secretariat is based in Beijing and its roles include the administration of the Consultative Commission and the Coordination Committee, supporting organizations in each country with regard to issues affecting the implementation of development projects, and implementing the annual plans for the development of the Tumen River area in collaboration with the Working Groups.

Moreover, at the Fifth Meeting of the Consultative Commission in April 2001, the Council of Eminent Persons, consisting of experts from the countries of Northeast Asia, including Japan, was formally established in order to promote the Tumen River Area Development Programme.

Figure 1-15 Framework for International Cooperation in the Tumen River Area Development Programme



(Source) Tumen Secretariat (<http://www.tumenprogramme.org>)

In order to implement the Tumen River Area Development Programme, member countries contribute \$25,000 annually. In particular, the ROK government has donated a total of US\$2 million to the Tumen Trust Fund. Since 1996, the Chinese government has provided the offices for the Tumen Secretariat. Since 1991, the Tumen River Area Development Programme has received donations totaling more than US\$20 million, with the main contributors being the UNDP and the Global Environment Facility (GEF).

#### 1.2.4 Financial cooperation

The issue of procuring finance for development of the Tumen River area has been emphasized since the time when the Tumen River Area Development Programme was

first proposed.

Looking at the situation in the three countries of the Tumen River area, most of the finance procured for China's Yanbian Prefecture comes from domestic sources, such as financial support from the state, finance from state-run commercial banks, and finance procured through the stock system; foreign-financed banks have yet to venture into Yanbian Prefecture. Investment demand for infrastructure development is high and domestic finance is insufficient to cover this.

In 1993, the DPRK formulated the Law on Foreign-Invested Banks as a measure covering development that uses foreign finance, and promoted the establishment of foreign-financed banks. As a result, the ING Bank of the Netherlands and Hong Kong's Peregrine Bank established joint venture banks in the Rajin-Sonbong Zone in 1996, but both banks had withdrawn by 1998, citing financial difficulties.

With regard to foreign-financed financial institutions in Russia's Primorsky Territory, the ING Bank has an office in Vladivostok but it does not undertake any banking activities, such as providing finance.

Given this situation in the Tumen River area, the necessity of multilateral financial cooperation has been stressed since the initial stages of the Tumen River Area Development Programme. During Phase I, from 1993, the UNDP proposed the establishment and joint development of a multilateral development company, but due to opposition from the DPRK, among others, it became reliant on individual development initiatives by each country, with multilateral cooperation being promoted thereafter. In fact, procuring finance for infrastructure development was a serious problem; the UNDP is not an organization that provides loans or equity, so its support was limited to technical consulting. With regard to financial cooperation for providing funding, various proposals for establishing some kind of institution have been made so far, such as the Northeast Asian Development Bank, the Northeast Asia Development Fund, the Tumen River Area Development Fund and the Northeast Asia / Tumen Investment Bank, but none have yet come into being.

1) Plan for establishing the Northeast Asian Development Bank (NEADB): initiated by the Northeast Asia Economic Forum

The first proposal was the establishment of the Northeast Asia Development Bank (NEADB). Nam Duck-Woo, Chairman of the Korea Sanhak Foundation and former Prime Minister of the ROK, was the first to advocate this proposal, at the First Northeast Asia Economic Forum (secretariat: East-West Center, Hawaii) Changchun and Tianjin Conference in 1991.

After various discussions, Stanley Katz, Senior Visiting Fellow at the East-West Center and a former vice-president of the Asian Development Bank, presented his proposal, entitled *Capital Needs for Infrastructure Development in Northeast Asia: the Necessity of the Northeast Asia Development Bank*, at the Seventh Northeast Asia Economic Forum (Ulaanbaatar) in August 1997. He pointed out that at least US\$7.5 billion would be needed annually for infrastructure development in Northeast Asia over the next twenty years, but only US\$2.5 billion could be provided through existing international financial institutions and bilateral and private sector investment, leaving an annual shortfall of US\$5 billion dollars, and asserted that it was necessary to establish the

Northeast Asia Development Bank in order to meet this funding requirement.

In response to this, the Northeast Asia Economic Forum's First Development Finance Experts' Meeting was held in Yonago, Japan in March 1998, and international discussions took place regarding the NEADB concept. The Ninth Northeast Asia Economic Forum (Tianjin) was held in October 1999, and the city government of Tianjin proposed trying to encourage the establishment of the NEADB headquarters there. In May 2000, the Northeast Asia Economic Forum held the Second Development Finance Experts' Meeting in Tianjin, followed by the Round-Table Meeting on the Establishment of the Northeast Asia Development Bank in Osaka in June 2001; during both of these, the finance requirement for infrastructure development was reconfirmed and the necessity of establishing the NEADB in order to achieve this emphasized. At the Eleventh Northeast Asia Economic Forum (Anchorage) in March 2002, Stanley Katz delivered a report in which he once more asserted the importance of establishing the NEADB.

However, there were also some negative arguments about the NEADB concept; in addition to criticism of the fact that the US\$7.5 billion annually pinpointed as the requirement for development finance was nothing more than a theoretical figure, various people took a wary stance towards the establishment of a new international financial institution, proposing the utilization of existing international financial institutions, the rationalization of international institutions, and the augmentation of infrastructure investment through private finance.

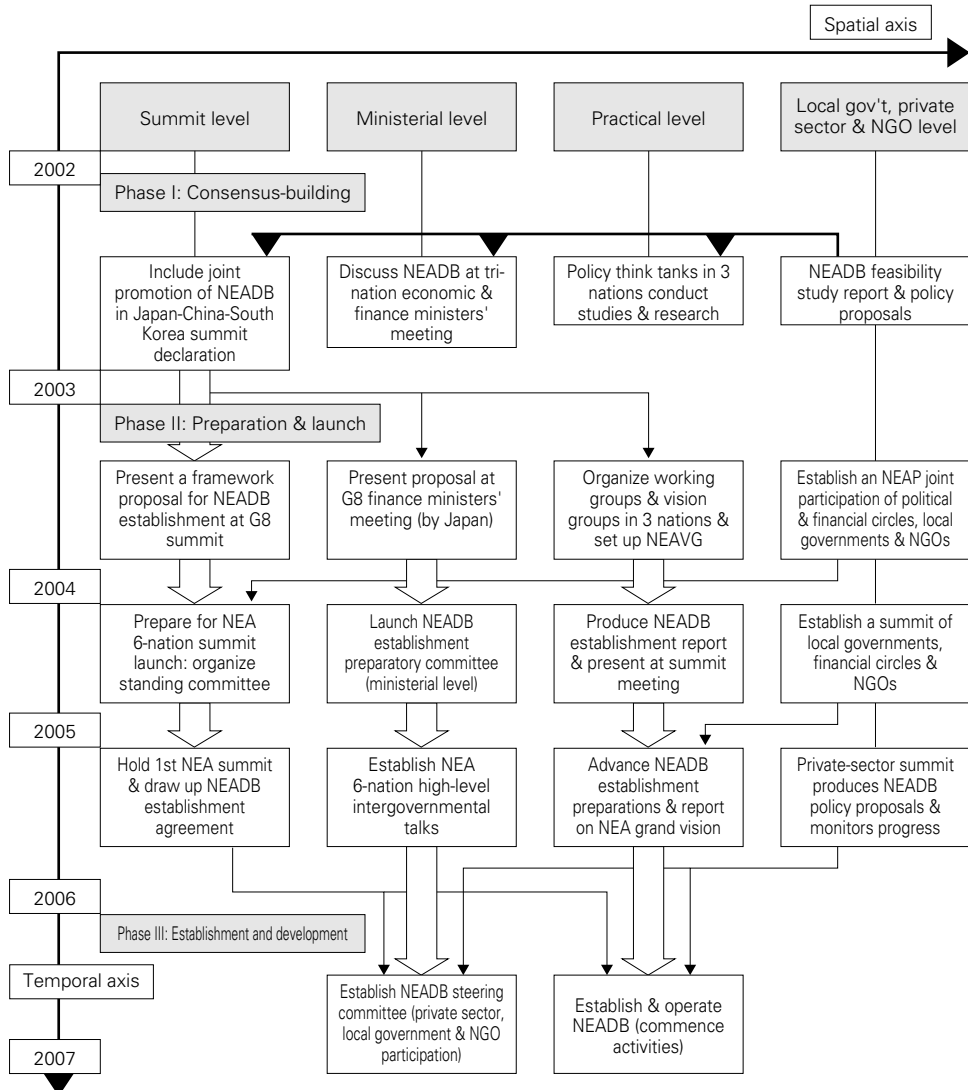
Following these discussions, the Tokyo Foundation published a research report entitled *The Establishment of a Northeast Asian Development Bank (NEADB) and Japan's Cooperation Policies* in July 2002. Based on on-the-ground research in related countries and institutions, this report proposed the establishment of the Northeast Asian Development Bank by 2006, and suggested that its operations should encompass i) funding and guarantees of funding for infrastructure, ii) investment, funding and guarantees of funding vis-à-vis private companies, iii) funding and guarantees of funding for market economy-oriented state-owned companies, and iv) trade finance to promote trade in the countries of Northeast Asia. The scale of capital proposed for the initial stage is fairly small, with US\$6 billion of authorized capital and US\$3 billion of paid-in capital. With regard to the shares of subscriber capital, Northeast Asian countries would hold the majority, holding 56% (Japan 18%, China 16%, the ROK 12%, Russia 8%, the DPRK 1% and Mongolia 1%), while countries in East Asia and Oceania would hold 14%, USA 10%, Canada 2%, EU countries 12%, the ADB 3% and private or NGO funds 3%.

The report prioritized China's three northeastern provinces and the autonomous region of Inner Mongolia, the DPRK, the eastern region of Mongolia which is to be traversed by a railway, and the Russian Far East and the Zabaikal region of Eastern Siberia as the areas on which NEADB finance would focus.

In the case of the ROK, Lee Hoi-Chang, the then Chairman of the Grand National Party, asserted in a speech to parliamentary representatives in July 2000 that, "it is necessary to consider establishing the Northeast Asia Development Bank in order to supply the finance necessary for supporting the DPRK", and there is a positive attitude towards the establishment of a new financial institution in Northeast Asia.

However, objections to the establishment of the NEADB include i) the lack of clarity in the policies of Japan and the USA vis-à-vis the DPRK, ii) the existence of the ADB, and iii) the risks arising from the main countries requiring finance, such as the DPRK and Russia, and discussions are still continuing.

Figure 1-16 Action Programme for Establishing the NEADB



(Source) Tokyo Foundation, *The Establishment of a Northeast Asian Development Bank (NEADB) and Japan's Cooperation Policies*, July 2002

## 2) Plan for establishing the Northeast Asia Development Fund

This plan involves establishing a special fund for Northeast Asian development within the existing Asian Development Bank, as the plan for establishing the Northeast Asian Development Bank has such disadvantages as the large amount of time and money

required to establish a new international institution. There are already three special funds within the ADB

- i) The Asian Development Fund (ADF)
- ii) The Technical Assistance Special Fund (TASF)
- iii) The Japan Special Fund (JSF)

The advantages of this proposal include i) the relatively low cost of establishment and the speed with which it can be set up, ii) the ADB already has the know-how regarding finance for infrastructure development and can utilize this as it is, and iii) it will avoid the problem of duplicating international institutions. However, the disadvantages include i) it will not conduct any activities beyond the scope of the ADB's existing functions, ii) the scale of financial provision is small, and iii) there will be a problem regarding the handling of the DPRK and Russia, neither of which are ADB members.

The ADB has a positive attitude towards establishing a special fund for Northeast Asia and it is thought that it will be able to respond flexibly to the DPRK and Russia, so it seems that the establishment of the Northeast Asia Development Fund would not be impossible if there were positive movements in the international situation in Northeast Asia.

### 3) Plan for establishing the Tumen River Development Facility (TRDF)

This plan was proposed by the UNDP Tumen Secretariat at the Third Consultative Commission Meeting in November 1997. The proposal argues that it would be difficult to establish a new development bank for Northeast Asia, and that it is necessary to establish the Tumen River Development Facility (TRDF) to administer a development fund in order to promote capital participation from the public and private sectors in major infrastructure development projects. The idea involves the provision of a loan of US\$50~100 million each year to be used for infrastructure development in the Tumen River area (transportation, communications, energy, water systems and resource development).

The member countries expressed their approval of this idea. Rim Thae-Dok, the then Acting Chairman of the DPRK Committee for the Promotion of External Economic Cooperation, professed his support at the Eighth Northeast Asia Economic Forum (Yonago) in July 1998, as follows.

"The member countries of the Committee and Commission have sought and deliberated on different methods of cooperation for securing the colossal funds needed for infrastructure development. In the course of this, the establishment of a Tumen River Area Development Facility was recognized as a practicable option in the third meeting of the Committee and Commission, when it was recommended that further studies and concrete preparations be made to put it into practice.

The government of the DPRK, as in the past, so also in the future, will vigorously push ahead with the development of the Rajin-Sonbong Economic and Trade Zone, and thus make a positive contribution to further expanding and developing economic cooperation and exchange in the Northeast Asian region."

However, amid the currency and financial crises that dogged East Asia between 1997-1999, the potential for attracting finance for this plan from member countries diminished and the proposal became deadlocked, along with attempts to alter the

status of the Tumen Secretariat

4) Plan for establishing the Northeast Asia/Tumen Investment Company (NEATIC)

This plan was proposed by the UNDP Tumen Secretariat at the Sixth Consultative Commission Meeting in June 1999. As the East Asian currency crisis subsided, this proposal was made as a way of revitalizing private sector investment in infrastructure development in Northeast Asia and the Tumen River area. To be more specific, it proposed establishing the Northeast Asia/Tumen Investment Company (NEATIC) with the major aims of improving the investment environment and investment opportunities, preparing investment projects, promoting commercial relationships between the public and private sectors and providing funding and guarantees of funding for investment and finance projects. Membership would consist of private sector companies, contributing groups and the governments of the relevant countries and the company would undertake investment, the nurturing of small and medium-sized businesses, and policy and technological support through such departments as an investment bureau, a companies bureau and a technological cooperation bureau, using paid-in capital of less than US\$5 million.

This idea is currently a project being handled by the Tumen River Area Development Programme's Working Group on Trade and Investment.

**1.2.5 Japan's lack of participation (participation as an observer)**

The Japanese government has participated in the development of the Tumen River area as an observer on the Tumen River Area Development Programme Management Committee (PMC), which was established in 1992. Since 1996, it has been resolved at successive meetings of the Consultative Commission to request the Japanese government's formal participation and membership, but the Japanese government has declined, citing its lack of diplomatic relations with the DPRK. Japan's policy vis-à-vis Northeast Asia hitherto has been to prioritize its relationship with the USA, and it seems to have feared participation in a framework for multilateral cooperation that does not include the US. Moreover, the Japanese government has maintained that concluding the normalization of diplomatic relations is a prerequisite for economic cooperation with the DPRK.

It can be said that, as a result of Japan's lack of participation, the development of the Tumen River area has not been dynamized in terms of attracting investment and providing finance, and the development process has stagnated.

However, the local authorities and economic groups based on the Japan Sea coast of the country have displayed a positive attitude to Tumen River area development. They have jointly promoted a feasibility study regarding the development of Zarubino Port in Russia's Promorskiy Territory (Committee for Zarubino Port Feasibility Studies, 1996), and plans for cooperation. Moreover, private companies (Shinwa Bussan and Toyo Engineering) published the *Rajin-Sonbong Free Economic and Trade Zone Investment Guidebook* (1996) at the request of the DPRK Committee for the Promotion of External Economic Cooperation. Various cooperation with China is taking place, including cooperation between China's State Planning Commission and the International Development Center in the joint creation of the *Study of the General Development Plan*

for China's Jilin Province (*Changchun-Hunchun*) (1997), and collaboration by Japanese local authorities and representatives of the business community on the Japan Sea coast in promoting transportation and investment in the Yanbian Prefecture. In other words, at the non-governmental level, Japan has initiated in earnest the concept of the Japan Sea Rim Economic Region, which aims for the expansion of economic relations between Japan and Russia, China and the DPRK, taking the opportunity offered by the promotion of the Tumen River Area Development Programme.

In the domestic background in Japan lies the concept of the Japan Sea Rim Region, which began to gain currency in the latter half of the 1980s, focusing mainly on the local authorities, economic groups and universities of the Japan Sea coast. Along with the concept of the Tumen River Area Development Programme, economic interest in the Japan Sea Rim Region, which encompasses Northeast China, the Russian Far East, the DPRK and Japan, has picked up steam. The development plan for the Tumen River area has been acknowledged as the crown jewel of economic cooperation in the Japan Sea Rim Region. The development of the Tumen River area can be said to have provided an important opportunity for Japan to adopt not only a bilateralist but also a multilateralist perspective in its economic relations with the countries of Northeast Asia.

In October 1993, at the initiative mostly of Niigata Prefecture, ERINA was established in Niigata City; since then, it has been active in analyzing the economies of and promoting economic exchange within Northeast Asia, including the Russian Far East, Northeastern China, the DPRK, Mongolia, the ROK and Japan, and the Northeast Asia Economic Conference, which it holds each year, is a major presence in regional activities to promote cooperation in Northeast Asia. Moreover, the Kanamori Committee on Economic Cooperation in Northeast Asia (known as the Kanamori Committee), which was founded in July 1998, has been playing an active role in promoting Japan's participation in international cooperation in the Tumen River area, as a private organization promoting economic cooperation in Northeast Asia at the private sector level.

### 2.1 Results and evaluation of the UNDP's efforts

The UNDP has played an active role in the development of the Tumen River area since the very first stage. It took up the plan for the international development of the lower reaches of the Tumen River initially proposed by China, as a priority project in the Fifth Project Plan (1992-1996). In December 1995, it established the Consultative Commission, consisting of the five member countries, and the Coordination Committee, consisting of the three Tumen River countries, and continued to play a central role even after the practical stage began in earnest. The UNDP's 1991 announcement that US\$30 billion would be needed for twenty years in order to develop the Hunchun - Rajin-Sonbong - Zarubino Port triangle can be said to have provided the first inkling that a framework for multilateral economic cooperation could be realized in Northeast Asia, notwithstanding the issue of the coherence of the vast sum that was said to be the necessary amount of investment.

Even after the UNDP's proposal for international joint development collided with the issue of its effectiveness and the plan shifted towards international cooperation after development by each country, and even amid the negative atmosphere resulting from the escalation of tension in Northeast Asia after the matter of the DPRK's development of nuclear weapons raised its head, the UNDP continued to implement policy research and promotional activities in such fields as dynamizing trade and investment, infrastructure, the environment and tourism, and reviving the interest of international society in the Tumen River area. At the International Investment Forum held jointly by the UNDP and the DPRK in September 1996 in Rajin-Sonbong, there was also great interest on the part of many participants from Japan and it had a positive influence on the promotion of Japan-DPRK relations at the private sector level.

However, the issue of procuring finance for development, which had been the most important issue for the development of the Tumen River area, was a problem that the UNDP could not solve. It was not possible to realize the plan to establish a Tumen River Area Development Fund, proposed by the UNDP Tumen Secretariat at the Third Consultative Committee Meeting in November 1997, even though it had the support of the member countries of the time. One of the major reasons was a change in the international situation, in the form of the East Asian currency crisis, but the lack of cooperation from Japan, the only country in Northeast Asia actually able to provide the necessary finance, was probably the biggest reason for this failure.

In December 1999, the Tumen River Area Development Programme was subject to a sweeping re-evaluation within the UNDP, under which the initial targets were deemed to be excessive, having been based on unrealistic prospects, and the following problems were pointed out.

- Activities aimed at stabilizing the framework for intra-regional multilateral cooperation and increasing leadership on the part of participating countries were insufficient.
- The programme concentrated on the development of the Tumen River area, and was unable to promote the development of cooperative projects necessary for Northeast Asia as a whole.
- The feasibility study aimed at a realistic evaluation of the potential of Northeast Asia was inadequate.



Based on this evaluation, it was decided to reduce the role of the UNDP and increase that of member countries, to broaden the focus of Tumen River area development to encompass the whole of Northeast Asia and to actively request the participation of Japan.

To sum up, the UNDP played a somewhat maternal role in realizing the first multilateral economic cooperation project in Northeast Asia, and is currently an ally supporting independent multilateral cooperation on the part of the countries of Northeast Asia.

## **2.2 Results and evaluation of efforts by the countries concerned**

### **2.2.1 Yanbian Korean Autonomous Prefecture, Jilin Province, China**

The country that has put the greatest effort into the development of the Tumen River area is China. In March 1992, the State Council of China designated Hunchun as a border city open to external trade and ten years have passed since the establishment of the Hunchun Border Economic Cooperation Zone. Let us look at the macroeconomic changes over the last ten years in Yanbian Prefecture, in which the Tumen River area is located.

#### 1) Economic growth

Yanbian Prefecture achieved rapid economic growth of 11.1% in 1993 and 12.5% in 1994. This was due to such factors as the nationwide development boom that began in 1992 and the increase in border trade arising from the opening up of Hunchun. However, in 1995, after the central government strengthened macroeconomic controls and implemented austerity measures, the economy went into recession, due also in part to a slump in agricultural production, and a steep decline in trade.

Since 1996, fluctuations in foreign investment have become a new factor in economic trends. In 1996, the economy began to recover, as a result of such factors as foreign direct investment and an increase in infrastructure investment. However, in 1997 and 1998, the economic slump resulting from the Asian currency crisis, particularly the ROK's economic stagnation, had an adverse effect on the economy of Yanbian Prefecture. Furthermore, the economy flagged as a result of the accumulation of such problems as financial difficulties experienced by state-owned companies and a drop in agricultural production. Since 1999, the economy has recovered and experienced economic growth higher than the national average.

Yanbian's per capita GDP rose 2.7 times, from RMB 2,186 in 1991 to RMB 5,830 (US\$705) in 2000. The national average over the same period was a rise of 3.8 times from RMB 1,879 to RMB 7,078 (US\$855), and the figure for Yanbian reflects the fact that economic growth in the prefecture was low between 1995-1998. This is also linked to the economic stagnation in the DPRK and Russia during the same period. In spite of the fact that this was a time when the promotion of the Tumen River Area Development Programme, led and supported by the UNDP, was the focus of international scrutiny, international cooperation was actually not reflected immediately in the Yanbian economy. However, since 1999, the area has experienced higher economic growth than the national average and it is conceivable that Yanbian has at last reached the stage of high growth.<sup>14</sup>

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<sup>14</sup> Yanbian's GDP in 2001 was RMB 14.1 billion at current prices, a 9.5% increase on the previous year, which was higher than the national average of a 7.3% increase in the same year. (Source) *Yanbian Daily*, 9<sup>th</sup> January 2002

Figure 2-1 Changes in the GDP Growth Rate in Yanbian Prefecture (at constant 1990 prices) (Unit: %)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Yanbian Prefecture	2.8	8.0	11.1	12.5	3.9	6.9	5.1	4.4	8.5	8.8
Jilin Province	5.9	12.2	12.8	14.3	9.7	13.7	9.2	9.0	8.1	9.2
National average	9.2	14.2	13.5	12.6	10.5	9.6	8.8	7.8	7.1	8.0

(Source) Yanbian Statistical Yearbook 2001, China Statistical Yearbook 2001, Jilin Statistical Yearbook 2001

## 2) Industrial trends

Looking at Yanbian's growth rate by industry in the 1990s, we can see that primary industry's share of GDP fell from 19.6% in 1991 to 14.0% in 2000, which demonstrates that Yanbian is not a region in which the main focus is on agricultural production. Secondary industry has hovered around the 50% mark, rising slightly from 48.6% in 1991 to 50.8% in 2000, but tertiary industry rose from 31.8% to 35.2% during the same period. As a result of the growth in trade with the DPRK, Russia and the ROK, the industrial service sector grew by between 12% and 23% in the former half of the 1990s, accounting for a share of more than 30% of GDP, but growth nosedived in the latter half of the decade, due to the effects of the government's austerity measures, the economic stagnation of the DPRK and Russia, and the ROK's currency crisis. On the other hand, the transport sector experienced high growth from 1995 onwards, reflecting the increase in infrastructure investment by the government of Yanbian Prefecture, aimed at the development of the Tumen River area. Growth in secondary industry was low until the mid-1990s, but has been consistently high since 1997.

Figure 2-2 Changes in the Industrial Structure of Yanbian Prefecture (at constant 1990 prices) (Unit: RMB million)

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	
GDP	Amount	4,379	4,504	4,862	5,403	6,079	6,314	6,752	7,095	7,437	8,071	8,785	
Primary Industry	Amount	925	882	860	594	954	903	1,123	1,044	1,002	1,277	1,233	
	Growth rate		-4.6%	-2.6%	-30.9%	60.6%	-5.3%	24.3%	-7.0%	-4.0%	27.4%	-3.4%	
	Share	21.1%	19.6%	17.7%	11.0%	15.7%	14.3%	16.6%	14.7%	13.5%	15.8%	14.0%	
Secondary Industry	Amount	2,269	2,190	2,357	2,821	2,911	3,034	3,099	3,410	3,689	3,943	4,462	
	Growth rate		-3.5%	7.6%	19.7%	3.2%	4.2%	2.2%	10.0%	8.2%	6.9%	13.2%	
	Share	51.8%	48.6%	48.5%	52.2%	47.9%	48.1%	45.9%	48.1%	49.6%	48.9%	50.8%	
Tertiary Industry	Amount	1,185	1,431	1,646	1,989	2,215	2,377	2,530	2,641	2,746	2,852	3,089	
	Transportation & Telecommunications	Amount	274	295	328	357	384	475	532	599	669	728	776
		Growth rate		7.7%	11.3%	8.9%	7.4%	23.8%	12.0%	12.5%	11.8%	8.8%	6.6%
		Share	6.3%	6.6%	6.8%	6.6%	6.3%	7.5%	7.9%	8.4%	9.0%	9.0%	8.8%
	Commerce and other services	Amount	911	1,136	1,317	1,632	1,831	1,902	1,998	2,042	2,077	2,124	2,313
		Growth rate		24.7%	15.9%	23.8%	12.2%	3.8%	5.1%	2.2%	1.7%	2.3%	8.9%
		Share	20.8%	25.2%	27.1%	30.2%	30.1%	30.1%	29.6%	28.8%	27.9%	26.3%	26.3%

(Source) Yanbian Statistical Yearbook 2001

## 3) Secondary industries and manufacturing

Secondary industry (excluding construction) is the biggest industrial sector in Yanbian (47.1% of total industrial production in 2000, at constant 1990 prices). Within this sector, logging accounts for about 16.5%, manufacturing for about 70%, and electricity, gas and water supply for 8.5%. The main manufacturing sectors are timber processing, foodstuffs, textiles, pharmaceuticals and chemical products; another characteristic of

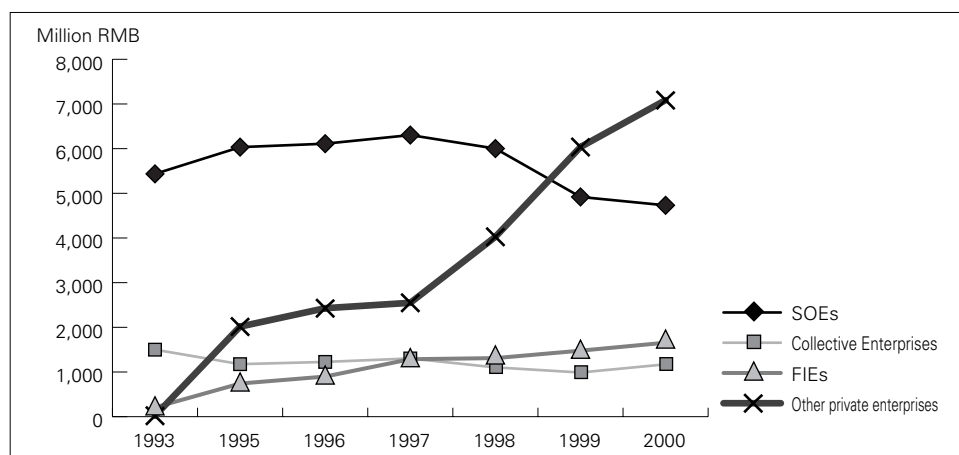
the sector is that the relative importance of petrochemicals, machinery and electronics is low. There was no change in these aspects of the industrial structure during the 1990s. The investment of foreign capital in manufacturing has traditionally been concentrated in timber processing, foodstuffs and textiles.

#### 4) State-owned and private sectors

From the latter half of the 1990s, the privatization of state-owned companies in Yanbian progressed and the number of state-owned companies in the secondary (non-construction) sector dropped from 425 in 1993 to 180 in 2000, with the workforce falling from 240,000 to 160,000 people. The share of the total value of secondary (non-construction) production accounted for by state-owned companies fell from 75.9% in 1993 to 32.3% in 2000. Meanwhile, the share of the value of secondary (non-construction) production accounted for by private-owned companies, including those financed with foreign capital, rose from 3.2% in 1993 to 59.7% in 2000. In the case of companies in receipt of investment from foreign countries, such as the ROK, this share increased from 2.9% in 1993 and has stayed around the 11% mark since 1997. In the case of Yanbian, the rapid growth in privately-owned companies, such as limited companies, is more remarkable than the increase in companies receiving foreign capital.

Figure 2-3 Total Value of Secondary (Non-Construction) Production Accounted for by Companies Under Each Form of Ownership  
(Unit : RMB ten thousand)

	1993		1995		1996		1997		1998		1999		2000	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Total	716,377	100.0	996,731	100.0	1,066,244	100.0	1,144,181	100.0	1,244,198	100.0	1,342,109	100.0	1,464,494	100.0
SOEs	543,507	75.9	603,360	60.5	611,080	57.3	630,359	55.1	600,177	48.2	491,879	36.6	473,133	32.3
Collective Enterprises	149,987	20.9	117,542	11.8	122,569	11.5	130,302	11.4	110,321	8.9	98,851	7.4	117,159	8.0
Private Enterprises	22,882	3.2	275,829	27.7	332,595	31.2	383,520	33.5	533,700	42.9	751,379	56.0	874,202	59.7
FIEs	20,807	2.9	74,169	7.4	89,784	8.4	128,616	11.2	131,071	10.5	147,733	11.0	165,577	11.3
Others	2,075	0.3	201,660	20.2	242,811	22.8	254,904	22.3	402,629	32.4	603,646	45.0	708,625	48.4



(Source) Yanbian Statistical Yearbook, editions for each year

## 5) Trade

In the 1990s, there were major changes in trade in Yanbian. The value of trade, which was US\$60 million in 1990, peaked at US\$470 million in 1993 but languished in the doldrums between 1995-1998, before recovering and reaching US\$310 million in 2000 (a rise of 10.2% on the previous year). The figure for 2001 was US\$320 million, a rise of 4.2% on the previous year.<sup>15</sup> The balance of trade is in the black overall.

Looking at Yanbian's trade partners, during the period 1991-1994, border trade with the DPRK and Russia accounted for as much as 94.6% (1993) of the total value of trade. This is because the central government (State Council) gave border areas autonomy by enforcing the Decision to Relax Rules on Border Trade, following on from the opening up of coastal cities, thereby increasing border trade at a stroke. The main form of trade was the barter of cereals, everyday goods, iron and steel, non-ferrous metals and marine produce. However, as a result of the deterioration in the economies of the DPRK and the Russian Far East from 1994, border trade nosedived and in 1995 fell to one-seventh of the value of trade in 1993.

Given this situation, Yanbian shifted to a policy of trade diversification in 1995, broadening the focus of its trade to include such partners as the ROK, Japan, Southeast Asia and the USA.

Figure 2-4 Share of Total Trade Accounted for by Yanbian's Trade Partners (Unit: %)

	DPRK	Russia	ROK	Japan
1992	47.5	39.2	2.1	1.0
1993	65.7	28.9	1.3	0.9
1994	58.9	30.4	9.7	5.6
1995	35.0	7.4	38.2	16.3
1996	35.0	7.4	38.2	13.4
1997	15.5	2.6	32.6	20.4
1998	13.7	8.3	8.3	13.8
1999	16.3	17.8	17.8	17.2

(Source) Yanbian Korean Autonomous Prefecture Foreign Trade and Economic Cooperative Bureau

Due to the rise in trade with the ROK and Japan, general trade other than border trade increased from US\$90 million in 1995 to US\$190 million in 1997, and accounted for 81.8% of the total value of trade. In fact, one of the factors that propelled this change in trading partners was the increase in exports by foreign-affiliated companies, which had begun to move into the area in 1992. Exports by such companies accounted for 3.0% of the total value of exports in 1993, rising to 57.7% in 1999.

Meanwhile, border trade between Yanbian and the DPRK and Russia stagnated between 1995 and 1997, but in 1998 it experienced a rise of 22.8% on the previous year and the share of these countries in the total value of trade increased from 17.1% in 1996 to 29.7% in 2000. In 1999, the trade shares of the DPRK, Russia, the ROK and Japan were about the same.

Given this situation, looking at the correlation between the development of the Tumen River area and the increase in trade in Yanbian, we can see that between 1992-1994, the Chinese government's trade revitalization measures had a significant effect, leading

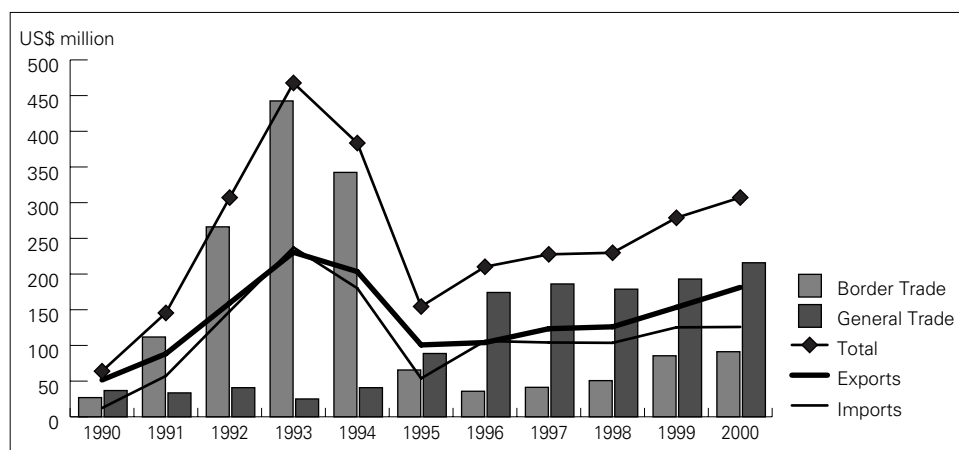
<sup>15</sup> (Source) *Yanbian Daily*, 22nd February 2002

to the sharp rise in border trade. However, after that, during the period until 1997, when the Tumen River Area Development Programme began to be promoted in earnest, the deterioration in the economies of the DPRK and Russia led to a sharp decline in border trade and an increase in general trade with such countries as the ROK, and the correlation between the economies of Yanbian and the ROK increased. Thereafter, following the ROK's currency crisis, general trade stagnated, but both general and border trade began to increase in 1999, along with the economic recovery in the ROK, the DPRK and Russia. Consequently, there is a strong possibility that the positive influence of Tumen River area development on Yanbian trade will become manifest in the future.

Figure 2-5 Trade Movements in Yanbian Prefecture

(Unit: US\$ million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total	63.9	145.5	307.1	467.7	383.5	154.5	210.2	227.6	229.8	278.8	307.2
Exports	51.6	88.3	159.3	230.4	203.4	100.7	104.0	123.4	126.1	153.4	181.3
Imports	12.3	57.2	147.9	237.3	180.1	53.8	106.2	104.1	103.6	125.3	125.9
Balance	39.3	31.2	11.4	-6.9	23.4	46.9	-2.2	19.3	22.5	28.1	55.4
Border Trade	27.0	111.9	266.2	442.6	342.5	65.7	35.9	41.4	50.8	85.6	91.3
General Trade	36.9	33.6	40.9	25.1	40.9	88.8	174.3	186.2	178.9	193.1	215.9
Ratio of Trade to GDP	7.0%	17.4%	36.4%	50.2%	53.3%	20.4%	25.8%	26.7%	25.7%	28.7%	29.0%



(Source) Yanbian Statistical Yearbook, editions for each year

#### 6) Investment in infrastructure, attracting foreign investment, tourism, and institutional improvements

China's central government and the authorities of both Jilin Province and Yanbian Prefecture have invested about RMB 5 billion (about US\$600 million) in infrastructure development over the last ten years, including roads, rail, airports and communications. Moreover, they have attracted foreign capital, revitalized private companies and have promoted international cooperation in tourism. From 2001, the area was covered under the government's preferential measures for development of the western areas of the country and received RMB 1.31 billion of financial assistance from the central government, which became the financial base for various types of investment, including

water supply facilities, waste disposal facilities and road construction.<sup>16</sup>

#### 7) Overview of findings

As outlined above, Yanbian's macroeconomy experienced stagnation between 1995-1998, and the beneficial effect of the Tumen River Area Development Programme was not reflected immediately. The economic downturn in the DPRK and Russia and the East Asian currency crisis can be said to have had an adverse effect. The high growth in the macroeconomy that began to be seen in 1999 was not unconnected with the changes in the international economic environment. Accordingly, Yanbian and multilateral development of the Tumen River area are closely linked, and this collaborative development will continue to be the focus of attention in the future.

The effects in Yanbian can be summarized as follows.

- Infrastructure development: basic infrastructure, such as railways, roads, airports and communications, has been developed through fiscal investment by the government.
- Securing transportation corridors: land and sea transport routes using ports in the DPRK and Russia have been secured.
- Progress in attracting foreign capital: investment in Yanbian, mainly from the ROK, has increased and contributed to industrial development.
- Dynamizing tourism: visits by ROK tourists to Changbaishan (Mt. Paekdu) have been achieved and the development of hotels has progressed.
- Development of laws and institutions: progress has been made with improvements in such areas as border crossing procedures and laws relating to foreign-affiliated companies.

#### 2.2.2 Rajin-Sonbong Economic and Trade Zone, DPRK

As statistics showing the macroeconomic situation of the Rajin-Sonbong Zone are not published, it is difficult to analyze achievements there. We can ascertain the economic situation in Rajin-Sonbong indirectly by looking at the economic situation of the DPRK in the 1990s.

The 1990s was a crisis-ridden decade for the DPRK economy. According to estimates by the Bank of Korea, the DPRK economy experienced negative growth for nine consecutive years until 1998. It finally reversed this trend and shifted to positive growth in 1999. Moreover, although trade decreased from US\$2.94 billion in 1991 to US\$1.66 billion in 1998, it began rising in 1999 and recovered sufficiently to reach US\$2.67 billion in 2001.

According to pronouncements by the DPRK government, public finances continued to increase until 1994, but industrial activities were scaled down thereafter due to the crisis that struck the economy and public finances also shrank rapidly. According to materials submitted to the IMF by the DPRK government, public finances dropped sharply from 1995 onwards, with expenditure in 1996 falling to US\$9.6 billion, half the 1994 level, and further to US\$9.1 billion in 1998. In 1999, public finances began to increase along with the economic recovery, rising to US\$9.8 billion in 2001, but remain in a parlous state.

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<sup>16</sup> (Source) *Jilin Daily*, 30<sup>th</sup> May 2002

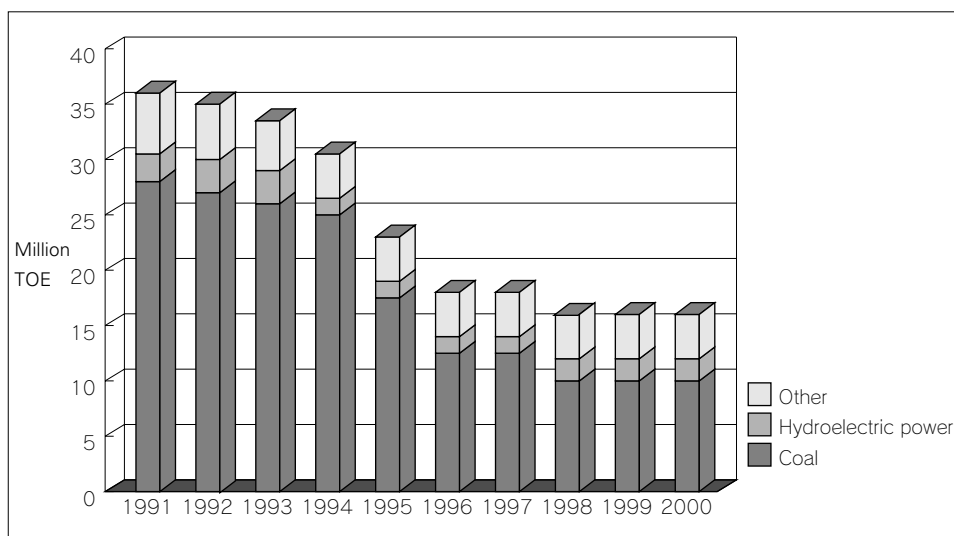
Figure 2-6 Major Economic Indicators in the DPRK

Item		Unit	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	
Total population		Thousand	20,495	20,798	21,123	21,353	21,543	21,684	21,810	21,942	22,082	22,175	22,253	
GDP (nominal)		US\$ billion	22.9	21.1	20.5	21.2	22.3	21.4	17.7	12.6	15.8	16.8	15.7	
Per capita national income		US\$	1,115	1,013	969	992	1,034	989	811	573	714	757	706	
GDP growth rate		%	▲5.2	▲7.6	▲4.3	▲1.7	▲4.5	▲3.7	▲6.8	▲1.1	6.2	1.3	3.7	
National budget	Revenue	US\$ billion	17.30	17.50	18.53	19.27	11.85	9.49	9.13	9.00	9.12	9.54	9.79	
	Expenditure	US\$ billion	17.17	17.39	18.38	19.19	11.80	9.63	9.13	9.10	9.22	9.57	9.81	
Trade	Export (A)	US\$ billion	1.12	1.19	1.20	1.02	0.96	0.91	1.10	0.65	0.64	0.72	0.83	
	Import (B)	US\$ billion	1.82	1.80	1.81	1.46	1.60	1.50	1.58	1.01	1.18	1.68	1.85	
	Total trade (A+B)	US\$ billion	2.94	2.99	3.01	2.48	2.56	2.41	2.68	1.66	1.82	2.40	2.68	
	Trade balance (A-B)	US\$ billion	▲0.60	▲0.61	▲0.61	▲0.44	▲0.64	▲0.59	▲0.48	▲0.36	▲0.54	▲0.96	▲1.02	
	Trade/GNP	%	12.4	14.2	14.7	11.7	11.5	11.3	15.1	13.2	11.5	14.3	17.0	
(Major counterpart countries)	China	Export	US\$ million	86	156	297	199	64	69	122	57	42	37	167
		Import	US\$ million	525	541	602	425	486	497	535	356	329	451	573
		Total trade	US\$ million	611	697	900	624	550	566	656	413	370	488	740
		Trade balance	US\$ million	▲439	▲386	▲305	▲225	▲423	▲428	▲413	▲298	▲287	▲414	▲406
	Russia	Export	US\$ million	171	65	40	40	16	29	17	8	2	3	5
		Import	US\$ million	194	227	188	100	68	36	67	57	49	43	64
		Total trade	US\$ million	365	292	227	140	83	65	84	65	50	46	68
		Trade balance	US\$ million	▲23	▲162	▲148	▲60	▲52	▲7	▲50	▲48	▲47	▲39	▲59
	Japan	Export	US\$ million	284	257	252	323	340	291	310	219	203	257	226
		Import	US\$ million	224	223	220	171	255	227	179	175	148	207	249
		Total trade	US\$ million	508	480	472	494	595	518	489	395	350	464	475
		Trade balance	US\$ million	60	34	33	152	85	64	132	44	55	50	▲23
	ROK	Export	US\$ million	106	163	178	176	223	182	193	92	122	152	176
		Import	US\$ million	6	11	8	18	64	70	115	130	212	273	227
		Total trade	US\$ million	111	174	187	195	287	252	308	222	333	425	403
		Trade balance	US\$ million	100	152	170	158	159	113	78	▲37	▲90	▲120	▲51
	Cumulative foreign debt payments		Total	US\$ billion	93	97	103	107	118	120	119	121	123	125

(Source) Bank of Korea, *Results of Estimates of DPRK GDP*, editions for each year  
 Supreme People's Assembly of the DPRK, *Report of Budget and Account Settlement*, editions for each year  
 Korea Trade-Investment Promotion Agency (KOTRA), *Trends in the DPRK's External Trade*  
 Ministry of Unification ROK, *Trends in North-South Exchange and Cooperation*

The reasons for the sharp drop in the DPRK economy in the latter half of the 1990s include a sharp drop in energy imports due to the collapse of the socialist bloc, plummeting coal production, insufficient supply of raw materials and capital goods arising from a shortage of foreign currency, and a sharp decline in grain production as a result of natural disasters; of these, the paralysis in industrial production caused by insufficient energy supply is a particularly serious problem. The DPRK's only heavy oil thermal power generation plant (Sonbong Thermal Plant, 200,000 kW class), in the Rajin-Sonbong Zone, ceased operating in 1996 after supplies of crude oil from Russia were discontinued, but it was started up again thanks to half a million tons of heavy oil provided by KEDO. According to data provided by the DPRK government to the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), primary energy supply fell from about 36 million TOE (tons of oil equivalent) in 1991 to 16 million TOE in 2000.

Figure 2-7 Changes in Primary Energy Supply in the DPRK (1991-2000)



(Source) Reproduced from data issued by the DPRK government, and Nguyen Xuan Luong, Ralph Wahnschafft (2002)

Given this economic situation, it can be said that the development of the Rajin-Sonbong Zone was not economically effective. Although there was no change in the strategy and measures adopted by the DPRK government vis-à-vis its development of the Rajin-Sonbong Zone as a special economic zone, there was no basic development, such as infrastructure investment, on the part of the government, due to a lack of funds. Consequently, although measures were adopted to develop the Rajin-Sonbong Zone as a zone operating under a market economy, with the aim of achieving infrastructure development and industrial growth through the introduction of foreign capital, it did not become an environment in which foreign capital could actively be invested. Reasons for this include the fact that diplomatic relations with the US and Japan were not normalized and the fact that the DPRK government returned to its cautious stance regarding foreign capital after witnessing the East Asian currency crisis.

Furthermore, the most important reason was the DPRK's fear of multilateral cooperation, as can be seen in the DPRK government's "independent development" argument vis-à-vis the development of the Tumen River area. As a result of this, the development of the Tumen River area changed from the original proposal for joint development and joint management by the three adjacent countries to gradual cooperation based on independent development by each country. However, as the DPRK did not ensure the political and economic stability necessary for receiving cooperation from international society, it was difficult for private foreign capital to enter; in addition, no international financial institutions invested in the DPRK as it was not a member of any, and also because of objections on the part of the USA, so the development of Rajin-Sonbong Zone through the introduction of foreign capital did not work.

There have been no changes in the DPRK's policy of developing the Rajin-Sonbong



Economic and Trade Zone, but in September 2002, it announced the Basic Law of the Sinuiju Special Administrative Region, which established a special administrative region in Sinuiju, which is located just across the border from the city of Dandong, in China's Liaoning Province. Sinuiju is the DPRK's second special economic zone, with a total land area of 132km<sup>2</sup>, and is the focus of bold liberalization measures; as in Hong Kong, the special administrative zone has legislative, executive and judicial power, which remains unchanged for fifty years, while the DPRK government limits its involvement to diplomacy and national defense. The fields of development are international finance, trade, commerce, industry, cutting-edge technology, entertainment and tourism. Looking at these, it seems as though the DPRK has adopted a strategy of combining the region's special features and developing the Rajin-Sonbong Zone as a transport and tourism hub, and Sinuiju as a focus for trade, industry and tourism.

The achievements of development in the Rajin-Sonbong Zone can be summarized as follows.

- Developing Rajin Port and securing marine freight routes: the Rajin route has been established as one of China's distribution routes, the Rajin-Busan and Rajin-Niigata routes have been set up and progress has been made with the development of quays at Rajin Port.
- Development of the area for tourism: the number of Chinese tourists visiting beaches along the coastline has increased, and tourism has also risen due to investment in a casino hotel by Hong Kong's Emperor Group.
- Progress in the development of basic infrastructure: progress with the development of such infrastructure as roads and railways has been difficult due to the failure to introduce foreign capital, but Thailand's Loxley Pacific Co., Ltd. has made some advances with investment (contract worth US\$28 million) in the field of communications.

### **2.2.3 Primorsky Territory, Russia**

The area where the effects of the development of the Tumen River area have not manifested themselves in economic growth to any great degree is Russia's Primorsky Territory. As is apparent from the fact that the region's total population dropped from 2.309 million people in 1991 to 2.225 million in 1999, the economy of Primorsky Territory in the 1990s was in the doldrums. With regard to state-owned industrial sectors such as manufacturing and mining, which developed based on the centrally planned economy and financial support from the central government during the Soviet era, governmental support and the government-run market were terminated in 1991 and businesses had to exist in the market economy; as a result, industrial production dropped by 52% between 1990 and 1997. The privatization of businesses did not progress smoothly, and more and more factories and equipment became superannuated. Such problems as a lack of capital, high interest charges on bank loans, delays in the payment of wages and taxes, and in the supply of commodities, and a lack of entrepreneurial spirit were stumbling blocks inhibiting economic development.

The industrial structure changed in the 1990s, and the share of regional GDP accounted for by foodstuffs processing, mining and manufacturing, including coal and cement, which were the main industries during the Soviet era, dropped to 30% in 1998;

in contrast, the service sector, including construction, transport, communications, tourism, private services, public facilities and government services, rose from 40% in 1991 to 54% in 1998. The agriculture and forestry sector accounts for 8% of Primorsky Territory's workforce, employing 70,000 people, and accounts for 15% of regional GDP.

After having been stricken by the effects of the 1998 currency crisis, mining and manufacturing production in 1999 in Primorsky Territory grew 10.7% on the previous year, rising a further 2% in 2000. However, it shrank by 15.2% in 2001, leading to the stability of the regional economy being called into question.

In the transport sector, the volume of cargo nosedived in the 1990s. This was related to the fact that the volume of TSR (Trans-Siberian Railway) cargo originating in or destined for Japan fell from more than 60,000 TEU in 1992 to 12,000 TEU in 1998, dropping below 10,000 TEU in 2001.

Figure 2-8 Changes in the Volume of Cargo Transported in Primorsky Territory (Unit: million tons)

Railway			Road			Marine transport		
1990	1995	1998	1990	1995	1998	1990	1995	1998
34.5	13.4	9.3	29.7	58.2	6.2	29.7	12.5	8.3

(Source) *Russian Transport and Communications* (1996, 1999)

Meanwhile, there was an increase in exports and the value of trade rose from US\$710 million in 1992 to US\$2.02 billion in 1997. After the 1998 currency crisis, trade recovered in 1999 and 2000 due to the effects of such factors as the global rise in crude oil prices. Between 1998 and 2000, intermediate trade of coal from China's Heilongjiang Province via Vostochny Port began, and intermediate trade between Jilin Province and Japan and the ROK began as a result of the opening of roads and railways between Hunchun and Kraskino.

Based on 1997 figures, the main exports of Primorsky Territory are timber (23%), processed marine produce (11%), non-ferrous metals (11%), and steel, coal, petrochemicals and munitions (41%), while the main imports are foodstuffs (51%), industrial machinery (24%) and oil and LPG (8%). Its main trading partners are Japan (20%), the USA (18%), the ROK (18%) and China (16%); we can see from this that most of the region's trade is with the Asia-Pacific region. Trade with China accounted for 58% of all trade in 1992, but this share decreased thereafter. This is because the Chinese government imposed import controls on fertilizers, timber, steel and cars, and Russia emulated this by restricting imports of Chinese-produced consumer goods. The devaluation of the rouble in 1998 was a major blow to cross-border peddler trade, as it reduced Russian purchasing power. However, after the Chinese government designated almost all of Suifenhe, in Heilongjiang Province, as a free-trade zone with Russia in September 1999, Sino-Russian trade rose rapidly, as shown in Figure 2-9.

Figure 2-9 Volume of Goods Passing Through Suifenhe Customs Checkpoint (Unit : ten thousand tons)

	1998	1999	2000	2001
Export	42	56		
Import	125	160		
Total	167	216	316	420

(Source) Heilongjiang Province Planning Committee

As can be seen from the above, the results of the Tumen River Area Development Programme cannot be evaluated in terms of the economic growth of Primorsky Territory. However, the Putin regime, which took power in late 1999, has adopted policies that emphasize the Russian Far East, and based on the advantages that Primorsky Territory has in terms of transport infrastructure (railways, roads, ports, airports and communications), the reinforcement of cooperation in the Tumen River area between Russia and such Northeast Asian countries as China, the ROK and Japan can be described as an achievement.

The achievements in Primorsky Territory can be summarized as follows.

- Border trade between China and Russia is recovering from a downturn, thanks to the establishment of a free-trade zone in China.
- The ports of Zarubino and Posiet were linked with the ROK and Japan by means of new sea routes.
- Economic exchange and tourism were promoted as a result of the realization of land and sea transport and cargo-passenger transport between the ROK, Russia and China, via Zarubino Port.

## **2.3 Results and evaluation of each topic**

### **2.3.1 Transport infrastructure**

During the ten years of the Tumen River Area Development Programme, the development of transport infrastructure has been the most important issue, involving the development of transport networks in China, the DPRK and Russia as international transportation corridors. The catalyst for the development of transport infrastructure in this way was the original proposal for an outlet onto the sea for Northeastern China, but it has attracted the interest of and support from all countries as a network leading to the development of tourism and the dynamization of trade through the utilization of the economic complementarities of Northeast Asia. In order to translate this into reality, it was necessary to integrate the functions of the roads and railways spanning the three countries, as well as the relevant ports and border crossing procedures. It would be no exaggeration to say that the ten years of development in the Tumen River area have resulted in the establishment and development of these transportation corridors.

Achievements in developing transport infrastructure in this region are as follows.

- The transport of cargo and passengers across the borders between Hunchun, Primorsky Territory and Rajin-Sonbong has increased sharply since 1999. In particular, since the passenger and cargo sea route between Hunchun, Zarubino and Sokcho in the ROK was established in April 2000, cross-border traffic between China and Russia has been dynamized and the number of travelers passing through the Hunchun customs checkpoint reached 400,000 in 2001.

Figure 2-10 Volume of Goods and Number of Travelers Passing Through Hunchun Customs Checkpoint

Category	Country	Customs office	1996		1997		1998		1999		2000		2001	
			Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Transit freight (tons)	DPRK	Quanhe	23,772	66.3	70,021	77.0	41,387	67.2	116,784	84.3	159,845	78.9	162,393	74.3
		Shatuozzi	4,961	13.8	5,575	6.1	5,575	9.1	932	0.7	2,915	1.4	5,863	2.7
	Russia	Changlingzi	7,143	19.9	15,358	16.9	14,604	23.7	20,754	15.0	39,787	19.6	50,171	23.0
	Total		35,876	100	90,954	100	61,566	100	138,470	100	202,547	100	218,427	100
Transit passengers (to and from)	DPRK	Quanhe	11,992	50.1	71,364	83.1	99,436	85.0	143,301	76.2	127,349	45.5	162,089	40.5
		Shatuozzi	7,645	32.0	9,657	11.2	4,995	4.3	3,568	1.9	6,573	2.3	22,362	5.6
	Russia	Changlingzi	4,278	17.9	4,834	5.6	12,571	10.7	41,291	21.9	146,181	52.2	215,999	53.9
	Total		23,915	100	85,855	100	117,002	100	188,160	100	280,103	100	400,450	100

(Source) Hunchun City Border Entry and Exit Management Committee

- Four routes linking the Tumen River area with the ROK and Japan (Rajin-Busan, Rajin-Niigata, Posiet-Akita, Zarubino-Sokcho) have been opened and the Hunchun-Kraskino railway has begun operating commercially.
- The situation regarding the development of transport infrastructure is as shown in Figure 2-11.

Figure 2-11 Development of Transport Infrastructure in the Tumen River Area

		Details
Completed	Railway	Between Hunchun and Kraskino (in 1999)
	Road	Major highway construction between Changchun and Hunchun (in 2003)
		Construction of new road between Hunchun and Quanhe (in 2000)
	Port	Expansion of Rajin Port capacity to handle 40ft containers (in 1998)
		Development of Posiet and Zarubino ports (passenger terminal, etc) (in 2000)
	Border Crossing	Opening of the Quanhe-Wonjong, Hunchun-Kraskino border crossing to foreign visitors (in 1997 and 1998)
		New border crossing facilities at Hunchun, Quanhe and Wonjong (during 2001 and 2002)
Airport	Construction of Yanji Heliport (in 1997)	
Underway	Airport	Improvement of Yanji Airport terminal (in 1997)
	Airport	Upgrading of Yanji Airport terminal to full international status
	Border Crossing	Completion of border crossing facilities at Makhhalino railway junction
	Road	Road improvements between Kraskino and Slavyanka
Road improvements between Wonjong and Rajin		

Of these projects, the construction of the expressway on the Chinese side has been the main focus of attention. China opened the Changchun-Yanji stretch in 2000, with the Yanji-Tumen stretch (28.7km) opening in September 2001, having cost RMB 850 million to construct. In addition, a new general road between Hunchun and Quanhe (39km) was opened in December 2000. If the Tumen-Hunchun stretch is completed by 2003, a 600km express transport route from Changchun to Quanhe will have been developed.

Let us evaluate the achievements in the development of transport infrastructure in the Tumen River area by route.

## 1) Yanbian ~ Rajin Port route



A Busan-bound container ship, Rajin Port

The rail route between Tumen, Namyang and Rajin (about 165km) and the road route between Hunchun, Quanhe, Wonjong and Rajin (about 116km) are transport routes that are used as gateways to Rajin Port in the DPRK's Rajin-Sonbong Zone. The former, an existing route, has been used for transit and as a trade route between China and the DPRK. The latter was opened in September 1995, and the number of passengers has risen sharply since it was opened up to passengers

from other countries in February 1997.

The advantage of these routes is that the infrastructure at Rajin Port is relatively good. It can handle about 4 million tons of cargo annually, and has sufficient capacity to handle both container and bulk cargo. Rajin Port was constructed in 1938, and from 1965 was used solely for exports of chemical fertilizer from Russia. It has three quays (ten piers) that can be used by 20,000-ton ships; in 1995, a transit warehouse for fertilizer, capable of handling a million tons annually, was built at wharf number one with investment from an enterprise affiliated to Chongryun (association of Korean residents in Japan supporting the DPRK), while wharf number three has been developed as a specialist container wharf, and is equipped with such facilities as gantry cranes (with investment from China's Hyun Tong Group).

In October 1995, the regular Rajin-Busan container route was established by Dong Long Shipping Co.,Ltd, a joint venture company founded by a company from the ROK and a company from Yanbian Prefecture, and Niigata became a port of call in August 1999. The volume of container cargo between Rajin and Busan rose from 2,475 TEU in 1996 to 5,225 TEU in 1999, but fell to around 3,600 TEU in 2001 because exports of used cars ceased. The majority of cargo from Busan consists of raw materials, accounting for 40% of all cargo, while most Busan-bound freight consists of such products as agricultural and marine produce, timber products, spun cotton, textiles and paper products. A total of 22,257 TEU of containers and 51,925m<sup>3</sup> of bulk cargo was transported on the 200 shipments that took place between October 1995 and March 2002.<sup>17</sup>

Achievements and problems relating to the Yanbian-Rajin Port route can be summarized as follows.

## i) Tumen-Namyang-Rajin rail route

The government of the DPRK electrified the railway line between Namyang and Rajin (158.8km) in 1996; in January 1997, a single-management system was created for the Namyang-Rajin railway, separating it from the Chongjin Railway Bureau into the Rajin Railway Bureau, and direct rail transport between Tumen, Namyang and Rajin began in November 1997. Container cranes were installed at Namyang Station, making it

<sup>17</sup> (Source) *Yanbian Daily*, 22<sup>nd</sup> March 2002

possible to transport 6,000 TEU of containers annually, but as the railway facilities had been constructed in the 1930s, the rails and tunnels had become decrepit and there was a lack of goods wagons and locomotives, so the facilities ceased to be used. In order to modernize the Namyang-Rajin section, a survey of the improvements needed was carried out with Chinese collaboration in 1997, and it was estimated that about US\$46 million of investment would be required, but the requisite work has yet to be carried out due to an inability to procure the necessary funds.

ii) Hunchun-Quanhe-Wonjong-Rajin road route

The biggest achievement in terms of Sino-DPRK cooperation in the Tumen River Area Development Programme was the opening of this road route in September 1995. The section in the Rajin-Sonbong Zone passes through mountains that are about 1,000m high, which is something of a drawback. The road on the Chinese side, between Hunchun and Quanhe was originally a rough one (62km), but the December 2000 opening of a new road (39km), including two tunnels, cut the time needed to travel between Hunchun and Quanhe from one and a half hours to thirty minutes. In June 2001, a regular bus service began operating between Hunchun and Rajin (twice a day). However, on the DPRK side, the journey between Wonjong and Rajin (54km) takes about an hour and a half because the section between Wonjong and Sonbong is an unpaved mountain road, and the lack of development of this road is a bottleneck. With regard to the development of the road between Wonjong and Rajin, in 1996 it was planned to build a relatively flat new relief road (67km) along the Tumen River, rather than using the existing mountain road, and a company from Hong Kong did provide some investment, but work was halted in 1998 due to a lack of funds. A UNDP-supported advance feasibility study into the development of this route was completed in late 2001. Based on this, China and the DPRK organized a conference between the government of Yanbian Prefecture and the Rason City People's Committee in Rajin in February 2002, at which the development of the new road between Wonjong and Rajin was designated a priority issue and it was agreed to cooperate in supplying the US\$70 million estimated as being required to cover construction costs. As the DPRK has no funds, international financial support for road development is being sought.

2) Yanbian ~ Khasan route



The Sokcho ferry route, Zarubino Port



Container cranes, Posiet Port

This transport route uses Zarubino and Posiet ports in Russia's Khasan District as gateways. The advantages of this route are that it is shorter than the Rajin route (45km from Hunchun to Kraskino), it is flat, the road and railway are more or less straight, the

road is paved and the railway has been constructed recently. However, Zarubino and Posiet ports do not boast such good infrastructure or handling capacity as Rajin Port does. Zarubino Port can only handle 1.2 million tons of cargo annually, while the capacity is not much higher at Posiet, at 1.5 million tons. In early 1999, Posiet Port brought in container cranes and upgraded its facilities but the port complex itself is relatively cramped in size. Zarubino Port has poor cargo-handling facilities. In 1996, a feasibility study of the modernization of Zarubino Port was carried out with Japanese cooperation (Zarubino Feasibility Study Implementation Committee, ERINA), and a Russo-Japanese working group was established to carry it out. Cranes were installed for use with the cargo and passenger ship between Sokcho and Zarubino, and a passenger terminal was built.

Achievements and problems relating to the Yanbian-Khasan route can be summarized as follows.

i) Linking the railway between Hunchun and Kraskino

As a result of the December 1992 agreement between China and Russia, work on the new railway between Hunchun and Kraskino (38km) began in 1994, and although there were delays arising from a lack of finance from both countries, the rails were linked in October 1996 and it was finally officially opened in May 1999. Actual cargo transport began in February 2000, with irregular imports of timber from Russia taking place. As the gauge of the rails in the two countries differs (China uses standard gauge of 1,453mm, whereas Russia uses broad gauge of 1,524mm), the construction of a transshipment station on either side of the border was planned, and four rails (one set each of broad and standard gauge rails) were laid between the two stations. It was planned that transshipment should take the form of changing the bogies, but the transshipment station on the Russian side did not materialize and so cargo is transshipped at Hunchun Transshipment Station. Hunchun has an annual cargo handling capacity of 500,000 tons, but there are plans to develop this in stages to reach a million tons in 2005 and 2.5 million tons in 2010.

ii) Development of the road between Hunchun and Kraskino

The road has been paved with concrete from Hunchun to the border, and with asphalt from the border to Kraskino (30km). The road from Zarubino Port to Posiet Port is flat and there are no obstacles to truck transport.

iii) Establishment of the Hunchun-Zarubino route

The Hunchun-Zarubino-Sokcho (ROK) cargo and passenger ferry route was established in April 2000 as a sea route using Zarubino Port. As there are three ferry sailings each week, the ferry mainly carries passengers and containers between the ROK and Yanbian. The ferry is operated by Dong Chun Ferry Co.,Ltd, a joint Hunchun-ROK venture, and the route is served by the 12,023-ton capacity M/V Dong Chun (136 TEU, total passenger capacity: 519). The immigration procedures for travelers from the ROK visiting Russia have been made simpler, with both arrival and departure procedures for ROK citizens able to be completed simultaneously at the customs check point at Zarubino Port. In addition, buses crossing the border between China and Russia are allowed to pass unchecked and without stopping (non-stop bypass). Moreover, the issue of Russian transit visas for Chinese travelers was settled on 18<sup>th</sup> December 2001 and Chinese citizens are now able to reach the ROK via the Japan Sea, by going

through Zarubino Port.

Over the 248 sailings between its establishment in April 2000 and 18<sup>th</sup> March 2002, the ferry carried about 100,000 passengers and 3,000 TEU of containers.<sup>18</sup> Agricultural produce from China is also exported using this route, which has a competitive advantage over the Rajin-Busan route in terms of fares and the number of sailings. Given the fact that the development of roads in the Rajin-Sonbong Zone is lagging behind, there is a distinct possibility that container freight will favor Zarubino Port over Rajin Port.

iv) Establishment of the Hunchun-Posiet route

Routes linking up with such Japanese ports as Sakaiminato and Akita have been promoted and in August 1999 the Posiet-Akita container route was established. There has been a downturn due to a lack of cargo, but the cooperation of local authorities is being sought in order to maintain the route.

3) Rajin-Sonbong ~ Khasan route

During the Soviet era, Rajin Port came to be used as a transit and export port for chemical fertilizers, and both standard and broad gauge rails were laid from Khasan to Rajin Port. Until the beginning of the 1990s, about 5 million tons were transported annually, but this dropped sharply over the course of the decade and was no higher than 6,000 tons in 1998.

4) Eastern Mongolia ~ Tumen River area route

Reasons for Mongolia's participation in the development of the Tumen River area include securing a transport route through the area, and the dynamization of trade and tourism resulting from this. In June 2001, the ADB provided US\$310,000 in financial support for a joint feasibility study into a route between Eastern Mongolia and Inner Mongolia. The potential of this route will be investigated in the future.

5) Air routes

Yanji Airport is the hub for air access to the Tumen River area. The new building at Yanji Airport was completed in 1997 and complies with international standards, while the runway has been extended to 2,600m, giving the airport the capacity to handle 1.4 million passengers annually. Yanji has domestic air links with Beijing, Changchun, Shenyang, Harbin, Dalian, Qingdao, Weihai, Guangzhou and Shanghai. In June 2001, four international charter flights per week began operating between Seoul and Yanji for the summer season, improving access to Yanbian Prefecture from the ROK. In 2002, the Seoul-Yanji charter flights ran from April to December, while another international charter service ran between Yanji and Vladivostok for two months during the summer. However, as of December 2002, Yanji Airport still did not have official permission to operate as an international airport and is in the process of applying to the State Council for this.

There is no international air access to the Rajin-Sonbong Zone. A heliport and customs building were constructed in 1997 in Rajin, with the aim of operating helicopter services

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18 (Source) *Hunchun Daily*, 27<sup>th</sup> March 2002



to Rajin from Yanji and Vladivostok, but it has not been possible to acquire helicopters and the customs facilities are as yet undeveloped. The nearest domestic airport to the Rajin-Sonbong Zone is Orang Airport (1,200m runway) in Chongjin, but it only has domestic charter flights.

International air access to Primorsky Territory is gained via Vladivostok Airport. It has two runways - one 3,500m long and one 2,500m long - so all types of aircraft are able to take off from and land there. As of 2002, international flights to Harbin (four times a week), Shanghai, Seoul, Busan, Pyongyang, Niigata and Toyama (all twice a week), and Osaka's Kansai International Airport (once a week) operated from here. As one can reach Hunchun from Vladivostok in a day overland, Vladivostok Airport is an important air route for access to the Tumen River area.

#### 6) Problems in the development of transport infrastructure

Development of each route is thus underway and great improvements have been made in terms of border-crossing procedures, but in addition to the problem that the volume of cargo on these routes is low in proportion to their economic potential, the routes are beset by a variety of impediments.

- Both the Zarubino and Rajin routes are relatively uncompetitive in terms of price, compared with the Dalian route. Moreover, as there is no agreement on clear standards for collecting fees when crossing borders between the relevant countries, it is difficult to calculate transport costs.
- The customs procedures for both cargo and passengers are cumbersome and complicated. The necessary documents and details to be provided when crossing borders between China and Russia, and China and the DPRK are complex and crossing the border is therefore time-consuming. The multiple checks by customs officers and border police when crossing between China and Russia are a particular problem.
- There are restrictions on the area within which vehicles from one country are allowed to operate in the other. The mutual operation zone between China and Russia is from Hunchun to Slavyanka, while between China and the DPRK it is from Hunchun to the Rajin-Sonbong Zone.

### 2.3.2 Attracting investment (special economic zones)

#### 1) Attracting direct investment

As a result of the favorable conditions for intermediate trade that are characteristic of the region, the existence of cheap labor and natural resources, and preferential treatment for foreign investment, foreign direct investment (FDI) has been undertaken in the Tumen River area.

According to data provided by the UNDP Tumen Secretariat, a total of about US\$1.28 billion of investment had been attracted to the Tumen River area (excluding Mongolia) by 2001, with Yanbian Prefecture and Primorsky Territory receiving US\$550 million and US\$640 million respectively, and the Rajin-Sonbong Zone receiving just under US\$100 million (total to 1998).

Figure 2-12 Foreign Direct Investment Attracted to the Tumen River Area (investment actually implemented) (Unit: US\$ million)

	1985-1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
Yanbian Prefecture	42	61	78	134	95	47	33	29	32	551
Rajin-Sonbong	1	1	4	31	26	25	N/A	N/A	N/A	88
Primorsky Territory	141	2	53	97	95	56	54	78	66	642
Mongolia	10	29	46	41	42	45	72	107	125	517

(Source) UNDP Tumen Secretariat

The biggest investor is the ROK, followed by Japan. In particular, ROK investment is concentrated in Yanbian Prefecture, which is due to the region possessing such advantages as cheap labor and land costs, not to mention the fact that about 40% of the local population is ethnic Korean and therefore speaks the same language. Furthermore, the development of transport infrastructure by the government of Yanbian Prefecture is progressing, and in October 1995, the region gained another point in its favor with the establishment of a sea route between Rajin Port in the DPRK and Busan Port in the ROK.

The main focuses of investment are resource-processing sectors, such as timber and foodstuffs processing, textiles and apparel, and mining. Moreover, FDI has been used to develop hotels and tourism, while there has also been investment in the Rajin-Sonbong Zone and Primorsky Territory in transport and communications, emphasizing the position of these areas as gateways to the region.

a) Yanbian Korean Autonomous Prefecture, Jilin Province, China

Yanbian has entered an era of full-scale liberalization, with Hunchun being opened up as a border city in 1992, and the establishment of the Hunchun Border Economic Cooperation Zone. The Yanbian Prefecture government held the First Tumen River Area International Investment and Trade Forum in Yanji in October 1995, with the intention of attracting foreign capital; a total of 118 investment contracts and memoranda of understanding worth US\$843.5 million (US\$611.8 million of foreign investment) were signed and US\$230 million of foreign capital was actually invested between 1996 and 1997. Moreover, the scale of investment became larger, with five investment projects worth more than US\$10 million each agreed to during the same year, totaling US\$120 million in such sectors as textiles, timber processing, hotels and hydroelectric power generation.

However, in 1998, investment fell significantly due to the economic downturn arising from the Asian currency crisis, particularly the ROK's economic stagnation, and the value of investment implemented in 1998 was less than half the 1997 level. In September 1998, the Second International Investment Forum took place in Hunchun and a total of 141 investment contracts and memoranda of understanding worth US\$1.185 billion (US\$474 million of foreign investment) were concluded, but the value of investment actually implemented was low. As of the end of 2001, of a total of 675 FDI contracts worth US\$854.7 million in Yanbian, US\$560.3 million had actually been implemented.<sup>19</sup>

<sup>19</sup> According to UNDP statistics, 580 FDI projects worth US\$551 million had been implemented by the end of 2001. (Source) UNDP Tumen Secretariat <http://www.tumenprogramme.org/tumen/sectors/Investment/fdi/view>

Figure 2-13 Changes in Investment in Yanbian Prefecture (Unit: US\$ million)

	Until 1994	1995	1996	1997	1998	1999	2000	2001	Total
Value of investment contracts	125.4	167.1	110.3	87.3	64.1	82.9	106.6	111.1	854.7
Value of investment implemented	103.8	78.3	133.9	94.5	46.3	33.1	38.3	32.1	560.3

(Source)

## 1. Value of investment contracts

Until 1994: UNIDO, *Yanbian: A Special Guide to the Conditions for Foreign Investment 95*

From 1995: Jilin Statistical Yearbook, Yanbian Statistical Yearbook, internal data from Yanbian Korean Autonomous Prefecture Foreign Trade and Economic Cooperative Bureau,

## 2. Value of investment implemented

Until 1997: UNIDO, *China's Tumen River Area Investment Guide 98*

From 1998: Yanbian Statistical Yearbook, internal data from Yanbian Korean Autonomous Prefecture Foreign Trade and Economic Cooperative Bureau

The main economies investing in the area are the ROK, Hong Kong and Japan; of these, the ROK accounts for a formidable share.

Figure 2-14 Changes in Investment by Country in Yanbian Prefecture (as of September 2000) (Unit: projects, US\$ million)

Country	Number of enterprises		Value of investment contracts	Value of investment implemented	Average investment
Total	618	100%	629.54	505.13	1.01
ROK	409	66.0%	368.32	313.41	0.90
Japan	59	9.5%	83.06	80.63	1.40
Hong Kong	55	8.8%	85.32	66.50	1.55
USA	26	4.2%	14.26	14.10	0.54
Taiwan	21	3.3%	22.85	13.75	1.08
Thailand	1		29.93		
Switzerland	2		4.70		
DPRK	15		3.27		
Canada	6		1.24		
Russia	3		0.20		
Malaysia	5		0.80		

(Source) Internal data from Yanbian Korean Autonomous Prefecture Foreign Trade and Economic Cooperative Bureau

Most foreign investment is concentrated in the timber processing, textiles and apparel, foodstuffs, livestock farming and service sectors, which form Yanbian's main industrial sectors. The manufacturing sector accounted for 69.3% of the total value of investment contracts concluded up to September 2000. This is because the main reason for foreign investment in the area was to use Yanbian's natural resources and cheap wage and land costs to process goods and export them. The share of total investment accounted for by the catering and leisure service sector is 15.1%, while that of the agriculture, forestry and livestock sector is 0.8%. According to UNDP data, 77% of FDI was concentrated in the manufacturing sector in 2001, with Hunchun a leading city with regard to investment in the manufacturing sector. Hunchun's investment attraction zone mostly consists of the Hunchun Border Economic Cooperation Zone, with the major focus on such export processing fields as textiles, building materials and foodstuffs. The scale of investment exceeded US\$10 million, with the main projects being a textile factory built by Ssangbangwool, another textile factory built by Kabool, a hotel built by Daewoo (all from the ROK), the Ahnli timber processing factory built by Malaysia and Japan, the Jilin Fudun timber processing factory built by Hong Kong and the Guiwan food-processing factory built by Japan.

In September 2002, the Third Tumen River Area International Investment and Trade Forum was held in Yanji; according to a presentation by the government of Yanbian Prefecture, 3,195 people from 15 countries and regions participated (2,270 from overseas), and a total of 186 investment contracts worth US\$757 million (domestic US\$341 million, overseas US\$302 million) were concluded. In addition, 68 investment agreements worth US\$408 million (domestic US\$246 million, overseas US\$123 million) were signed. By sector, the content of total investment (contracts + agreements) was as follows.

Figure 2-15 Total Investment by Sector in Yanbian Prefecture Arising from the Third Investment Conference in 2002  
(Unit: projects, US\$ million)

Total		Agriculture		Industry		Service		Infrastructure		Property rights trading	
Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value
254	1,165	39	134	176	759	16	103	16	158	7	11

(Source) The Tumen River Area Development Administration, Government of Yanbian Prefecture

From this we can see that, in the past, more memoranda of understanding have been signed than actual investment contracts and that there were many cases in which these did not actually lead to contracts being implemented, but in 2002, the number of contracts signed increased, and the potential for their being implemented increased. Moreover, investment from other regions within China overtook overseas investment, reflecting the rise in China's overall economic strength and signifying that Yanbian has become one of China's brightest prospects for domestic inward investment.

Foreign-affiliated companies investing in Yanbian Prefecture have mentioned the following problems.

- Frequent changes in laws and institutions
- Energy costs are relatively high and have to be paid in advance
- The waste water and garbage disposal system is inadequate

b) Rajin-Sonbong, DPRK

Foreign investment actually implemented in Rajin-Sonbong totaled US\$88 million by 1998. The main targets for the investment of foreign capital are infrastructure and such service sectors as communications, hotels, transport, construction and tourism. In the finance sector, ING Bank of the Netherlands and Hong Kong's Peregrine Bank established a joint venture bank (1996), based on the DPRK's Law on Foreign-Invested Banks (enacted in 1993), but they had withdrawn from Rajin-Sonbong by 1998 due to a slump in business. The manufacturing sector accounts for a very small share (less than 4%) of total foreign investment.

Figure 2-16 Foreign Investment in Rajin-Sonbong by Sector (cumulative total as of late 1997)

(unit: US\$ thousand)

Classification	Agriculture, Forestry, Marine Produce Industries			Manufacturing Industries					
	Agriculture	Forestry	Marine Products	Food Processing	Ceramic Industry	Petroleum Processing	Textile	Transport Machinery	Other Manufacturing
Actual Investment	63	651	1,986	115	612	745	0	20	505
Share (%)	0.1	1.1	3.4	0.2	1.1	1.3	0	0	0.9
	4.7			3.4					

Classification	Construction, Service Industries									Total
	Communications	Hotel Business	Construction & Real Estate	Finance	Transportation	Tourism & Service	Distribution & Retail	Foreign Trade	Others	
Actual Investment	10,000	8,194	8,150	7,600	6,543	4,417	1,126	693	6,500	57,920
Share (%)	17.3	14.1	14.1	13.1	11.3	7.6	1.9	1.2	11.2	100
	91.9									

(Source) Presentation by CPEEC of the DPRK, August 1998

However, of the 38 foreign-affiliated companies that were newly registered in the first half of 1998, 32 were small or medium-sized manufacturing-related companies, indicating that foreign interest in the manufacturing sector had increased. Within that sector, investment focused on companies processing such things as marine produce, traditional Chinese medicines, timber and textiles.



Emperor Hotel (July 2000)

Looking at the national origins of investment, of the 113 foreign-affiliated companies that had invested by mid-1998, 63 were Chinese companies, accounting for 56% of the total, but much of the investment they carried out was in small-scale commerce, and only accounted for about 20% of the total value of investment. Although there were few companies from Hong Kong (less than 10% of the overall number of companies), they accounted for 35% of the total value of investment. Investment such as that in a casino hotel (Seaview Casino Hotel: investment worth a total of US\$60 million was planned to be undertaken during the first phase, between 1997 and 2000) undertaken by Hong Kong's Emperor Group contributed greatly to this. The casino at this hotel opened in October 2000. Loxley Pacific Co., Ltd. of Thailand began investing in the communications sector in 1997 (contract worth US\$28 million) and its communications center (construction cost: US\$4.5 million) began operating in August 2001.

Most investment by Japanese companies is undertaken by Korean businesspeople resident in Japan; by 1998, about 20 companies had invested a total of about US\$10 million in such fields as tourist hotels, catering, marine produce processing and timber processing. Companies from the ROK are greatly interested in Rajin-Sonbong, but so far not a single one has been registered as an investment company.

Figures showing the volume of investment attracted have not been published since 1999, but as of July 2000, the value of investment contracts in the Rajin-Sonbong Economic and Trade Zone was said to be US\$520 million, of which about US\$220 million had actually been implemented.<sup>20</sup> As of 2002, 130 foreign-invested companies

<sup>20</sup> Interview conducted during the Kanamori Committee's visit to the DPRK (July 2000)

were operating in Rajin-Sonbong, 90% of which were Chinese; 80% of those Chinese companies were from Yanbian.<sup>21</sup> Other than Hyun Tong Group and Long Xing Trading Group, both of which have invested in Rajin-Sonbong, the majority of companies from Yanbian are involved in such areas as the production of paint, sesame oil, and cloud ear mushrooms, hotels and guesthouses, shops and pharmacies.

Foreign companies that have invested in Rajin-Sonbong have mentioned the following problems with regard to this region.

- It takes a considerable amount of time to obtain the permission of the central government.
- Foreign investors are not allowed to recruit employees freely, since they must be supplied by the labor exchange in the Rajin-Sonbong Zone.
- It is difficult to visit Rajin-Sonbong. In particular, permission tends not to be forthcoming for ROK nationals, who are potentially important investors.

The development strategy of the DPRK government is realistic in focusing on the development of entrepot trade and tourism. The Rajin-Sonbong Zone Authority is making haste to supply finance for road development, as a topic upon which it places the greatest emphasis. As a result of the improvement in North-South relations from 2000 onwards, the possibility of ROK-invested companies being accepted in the Rajin-Sonbong Zone has increased, but has yet to be translated into reality. In the future, if the DPRK were to introduce investment by ROK companies to the Rajin-Sonbong Zone, there is a distinct possibility that ROK companies would move into the distribution and export processing fields. This would be likely to have a significant effect on the development of the Tumen River area.

#### c) Primorsky Territory

According to UNDP data, the volume of foreign investment attracted to Primorsky Territory between 1985 and 2001 was US\$640 million. This figure includes ruble-denominated reinvestment, export loans and commercial loans by foreign companies. Between 1990, when foreign investment began, and 1999, foreign currency-denominated FDI totaled around US\$230 million.<sup>22</sup> The introduction of foreign capital mostly took place in 1996 and 1997.

By country, the biggest investors between 1994 and 2000 were the ROK (40%), Japan (21%), the USA (13%), Singapore (8%), Switzerland (5%) and the UK (4%).<sup>23</sup>

The main sectors in which investment has taken place are the transport, communications, hotel, food processing and timber processing sectors.<sup>24</sup> VICS Container Terminal invested in the transport sector, while the communications sector

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21 (Source) *Yanbian Daily*, 10<sup>th</sup> July 2002, Interview with Kim Hee-Hak, representative to Yanji of the Rason Economic and Trade Zone.

22 (Source) UNIDO, UNDP, *Russia: Primorsky Territory, an Investment and Business Guide*, September 2000, p.7 According to data from the Economic Research Institute, Far Eastern Branch of the Russian Academy of Sciences, from 1992, when the first foreign-invested company in Primorsky Territory was registered, until 2000, a total of US\$220 million of direct investment was undertaken, and 360 projects were in operation. (Source) Japan Association for Trade with Russia and Central-Eastern Europe (ROTOBO), *Monthly Bulletin of Russian and Central-Eastern European Studies*, October 2001 issue.

23 (Source) UNDP Tumen Secretariat : <http://www.tumenprogramme.org/tumen/sectors/Investment/fdi/view>

24 Information Institute of the Hokkaido Shimbun, *Current Foreign Investment in Primorsky Territory*, September 1999, p.13

received investment from KDI of Japan, Cable and Wireless Hong Kong, Korea Telecom of the ROK and US West and Global Telesystems. The main sectors in receipt of investment between 1994 and 2000 were manufacturing (36%), facilities (35%), and transport and communications (18%), while in 2000 they were food processing (24%), forestry (17%), and communications (16%). The main investment projects included a hotel in which the ROK's Hyundai Group invested, a plywood factory which was the focus of investment by Japan's Sumitomo Corporation, and a bottle factory, in which the Coca-Cola Company of the US invested. In terms of the number of projects, China accounts for the greatest share of investment, but most of these are small-scale projects in the retail sector.

Looking at the areas that are the target of foreign investment, until 1999, Vladivostok accounted for half of all foreign investment (hotels, office buildings, trade and the processing of foodstuffs and marine produce), with Nakhodka Free Economic Zone accounting for a further quarter.

Figure 2-17 Foreign Investment Attracted to Primorsky Territory, by Sector (cumulative total as of the end of 1997) (Unit: US\$ million)

Section		Value	Share (%)
Amount of investment carried out		383.9	100
Mining		19.9	5.2
Manufacturing	Subtotal	100.7	26.2
	Food processing	72.0	18.8
	Wood processing	23.3	6.1
Service	Subtotal	263.0	68.5
	Public facilities, service	98.9	25.8
	Communications	56.6	14.8
	Commerce	52.4	13.6
	Transportation	33.7	8.8
	Trade	9.1	2.4

(Source) Statistical Committee of the Russian Federation, *Social and Economic Situation of Russia in 1997*

Investment in fixed capital by foreign companies in 1999 did not exceed 5% of all fixed capital investment throughout the whole of Primorsky Territory, but the figure was comparatively high in certain sectors, such as the food industry (22%) and communications (35%). The output of foreign firms operating in 1999 was 3.8 billion rubles, which is no higher than 2.3% of the industrial gross output of Primorsky Territory. Given this situation, we can say that although foreign investment is concentrated in the transport, communications and service sectors, its role in production is still minor.

Foreign companies that have invested in Primorsky Territory have mentioned the following problems.

- The investment environment is unstable. Laws are altered frequently and preferential measures are often applied in a discriminatory way.
- The banking system is lagging behind the times.
- Taxes are high (income tax 30%, value-added tax 20%) and unstable.
- Labor costs involve complicated charges. (Federal basic pension: 28% of payroll; medical insurance: 3.6% of payroll; social insurance: 5.4% of payroll; transport tax: 1% of payroll; national employment fund: 1.5% of payroll; education fund: 1% of

payroll, etc.)

## 2) Operating special economic zones

One idea for the development of the Tumen River area was for China, the DPRK and Russia to set up a special economic zone and cooperate in its management and development. China established the Hunchun Border Economic Cooperation Zone, the DPRK established the Rajin-Sonbong Economic and Trade Zone, and Russia established the Nakhodka Free Economic Zone. However, all three special economic zones remained at the stage of independent development, and it was not possible to cooperate in matters relating to them.

### a) Hunchun

Hunchun is a border city adjacent to the borders with the DPRK and Russia. There are two customs checkpoints on the road to the DPRK in Hunchun, as well as one rail and one road checkpoint en route to Russia. Hunchun has an excellent location, situated at the center of the Tumen River area, where the borders of China, the DPRK and Russia meet. The Chinese government established a state-level Border Economic Cooperation Zone in Hunchun in September 1992. In the plans, 24 km<sup>2</sup> was allocated as an industrial and commercial zone. The government of Hunchun established the Management Committee of the Hunchun Border Economic Cooperation Zone in order to develop this special economic zone; development began in November 1992, and by 2000, 2.28 km<sup>2</sup> had been developed, using investment totaling RMB 350 million. Intensive investment worth RMB 505.73 million took place in 2001, while RMB 37.1 million was invested in the first half of 2002, giving a total of about RMB 900 million of investment over ten years. In order to provide added impetus to efforts to attract FDI, various initiatives were set up, such as the responsibility system for priority projects, overseas offices and the Foreign Investors Service Center. By 2000, 52 investment projects had been initiated, with contracts worth US\$130 million having been signed and US\$82.4 million of investment actually implemented. The main areas of business were resource- and labor-intensive enterprises, and export processing in the textiles and apparel, and timber processing sectors.



Hunchun Export Processing Zone

Moreover, on 27<sup>th</sup> April 2000, the Chinese government established a state-level export processing zone, covering an area of 2.44 km<sup>2</sup> within the Hunchun Border Economic Cooperation Zone, 0.6 km<sup>2</sup> of which has already been developed. The Hunchun Export Processing Zone has the advantage that it qualifies for the preferential measures aimed at special economic zones and those aimed at

export processing zones. Preferential measures in export processing zones include their treatment as foreign territory, even though they are located on domestic territory, and their exemption from value-added tax; in addition the import of raw materials and equipment from abroad is bonded, and products are exempt from export tax. As of September 2002, nine companies from the ROK, Japan and China had established a



presence there, and of a total of RMB 460 million of planned investment, RMB 80 million had been implemented. There are many cotton-spinning and marine produce processing companies, whose products are exported to the ROK, Japan and Russia.

Furthermore, on 1<sup>st</sup> February 2001, the 9.6ha Hunchun Sino-Russian Common Market Zone (mutual free-trade zone) was established in the Hunchun Border Economic Cooperation Zone. Russians can enter this free-trade zone without visas and, in addition to there being no limit on the number and value of goods that they can take home with them, they can freely bring Russian goods into the zone and engage in commerce there. During the nine months after its establishment, more than 6,000 people crossed between China and Russia and more than RMB 30 million of trade took place in the zone.

#### b) Rajin-Sonbong Economic and Trade Zone

The part of the DPRK that lies in the Tumen River area is the Rajin-Sonbong Economic and Trade Zone, the whole of which is a special economic zone. After its establishment in December 1991, the Rajin-Sonbong Zone was administered as a special economic zone by the central government, but under reforms enacted in June 1997, the Zone Authority began administering and operating it independently (independent profit and loss accounting system), a free market was established on the border, exchange rates were unified (convertible notes were abolished), and prices and wages were raised. However, in 1998, the Free Economic and Trade Zone was renamed the Economic and Trade Zone, investment by companies from the ROK was prohibited, and control of the zone, including authority over the attraction of investment, returned to the central government under legal reforms enacted in 1999. Thereafter, the Rajin-Sonbong Zone, which had once witnessed the construction of a casino hotel and a communications center, and foreign investment in the marine produce-processing sector, lost its vitality as a special economic zone.

In July 2002, measures that had already been implemented in the Rajin-Sonbong Zone, such as price and wage rises, and the abolition of convertible notes, were implemented throughout the country and the disparities between the Rajin-Sonbong Zone and the rest of the country were almost entirely eliminated, other than in the field of attracting foreign investment. It is unclear whether the establishment of the Sinuiju Special Administrative Region in September 2002 will act as a spur to the development of the Rajin-Sonbong Zone. In the future, the central government must reinforce the Rajin-Sonbong Zone's independence and openness to international cooperation as a special economic zone, in order for it to be positioned as a focus for economic cooperation with other countries of Northeast Asia, including the ROK.

#### c) Nakhodka Free Economic Zone

The Nakhodka Free Economic Zone was established on 24<sup>th</sup> October 1990, with the adoption by the upper house of the Russian parliament of the "Decision to Make the Far Eastern Port City of Nakhodka and its Environs a Special Economic Zone", but it has been beset by problems relating to the supply of finance for infrastructure development. The special economic zone covers an area of 4,611km<sup>2</sup> and has a population of 233,000 people. Special provisions in the zone include tax exemptions, preferential treatment in terms of customs duty, special immigration procedures and simplified registration of businesses. However, this directive by the upper house was

no more than a declaration, and it was not enacted as a law. In 1993 and 1994, laws relating to the special economic zone were formulated and sent to the State Duma, but they were not enacted. They were rejected by President Putin in 2000, and had still not been enacted as of 2002.

The Korea Land Corporation (the ROK's government-owned land company) considered building an industrial estate solely for ROK companies in the Nakhodka Free Economic Zone, and reached an agreement with the Zone Authority regarding the construction of the Russia-Korean Industrial Complex (RKIC), but as it was not protected by the law, it was concluded as an international treaty between Russia and the ROK in May 1999. This treaty includes the following main preconditions necessary for the development of a special economic zone.

- Tax exemptions for companies in the RKIC.
- Simplified clerical procedures.
- The Russian government's acceptance of responsibility for investment and protecting the investments of the ROK and future users.

However, the ROK's exclusive industrial estate has still not been established.

Since 1999, more than 350 foreign firms have set up bases in the Nakhodka Free Economic Zone.<sup>25</sup> The main fields of investment are communications, timber, construction, trade and fisheries, and they account for 45% of all production by foreign firms in Primorsky Territory. The main investor countries are the US, Japan, the UK, the ROK and China.

The development of the Nakhodka Free Economic Zone based on a legal framework is an issue of the utmost importance.

#### d) Economic cooperation between Hunchun and the Rajin-Sonbong Zone

Cooperation between these two regions began in April 1994, with a visit to Hunchun by representatives of Rajin-Sonbong. Since 1995, a "discussion committee", represented by the deputy mayors in charge of external business from the governments of both cities, has gathered once a month to discuss issues relating to cooperation. In 1999, a friendship agreement was concluded by the two cities. The development of a road linking Hunchun and Rajin has progressed thanks to cooperation between those cities, and they are also linked by a fiber optic cable. A joint China-DPRK marketplace was established in Wonjong in June 1997, in order to revitalize border trade between the two areas, but it closed in 1999 because the Rajin-Sonbong Zone Authority would only permit mass wholesale there. However, in the autumn of 1998, the Rajin Market was established and Chinese were also allowed to do business there. In June 2001, scheduled bus services began running between Hunchun and Rajin (twice a day). In the future, Hunchun and Rajin are likely to develop in such a way that they become a model for inter-regional cooperation between China and the DPRK.

### 3) Evaluation of investment attraction (special economic zones)

Other than in Yanbian Prefecture, foreign investment in the Tumen River area is sluggish. Although this is due in part to such problems as economic instability in the DPRK and Russia, the lack of infrastructure development and inadequate institutional

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25 (Source) UNIDO, UNDP, *Russia Primorsky Territory Investment & Business Guide*, 2000.

development, insofar as the development of the Tumen River area is a multilateral cooperative development project, the discrete investment attraction policies of each country are a problem in terms of joint cooperation. The overall evaluation is as follows.

- Lack of development of infrastructure in the DPRK: the Chinese government has actively invested in infrastructure development, while Russia has invested in new roads and railways, and developed the investment environment using existing infrastructure, but the DPRK depends on foreign finance for infrastructure development, and it has lagged behind in attracting investment.
- Delays in the development of international cooperation: a framework for multilateral international cooperation has been formulated, but the specific practical content of this, i.e. cooperation in the development of special economic zones, has lagged behind.
- The lack of a treaty on investment guarantees: there is no treaty guaranteeing investors' profits.
- Delays in cooperation on international finance: international financial cooperation in supplying finance for developing the investment environment has been necessary, but has not been put into practice.
- Limits on direct investment: methods of attracting foreign finance other than direct investment, such as BOT (Build Operate Transfer), loans, funds and investment in securities, have failed to be promoted.

### 2.3.3 Tourism

The three countries of the Tumen River area and Mongolia have beautiful natural tourism resources, and tourism was taken up as an important development strategy in the second phase (practical stage) of the Tumen River Area Development Programme in 1996, with a working group established to focus on it.

As the Tumen River area managed to avoid being the focus of reckless development, it boasts many natural tourism resources, such as Changbaishan (Mt.Paekdu), which is considered by Koreans to be a holy mountain, so it is visited by many tourists from the ROK. Moreover, Jilin Province has no outlet onto the sea, and the number of tourists visiting Rajin to see the sea is increasing. Looking at the figures for international tourism in the Tumen River area, the number of foreign tourists in 1998 was about 260,000, with the majority coming from the ROK, China and Japan, which accounted for 55,000, 193,000 and 5,000 people respectively. Chinese visiting Primorsky Territory for tourism combined with business, and those visiting the Rajin-Sonbong Zone for the purpose of tourism accounted for 73% of the total, followed by ROK tourists visiting Yanbian Prefecture (Changbaishan), who accounted for 21%.<sup>26</sup>

<sup>26</sup> (Source) Liang Chun-Xiang, The Formation Process of an International Tourism Union in Northeast Asia, *Research in Tourism Studies*, Vol. 1, 31<sup>st</sup> March 2002.

Figure 2-18 Major International Tourism Markets for the Tumen River Area in 1998  
(Unit: Persons)

	Yanbian	Rajin-Sonbong	Primorsky Territory	Eastern Mongolia	Total	Share (%)	Growth rate (1994-98)
Japan	958	53	3,100	1,041	5,152	1.97	7.2
ROK	54,600	0	1,000	312	55,912	21.37	3.8
China	-	80,904	109,400	3,048	193,352	73.89	26.6
Russia	86	21	-	813	920	0.35	-27.4
Mongolia	-	-	260	-	260	0.10	-
Taiwan	97	-	-	-	97	0.04	-7.9
Hong Kong	97	30	-	-	127	0.05	-1.5
U.S.A	160	60	1,600	471	2,291	0.88	1
Europe	513	20	-	1,087	1,620	0.62	1.2
Australia	17	-	140	91	248	0.09	31.5
Southeast Asia	97	10	-	152	259	0.10	-10
Others	375	77	400	585	1,437	0.55	1
Total	57,000	81,175	115,900	7,600	261,675	100	17.7
Share (%)	21.78	31.02	44.29	2.90	100		

(Source) Tumen River Area Tourism Secretariat

Figure 2-19 International Tourists in the Tumen River Area

	1999	2000	2001	Number of people who work in tourism
Yanbian Prefecture	79,120	150,899	167,000	10,500
Rajin-Sonbong	102,082	121,120	N.A	750
Primorsky Territory	86,840	162,400	173,000	2,500
Mongolia	158,743	158,205	192,000	8,000
Total	426,790	592,624	N.A	21,750

(Source) World Tourism Organization

According to data from the World Tourism Organization, the number of visitors to the Tumen River area rose rapidly from 427,000 in 1999 to 593,000 in 2000. In particular, there was a steep rise in visitors to Yanbian Prefecture, but this has been attributed to the effect of the recovery of the ROK economy, the commencement of operations by the Zarubino-Sokcho ferry in April 2000 and a reduction in the cost of traveling from the ROK to Changbaishan (Mt.Paekdu). Furthermore, four charter flights a week began operating between Seoul and Yanji for the summer in June 2001, improving access to Yanbian Prefecture from the ROK. As a result, there was a sharp rise in international tourists visiting Yanbian Prefecture, from 79,000 in 1999 to 151,000 in 2000 and 167,000 in 2001. Moreover, construction of a new building at Yanji Airport that conforms to international standards was completed in 1997, the runway was extended to 2,600m and its annual passenger-handling capacity was extended to 1.4 million. Yanji is linked via domestic air routes to Beijing, Changchun, Shenyang, Harbin, Dalian, Qingdao, Weihai and Guangzhou. In particular, as a result of China's joining the WTO (World Trade Organization) in October 2001, the tourism sector opened up to the outside world, and tourism companies became increasingly internationalized.

A heliport was built in the Rajin-Sonbong Zone in 1997, to provide air links to Yanji and Vladivostok, but it was not possible to buy a helicopter to serve these routes, so these links have not been realized. At present, there are only overland routes linking China and Russia with Rajin-Sonbong, with a scheduled bus running between Rajin and Hunchun twice a day.

In Primorsky Territory, Vladivostok has air links to Niigata, Seoul, Busan, Moscow, Harbin, Changchun, Pyongyang, Bangkok and Seattle, while overland it is possible to

travel to Hunchun and the rest of Yanbian Prefecture. There are two scheduled buses each day between Hunchun and Khasan, along with an average of seven or eight sightseeing buses and 50 or so other vehicles traveling on that route each day.

On 31<sup>st</sup> August 2002, the mayors of Hunchun, Khasan and Rajin-Sonbong gathered for a meeting about tourism in the three regions, and jointly established a tourism association. Under this initiative, it is planned that those in charge of tourism in the three regions will gather to decide upon tourist routes and schedules, and then organize experimental tours, with the aim of conducting interaction without visas.

Routes that will invigorate tourism in the Tumen River area have thus become diversified.

With regard to the tourism part of the UNDP-supported Tumen River Area Development Programme, first of all, the Tourism Working Group was established, and the following activities have taken place with the aim of nurturing tourism in the region.

- Identification of tourism resources and the development of cooperative tourism planning
- Promotion of investment in tourism
- Cooperative development of the tourist market
- Promotion of the development of products for tourists
- Promotion of travel
- Technical training

The working group compiled a list of tourism resources in 1999 and presented it to each country. Moreover, the World Tourism Organization conducted training in six areas (the role of the market, research, market analysis, classification methods, planning and dialogue) in 2000 and 2001 in order to nurture tourism in the Tumen River area.

Tourism development in the Tumen River area will focus on the following.

i) Yanbian Prefecture

- Nature tours of Changbaishan (Mt.Paekdu)
- Korean Folk Village
- The Fangchuan area (area where China, the DPRK and Russia adjoin each other)

ii) Rajin-Sonbong

- Bathing beaches
- Tourism at Mt. Chilbo
- Casinos

iii) Primorsky Territory

- Nature tours of Khasan District
- History tours of Vladivostok

iv) Eastern Mongolia

- Tours of the plains

In the future, if the development of tourism progresses, it will have a significant economic impact on the Tumen River area. For this to occur, it is necessary to develop facilities to accommodate visitors, such as hotels, and further to improve such institutional factors as border-crossing procedures.

#### 2.3.4 Environmental Protection

As there are many natural resources remaining in the Tumen River area, development

in the region is moving in the direction of reconciling economic development with environmental protection. Protecting the environment of the Tumen River area supports its sustainable development; at the sixth PMC meeting, in December 1995, the Memorandum of Understanding on Environmental Principles Governing the Tumen River Economic Development Area and Northeast Asia, was signed. Later, the Environment Working Group was established under the umbrella of the Tumen River Area Development Programme and held three meetings, in 1997, 1998 and 2002. The 1997 meeting focused on the problem of the pollution of the Tumen River itself and the 1998 meeting was concerned with short- and medium-term anti-pollution measures and the problem of trans-boundary pollution, while atmospheric pollution was the main theme of the 2002 conference.

The following is an overview of environmental problems in the Tumen River area.

#### 1) Water pollution

The water quality of the Tumen River does not meet international standards and it is classified as a poisoned river. The main causes of this are waste from the Musan iron ore mine in the DPRK and waste water from chemical factories in Aoji (DPRK), as well as waste water from the Kaisantun wood pulp factory and the Shixian paper-making factory, and household sewerage from Yanbian Prefecture. According to a survey of water quality carried out in 2000<sup>27</sup>, the biochemical oxygen demand (BOD) was between 22.2ppm and 130.1ppm, far in excess of the standard for class-five industrial water supply (less than 10ppm). During the course of 2000, China generated waste water with a CODcr (volume of chemical oxygen demand for absorbing chrome) of 105,000 tons, of which 92.2% came from the Kaisantun wood pulp factory (which emits 30 million tons of waste water annually) and the Shixian paper-making factory. This CODcr value was down 45.3% on the figure of 192,000 tons recorded in 1983, so the development of waste water treatment facilities at Chinese pulp factories can be said to have been effective. However, the Tumen River is still so polluted that it is not suitable to supply water for industrial use, and the issue of improving the water quality of the Tumen River, which currently has an extremely deleterious effect on marine produce resources, is not a problem for just one country; it must be solved through international cooperation.

#### 2) Atmospheric pollution

The problem of atmospheric pollution is serious in such industrial, commercial and residential centers as Yanji. China uses a lot of coal as a source of heat for everyday life, and atmospheric pollution resulting from increasing car ownership is a source of fear in neighboring countries. In addition, decrepit thermal power stations in the Rajin-Sonbong Zone raise the problem of sulphur oxide emissions.

Fully-fledged international cooperation in environmental protection in the Tumen River area got underway in 2000. To be more specific, in July 2000, the UNDP received US\$5 million in support from the Global Environment Facility (GEF), and, in collaboration with

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<sup>27</sup> The Environmental Inspecting Office of the Yanbian Korean Autonomous Prefecture, *Current Status of and Prospects for the Water Quality of the Tumen River* <http://www.ecotest.co.kr/dumangang/condition.asp>

China, the DPRK, Russia, the ROK and Mongolia, initiated a program of strategic activities (TumenNET) aimed at the international protection of water areas (total budget of US\$10.17 million). This program was implemented in 2001 and 2002 in the following five areas.

- The establishment of a practical plan for an environmental protection strategy (administered by the ROK environment ministry)
- Diagnosis and analysis of trans-boundary environmental pollution (administered by the Far Eastern Branch of the Russian Academy of Sciences)
- Survey of the extent of water system pollution (administered by the DPRK)
- Construction of an environment information system (administered by the Environment Protection Research Institute of Jilin Province)
- Improvement of environmental awareness (administered by the Mongolian environmental group "Mongolian Nature Federation")

In 2001 and 2002, as part of this program of strategic activities, the UNDP used the Tumen River Trust Fund and the UNDP/ROK National Project Fund, which were set up by the ROK government, to implement feasibility studies into the modernization of the Musan iron ore mine and the establishment of a Tumen Estuary Biosphere Reserve. The feasibility study into the latter was carried out jointly with the UNESCO ROK Committee. UNESCO has suggested making the Tumen River area a Trans-Boundary Biosphere Reserve.

As an overview of the program of strategic activities over the two years, a medium- to long-term strategic action program was compiled in October 2002, under the title *Tumen River Basin Environmental Conservation Projects*.<sup>28</sup> A total of US\$160 million of finance is required to carry out these 46 projects, including a study into the current state of pollution, the protection of biodiversity and the development of waste water treatment facilities. The main areas covered in the environmental protection plan for the three countries of the Tumen River area, which is contained in this plan, are as follows.

- China: treatment of polluted water from Yanji, treatment of industrial waste water
- DPRK: treatment of polluted water from Hoeryong and Rajin, treatment of waste products from the Musan iron ore mine, treatment of waste water from the Hoeryong paper-making factory and the Aoji chemical factory.
- Russia: study of water quality in the Tumen estuary.

As of December 2002, all that remained was for this plan to be signed by the relevant countries.

### 2.3.5 Institutional development

#### 1) Development of laws and institutions relating to special economic zones

As mentioned above, China and the DPRK have established their own special economic zones and developed various laws and institutions to deal with them. With regard to the DPRK, the problem is not the laws; rather, there is the policy-related problem of whether it will actually develop the Rajin-Sonbong Zone through international cooperation, thereby contributing to society in the region as a whole. In principle, the DPRK government is making progress with the development of the Rajin-

28 (Source) *Chosun Ilbo* (internet edition), 16<sup>th</sup> October 2002

Sonbong Zone as part of the development of the Tumen River area, but in fact, there is no state support and it is impossible for the Zone to be developed by the Zone Authority alone.

There are problems relating to the development of laws and institutions in Russia. There are still no prospects for the establishment of the Nakhodka Free Economic Zone being enshrined in law. There are also Russian fears about special economic zones and attracting foreign investment, and there has been no progress in either area. If multilateral cooperation in the development of special economic zones in the Tumen River area is required, the development of laws and institutions on the part of Russia is essential.

## 2) Alleviating non-physical barriers to crossing borders

Over the ten years during which development has been taking place in the Tumen River area, the easing of border-crossing procedures has been promoted. The achievements in this area are as follows.

### i) Crossing the China~DPRK border by road (Quanhe~Wonjong)



Quanhe Customs Checkpoint



Wonjong Customs Checkpoint

- Establishment and development of customs checkpoints: these customs checkpoints were established in September 1995 and opened to people from other countries in February 1997. Renovation of the facilities in both began in 1999 and was completed in 2001. If one has a letter of invitation from the DPRK, one can enter the country via Quanhe~Wonjong without a visa.
- Improving customs checks: improvements that have been promoted include unifying and extending the opening hours of the two checkpoints. Customs checks when entering or leaving the countries had improved so much that by 1998, the procedures took only about 30 minutes. There are no checks of the contents of containers.

### ii) Crossing the China~Russia border by rail and road (Hunchun~Kraskino)



Changlingzi Customs Checkpoint

- The customs checkpoint (Changlingzi) on the road on the Chinese side was built in 1990; the road and various facilities were developed after that and people from other countries began to be allowed to cross the border there in May 1998. The complete renovation of customs facilities took place later on and the new building was opened in 1999.



- The development of facilities at the customs checkpoint on the road on the Russian side is inadequate. In 2002, the city of Hunchun provided financial assistance to Russia for this purpose; construction of the Kraskino Customs House is underway, with the building due to be completed in late 2002.
- The customs checkpoint on the railway between Hunchun Station and Kraskino (Makhalino Station) was formally opened in May 1999, and began commercial freight transport operations in February 2002. The customs checkpoint on the railway operates 24 hours a day.

We can see from the above that improvements have been made in terms of both "hard" and "soft" infrastructure, in order to speed up border crossings between China and Russia, and China and the DPRK. In order to invigorate cargo and passenger transport between countries in the Tumen River area, the alleviation of non-physical barriers in crossing borders is of particular importance. The following are problems with regard to which there is still room for improvement.

i) Border-crossing procedures: problems relating to immigration management and customs

It takes time to cross the borders between China, Russia and the DPRK because of delays in customs checks. The multiple checks required upon entering and leaving Russia are a particular problem, with the Khasan District being particularly strict, usually requiring a double passport check and a stringent customs check; not only do these normally take more than an hour and a half in total, but there are also border police checks in two places on the road in the border area.

ii) Restricted border opening times

- Hunchun~Kraskino

Problems include the time difference between China and Russia, and the fact that border opening times are restricted. Moreover, the border is closed on Sundays and national holidays.

Time difference

Summer (late April - late October): 3 hours

Winter (late October - late April): 2 hours

a) Border opening hours on the Chinese side (Chinese time)

Weekdays: 08:00 - 16:00

Saturdays: 08:00 - 15:00

B) Border opening hours on the Russian side (Russian time)

Summer

Weekdays: 11:00 - 19:00

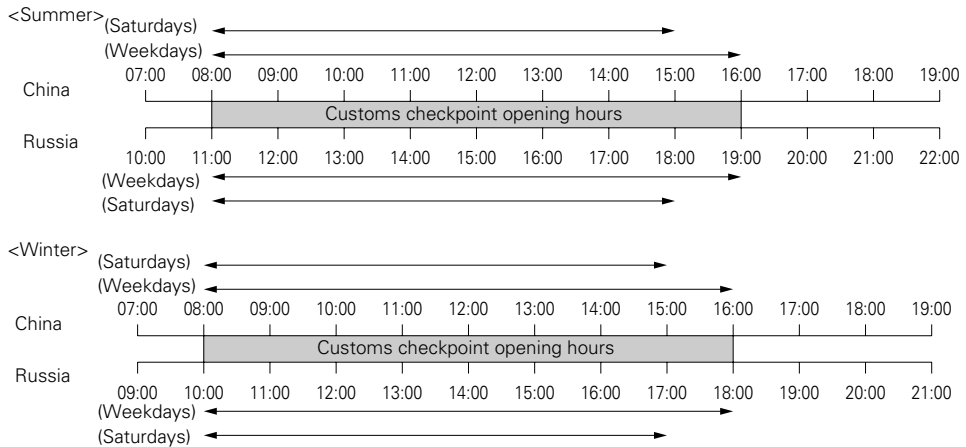
Saturdays: 11:00 - 18:00

Winter

Weekdays: 10:00 - 18:00

Saturdays: 10:00 - 17:00

Figure 2-20 Opening Hours of the Hunchun and Kraskino Customs Checkpoints (Weekdays and Saturdays)



This system of opening for eight hours a day (weekdays) is an improvement on the previous system, as the checkpoints do not close for lunch, but it is necessary further to extend the opening times.

● Quanhe~Wonjong

The time difference between China and the DPRK is one hour, and the border opening times differ in summer (April - September) and winter (October - March). The border is closed on Sundays and national holidays.

a) Border opening hours on the Chinese side (Chinese time)

Summer

Weekdays and Saturdays: 08:00 - 12:00, 14:00 - 18:00

Winter

Weekdays and Saturdays: 08:00 - 11:30, 13:30 - 17:00

B) Border opening hours on the DPRK side (DPRK time)

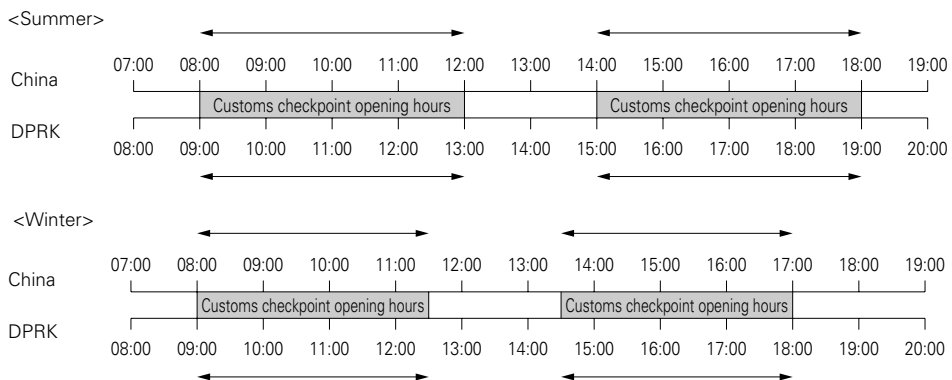
Summer

Weekdays and Saturdays: 09:00 - 13:00, 15:00 - 19:00

Winter

Weekdays and Saturdays: 09:00 - 12:30, 14:30 - 18:00

Figure 2-21 Opening Hours of the Quanhe and Wonjong Customs Checkpoints (Weekdays and Saturdays)



This system of having the same opening hours on Saturdays as on weekdays (eight hours a day in summer and seven hours in winter) is an improvement on the previous system, but the checkpoints close for lunch and it is necessary further to extend the opening times.

At present, adjustments are taking place between China and the DPRK, and China and Russia, with the aim of opening both borders for twelve hours a day, but they ought to aim for being open all year round. In contrast, the border crossing on the railway between China and Russia is open 24 hours a day, 7 days a week.

iii) Limits on entry of vehicles into the other country

Vehicles from both China and Russia can enter each other's country as far as Hunchun, on the Chinese side, and Slavyanka on the Russian side. It is necessary to extend this area at least as far as Yanji and Vladivostok.

iv) Problems relating to ROK nationals gaining permission to enter the Rajin-Sonbong Zone

Until 1997, ROK nationals were allowed to enter the Rajin-Sonbong Zone, but harsh restrictions were placed on their entry in 1998. The registration of investor companies from the ROK is also not permitted. It is undeniably the case that, as a result of the exclusion of ROK nationals, Rajin-Sonbong is losing business opportunities. In order for long-term development of the Rajin-Sonbong Zone to take place, the entry of investment and tourists from the ROK to Rajin-Sonbong is essential.

At the beginning of the 21<sup>st</sup> century, after ten years of development in the Tumen River area, Northeast Asia has seen major political and economic changes and now has a new opportunity for international economic cooperation. It is clear that the international situation in Northeast Asia is now on a course that emphasizes peace and cooperation, as can be seen from the 15<sup>th</sup> June 2000 North-South Joint Declaration that emerged from the Korean Peninsula North-South Summit, the conclusion of the Sino-Russian Friendship and Cooperation Treaty on 16<sup>th</sup> July 2000, the visit of President Putin in July 2000 and the Moscow Declaration issued in August 2001 by the leaders of Russia and the DPRK, and the Pyongyang Joint Declaration by the leaders of Japan and the DPRK, which was made on 17<sup>th</sup> September 2002.

China is facing a major transformation in its economic circumstances as a result of its having joined the WTO in October 2001. It is heading for continuous growth throughout the economy as a result of the expansion in domestic demand arising from the liberalization of domestic markets, as well as market competition, a sharp increase in trade and greater injections of foreign finance.

The DPRK has turned nine consecutive years of negative growth between 1990 and 1998 into positive growth, and its economic recovery progressed until 2001. As a result of the economic reforms that began to be implemented in July 2002, the rationing system was restructured, it became possible to buy food and consumer goods using currency, prices rose significantly and pay increased fifteen- or twenty-fold. The right of companies to autonomy was extended and the price-fixing system changed to a system of floating prices. These reforms are still in their early stages, but the DPRK's economic restructuring is leaning towards seeking international cooperation and it is hoped that the DPRK will not prove to be a sticking point in Northeast Asian economic cooperation.

Economic recovery in Russia has also accelerated, with GDP in 2000 rising 7.6% on the previous year, and has been showing signs of a strong upsurge since 2001. The country has also been becoming even more active in the field of economic cooperation in Northeast Asia. However, there are no clear signs that the economy of Primorsky Territory is recovering, something that is cause for concern with regard to Northeast Asian economic cooperation.

Although the ROK experienced a currency crisis in late 1998, followed by an economic crisis in 1998, it recovered rapidly in 1999 and has continued to grow since then.

Since 1997, the Mongolian economy has experienced positive growth, albeit at a low level, for five consecutive years (growth rate 4.0% in 1997, 1.1% in 2001).

Japan has been in the grip of a prolonged recession, lasting 10 years, but began to show signs of recovery in 2002.

From the above, we can say that the economic circumstances of the countries of Northeast Asia have taken a turn for the better and are heading for new development, and this may serve as a spur to further economic cooperation in Northeast Asia.

### 3.1 Issues pertaining to development

#### 3.1.1 Issues pertaining to each country

##### 1) China

China, which originally proposed the Tumen River Area Development Programme, has promoted major development projects focusing on Hunchun over the last ten years. The following are issues that need to be tackled in order for development to take place in the future.

##### i) Further development of laws and institutions

Various laws and institutions have been developed in order to attract foreign investment, but many changes were made at the implementation stage and their effectiveness has been something of a problem. It will be important to create a stable legal environment in terms of such specific aspects as measures to protect investments, the liquidation of companies, and conflict resolution.

##### ii) Expansion of the procurement of development finance

The Chinese government has invested about US\$600 million in the development of the Tumen River area over the last ten years, in such fields as infrastructure development, but there is still a significant capital requirement for the development of roads, airports and basic social infrastructure. Yanbian Prefecture now qualifies for the preferential measures in the central government's Development Plan for the Western Areas, and has also received financial support from the government, but it is necessary to devise various other ways to obtain finance, not only from within the country, but also from external sources.

##### iii) Focused development of Hunchun

Hunchun lies at the heart of the Tumen River area. Until now, the establishment of a transport corridor between China, the DPRK and Russia, and its linkage to marine routes was a central issue, but hereafter it will be necessary to nurture Hunchun as the hub of an economic corridor. Developing Hunchun as an economic region with character, focusing on the already-established Hunchun Border Economic Cooperation Zone, Hunchun Export Processing Zone and Hunchun Sino-Russian Common Market Zone, is a major issue. Hunchun has abundant natural resources and produces agricultural products, particularly organic foods; in addition, it is possible to export these products directly, after processing. As there are already shipping routes on the Japan Sea, products can be exported to the ROK and Japan. It is also necessary to invigorate trade focusing on timber processing, and the export of rice straw and peat.

##### 2) DPRK

The development of Rajin-Sonbong as a special economic zone has been called into question. The DPRK government should work on bringing it to fruition with the same spirit of enterprise with which it actively participated in the Tumen River Area Development Programme when the issue was first raised ten years ago. The following are issues that need to be tackled in order for development to take place in the future.

##### i) The presentation of a new blueprint for the development of the Rajin-Sonbong Zone

The designation by the DPRK government of Sinuiju as a special administrative region like Hong Kong signifies that the country's policy on external economic cooperation is

becoming more positive than was previously the case. Over the last ten years, the Rajin-Sonbong Zone - the DPRK's only special economic zone - has lost its uniqueness. It is necessary to reposition the Zone under the DPRK's land development plan. The Zone will continue to function in its role as a hub for transit cargo and a new blueprint based on this is necessary.

ii) The acquisition of development finance

It is impossible to procure development finance domestically, and, as it was also not possible to acquire loans from overseas, the DPRK government has come to rely on direct investment by foreign companies to finance infrastructure development. There is not a lot of foreign private-sector capital that can be invested in infrastructure development, and accordingly, development of such infrastructure as roads has lagged behind. One of the issues the DPRK must tackle in the future is normalizing diplomatic relations with the US and Japan, and then acquiring development finance by a variety of means, such as financial support from international development finance institutions, loans and bilateral ODA.

iii) The elimination of physical and non-physical barriers in crossing borders

On the route between Hunchun and Rajin, which is used by China to reach Rajin Port, the road between Wonjong and Rajin is in an appalling condition and therefore unsatisfactory as a container transport route. In 2002, the government of Hunchun began collaborating with the Rajin-Sonbong authorities in the development of this road; the rapid completion of work on it should be a priority issue. Moreover, it is necessary to reduce the time required for customs checks when crossing the border and extend the opening hours of customs checkpoints. In addition, the issue of ROK nationals being refused entry to the country should be solved swiftly.

3) Russia

Since the changes in Russia's political structure, the economy of Primorsky Territory, which has been left out of financial support from the federal government, has been stricken by stagnation. President Putin's policy for the Russian Far East has evolved in such a way as to focus on transport, with the revitalization of the Trans-Siberian Railway (TSR) and the development and export of energy resources commanding the greatest interest. With regard to international transport, the government of Primorsky Territory has emphasized the expansion of international transit trade at three major ports, including Vostochny, and the expansion of Chinese transit cargo trade at ports including Zarubino. The following are issues that need to be tackled in order for development to take place in the future.

i) The acquisition of development finance

Similarly to the DPRK, those in charge of Primorsky Territory are cudgeling their brains with regard to how to obtain development finance for infrastructure development. However, since 1999, Russia's economic recovery has been increasing the scope for government assistance to Primorsky Territory. Primorsky Territory should request financial assistance from the federal government and also consider obtaining finance from overseas. At present, although Russia is a member of the European Bank for Reconstruction and Development (EBRD), it is not a member of the Asian Development Bank (ADB); however, it is conceivable that Russia could also join the ADB in order to

promote the development of the Far Eastern region.

ii) The development of laws and institutions

The instability of laws and institutions can be cited as a major risk factor affecting investment in Russia. Investments are not protected and foreign capital not secured in terms of taxation. The development of laws and institutions is a priority issue.

iii) The development of transport infrastructure

The vision is evolving of linking the TSR with the Korean Peninsula Railway, and transporting goods overland from the ROK to Europe via Siberia. In order to translate this vision into reality, it is necessary not only to tackle issues of "hard" infrastructure, such as the linkage of the rails between North and South Korea, but also to develop "soft" infrastructure, such as concluding a rail cooperation treaty between Russia, the DPRK and the ROK, and securing communications systems. Use of the Hunchun - Khasan route has increased sharply since 2000, but ports in Russia still need to be developed further.

iv) The elimination of physical and non-physical barriers in crossing borders

In order to revitalize the Hunchun - Khasan route, it is necessary to renovate the customs checkpoint at the border and cut the time required to complete border-crossing procedures.

4) ROK

It is a fact that interest in the Tumen River area has decreased compared with ten years ago. In particular, since the North-South Joint Declaration in June 2000, direct dialogue aimed at North-South economic cooperation has been progressing, and the value of developing the Tumen River area, which had been used as a catalyst for North-South dialogue, has fallen. However, the Tumen River Area Development Programme has been Northeast Asia's first framework for international economic cooperation, and, from the perspective of linking its railway with the TSR, the Korean Peninsula, which is geographically central to Northeast Asia, needs not only bilateral links between the two Koreas, but also multilateral cooperation. In order to achieve this, the ROK should continue to emphasize multilateral cooperation and participate in the development of the Tumen River area.

5) Mongolia

Mongolia must tackle the issue of diversifying its external economic relations, having previously depended solely on air routes and its position as a transit transport route linking China and Russia. Accordingly, its transport infrastructure should be linked with that of the Tumen River area, and it should develop its airports in order to dynamize tourism.

### 3.1.2 Issues pertaining to multilateral cooperation

The development of the Tumen River area has been conducted by means of a multilateral framework. Although this framework was constructed, various problems have been encountered in trying to make progress with it. To be more specific, these problems include i) differences of opinion; ii) a dearth of experience of international cooperation on the part of the participating countries; iii) the lack of an institutional base;

iv) the absence of a country that can provide leadership; v) limits on the supply of development finance; and vi) the lack of information exchange between participating countries. The background to these problems includes a drop in investment as a result of the 1997/98 economic stagnation in East Asia, just at the time when the Tumen River Area Development Programme began to be promoted in earnest, the passive policies for the development of the Rajin-Sonbong Zone adopted by the DPRK government from 1998, and the lack of participation by the Japanese government. Although the Tumen River Area Development Programme is a framework for multilateral cooperation, development has actually focused mainly on bilateral cooperation between the three countries of the area.

However, it is necessary to rebuild the Tumen River Area Development Programme to be a model for multilateral cooperation in Northeast Asia. If we realize that promoting domestic economic reforms in the DPRK and international economic cooperation in Northeast Asia will bring peace and security to the region, the necessity of multilateral economic cooperation becomes even clearer.

Fields in which multilateral cooperation should be tackled include i) the development of a cross-border transport network (railways, roads, ports and airports); ii) cooperation aimed at the joint use of energy in the Tumen River area, including electricity and oil; iii) the development of joint institutions for promoting trade, investment and tourism; iv) the formation of a framework for obtaining international finance; and v) environmental cooperation aimed at preventing atmospheric and water pollution.

### **3.1.3 Issues pertaining to each topic**

#### **1) Transport infrastructure: conclusion of bilateral and multilateral treaties**

In order to develop the Tumen River area as one of Northeast Asia's major international transport corridors, the transport infrastructure problems mentioned in the previous chapter must be solved. The issue that must be tackled is the conclusion of a bilateral or multilateral treaty aimed at reducing obstacles to the crossing of borders (trade and the transport of people and goods). To this end, the UNDP-supported Transport and Communications Working Group is undertaking the following activities.

- The re-evaluation and preparation of proposals regarding obstacles to transport and communications, focusing on such areas as costs, customs operations, cross-border cooperation, laws relating to trade and transport, and various procedures, regulations and documentation.
- Discussions regarding the reduction of obstacles, important areas for cooperation, and treaties regarding plans of action and plans for the fiscal year.
- The holding of regular working group meetings aimed at concluding bilateral and multilateral agreements on the transport and transit of passengers and cargo, cooperation with regard to customs and the crossing of borders, customs duty and transit costs, the mutual waiving of procedural charges, and the abolition of visas.
- The development and implementation of a program for developing the abilities of the aforementioned customs, transport and trade institutions and their employees.

One problem that must be solved swiftly is the development of the road between Wonjong and Rajin, which forms a bottleneck on the Hunchun-Rajin Port route. International support may well be required for cooperation between China and the



DPRK. Moreover, the upgrading of Yanji Airport to an international airport and the development of Zarubino Port are matters of some urgency. In the medium- to long-term, the linkage of the TSR with a railway running down the Korean Peninsula to Busan Port will also assist the development of the Tumen River area, as the route would run through it.

2) Attracting investment: adherence to the doctrines of multilateral cooperative development

The starting point for the development of the Tumen River area was the implementation of multilateral economic cooperation in Northeast Asia. In addition to multilateral cooperation in transport infrastructure, multilateral cooperation in the field of investment (developing and managing special economic zones) has come to be an important issue. However, in fact, as cooperation was pursued after China, the DPRK and Russia had independently developed such areas, multilateral frameworks have not had much effect.

Moreover, competition for Chinese transit trade between the Rajin-Sonbong Zone and the Khasan District is the reason why international cooperation in the field of investment has weakened. Accordingly, an important issue in multilateral cooperation in the Tumen River area is to ensure that, in the areas of transport infrastructure and investment attraction, the relationship between the DPRK and Russia is cooperative rather than competitive.

In order to achieve this, multilateral cooperative development should be promoted by jointly establishing an international free trade zone that transcends the boundaries of the three countries. It would be preferable, were this zone to be centered around Hunchun, Rajin-Sonbong and Khasan (Zarubino Port). One option is for the DPRK to designate Rajin-Sonbong as a special administrative zone, just like Sinuiju, and to transfer authority from the central government to the regional government.

3) Tourism: swift access and the formation of a tourism network

The development of the Tumen River area seeks to achieve peace and prosperity in Northeast Asia by revitalizing the flow of people and goods. In this sense, tourism is important for future development, and current problems must be eliminated. Issues that must be tackled are as follows.

- Reducing the time required for border-crossing procedures.
- Diversifying access to the Tumen River area (air, sea and overland routes).
- Ensuring free access to the DPRK (allowing ROK and Japanese nationals visa-free access to Rajin-Sonbong via China and Russia), and the establishment of air (helicopter service between Yanji and Rajin, and Vladivostok and Rajin) and sea routes (Zarubino Port - Rajin Port).
- The formation of a tourism network (formation of a multilateral tourism program)
- The expansion of investment in tourism (opening up the field of tourism to foreign countries)
- The improvement of tourism services: the training of practitioners in the tourism industry from China, the DPRK and Russia.

4) Environmental protection: sharing information and implementing policies

In order to protect the environment in the Tumen River area, the TumenNET Strategic Action Program was implemented in 2001 and 2002. In October 2002, a medium- to long-term strategic action plan was set out, which is due to be signed by the five member countries of the Tumen River Area Development Programme. Under this plan, of the project budget of US\$160 million, the ROK government is due to provide US\$40 million worth of water treatment agents as a grant-in-aid until 2009. It is imperative that this plan be implemented.

Moreover, joint international policy-making aimed at curbing atmospheric pollution is an important issue. The UNDP has cited the following as issues that must be tackled in preventing atmospheric pollution in the Tumen River area.

- The rethinking of each country's initiatives on atmospheric pollution (data, monitoring methods, standards, causes), the preparation of a list of the region's natural resources, and the exchange of publications containing relevant information.
- The holding of meetings to consider each country's policies and data regarding atmospheric pollution, and to reach an agreement on a common database of natural resources.
- The development of a unified regional database focusing on atmospheric pollution in Northeast Asia.
- The evaluation of each country's numerical models regarding atmospheric pollution, the development of a regional model for cross-border atmospheric pollution, and the conversion of the model to a common database for Northeast Asia.
- An analysis of the effects of and policies regarding cross-border atmospheric pollution, using the regional model.
- The holding of a meeting to consider the results of the regional database and model, such as activities to which priority should be allocated.
- The preparation of a proposal for external finance for the development of a cross-border atmospheric pollution reduction strategy for Northeast Asia.

5) Financial cooperation: achieving an international supply of funds

The biggest reason why the development of the Tumen River area has not made much real progress is the dearth of finance for development. Various proposals have been made regarding the supply of development finance, but they have yet to be implemented. As of 2002, with regard to moves towards international financial cooperation in the Tumen River area, progress was being made in the establishment of a joint Sino-Russian bank by Jilin Province and Primorsky Territory. Moreover, progress in bilateral financial cooperation began to be seen, for example, Hunchun providing financial assistance for the construction of the Kraskino customs house, and the government of Yanbian Prefecture considering providing financial assistance for the development of the road between Wonjong and Rajin, in the Rajin-Sonbong Zone. However, in order to promote full-scale international financial cooperation, serious discussion and agreement between the countries of Northeast Asia is required with regard to the multilateral frameworks for financial cooperation mentioned in Chapter 1.

### 3.2 Hopes for Japan's role and participation: Tumen River area development as a model for inter-regional cooperation

The main reason why the Japanese government refused formally to participate in the development of the Tumen River area was that it had no diplomatic relations with the DPRK. The USA's lack of involvement in the programme is probably another factor in Japan's reluctance to participate.

However, the local authorities on the Japan Sea coast side of the country have shown great interest in the development of the Tumen River area, with Niigata, Akita and Tottori prefectures actively taking the lead in interaction with the area.

Akita Prefecture has been active in its interaction with Yanbian Prefecture, establishing the Posiet - Akita sea route in August 1999 and signing a memorandum of understanding on economic exchange in 2001. In 2002, an economic study mission and delegation visited Hunchun and Yanji, and carried out a study of the investment environment.

Tottori Prefecture has promoted the establishment of regular marine services between Sakaiminato Port and ports in the Tumen River area, under its plan to make Sakaiminato Port a transit hub with links to Northeastern China via the ports of the Tumen River area, thereby establishing it as one of Western Japan's main trade hubs. In 2000, a plywood manufacturer from Tottori formulated a plan to manufacture plywood in Hunchun using coniferous trees from Russia and Heilongjiang Province, and conducted a feasibility study with support from UNIDO, but the plan was not implemented. Moreover, negotiations have begun with regard to a develop-and-import scheme for peat, which is used in afforestation work, as well as the import of rice straw produced in Jilin Province. There are also plans for an outsourced processing project, involving the shipping of raw materials from Sakaiminato Port to Rajin Port, where they would be processed into components to be used in the construction of housing, and re-imported to Sakaiminato.

In Niigata Prefecture, a regular container route between Niigata and Rajin was established in August 1999. In addition, the city of Joetsu signed a Joint Declaration of International Economic and Cultural Exchange with Hunchun in 1996, and has continued to engage in exchange in various fields, accepting trainees to work at the city office and dispatching economic missions and citizens' groups to visit Hunchun. Moreover, ERINA has been engaged in various activities aimed at promoting economic cooperation in the Tumen River area.

With regard to this Japanese cooperation, special mention should be made of the July 2000 visit to the DPRK by the Kanamori Committee on Northeast Asian Economic Cooperation, which was established in July 1998. The results of its visits to various places, including the Rajin-Sonbong Zone, were collated as Recommendations for Promoting Diplomatic Relations and Invigorating Economic Exchange Between Japan and the DPRK, and submitted to related institutions in the Japanese government and business community. The following issues were raised.

- i) The flexible application of trade insurance to bilateral Japan-DPRK trade and consideration of the invigoration of Japan-DPRK trade through multilateral trade.
- ii) Cooperation in NGO activities aimed at infrastructure development and various means of supplying finance for this, such as the BOT method.

- iii) The government and private sector should make haste in considering the dispatch of general investment investigation teams by private-sector companies and the implementation of corporatization surveys, as well as thinking about the best means of provisional investment protection.
- iv) Support for the joint discussion of the Japan-ROK treaty by experts from Japan and the DPRK.
- v) Japan should actively support development cooperation in the Rajin-Sonbong Economic and Trade Zone.
- vi) Consideration of methods of multilateral support that will lead to substantial reforms of the agricultural structure and food-related problems.
- vii) Japan should support and promote the DPRK's entry into Asian regional organizations, such as the ADB, World Bank and APEC.
- viii) Support the DPRK's entry into the WTO and IMF, and provide full cooperation with the development of the economic and social statistics that form a precondition for membership of these organizations.
- ix) An active response to efforts to establish the Northeast Asia Development Bank, in order to develop infrastructure in Northeast Asia.
- x) The provision of full cooperation in laying natural gas pipelines from East Siberia and Sakhalin, and particularly the construction of the natural gas pipeline network traversing the Korean Peninsula and encircling the Japan Sea, in order to secure a stable supply of energy for Northeast Asia.
- xi) Active support for invigorating Japan-DPRK cooperation, such as academic exchanges and joint research by institutes from both countries.<sup>29</sup>

Such moves have yet to be reflected in government strategy, but they all hint at an important point in thinking about Japan's cooperation in the Tumen River area in the future. This point is that international cooperation in the Tumen River area is inter-regional cooperation, and that Japan and the ROK should dynamize inter-regional cooperation in areas on the Japan Sea / East Sea coast from this perspective.

It is to be hoped that, if there were an improvement in Japan-DPRK relations, Japan would participate in the development of the Tumen River area. If Japan were to participate and even take the lead in Northeast Asia's sole multilateral cooperative framework, it would almost certainly lead to cooperation and security in Japan's policy on Northeast Asia.

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<sup>29</sup> Kanamori Committee on Northeast Asian Economic Cooperation, *Recommendations for Promoting Diplomatic Relations and Invigorating Economic Exchange Between Japan and the DPRK*, 31<sup>st</sup> July 2000

Tumen River Development Programme Outline

- 1990/7 East-West Center (Hawaii) and UNDP sponsor Northeast Asia Economic and Technology Cooperation Conference in Changchun, Jilin Province, China. China promoted the "golden triangle" concept for contiguous areas of China, the DPRK and the Soviet Union, known as the Tumen River area.
- 1990/10 The Nakhodka Free Economic Zone was established by the upper house of the Russian parliament.
- 1991/3 The UNDP decided to designate the development of the Tumen River area as a priority project in its fifth project plan (1992-1996).
- 1991/7 The UNDP-organized First Northeast Asia Subregional Programme Conference (in which representatives from China, Russia, the DPRK, the ROK, Mongolia and the US participated) took place in Ulaanbaatar. In August and September, three UNDP experts visited the Chinese, DPRK and Russian parts of the Tumen River area.
- 1991/10 The Second Northeast Asia Subregional Programme Conference took place in Pyongyang and a survey report was published. The UNDP established the Programme Management Committee (PMC).
- 1991/12 The DPRK proclaimed the founding of the Rajin-Sonbong Free Economic and Trade Zone in Decision No.74 of the Administration Council
- 1992/2 The first plenary meeting of the PMC took place in Seoul. Working groups focusing on law, finance, trade and infrastructure were established.
- 1992/3 The State Council of China designated Hunchun as an "Open Border City" and approved the establishment of the Hunchun Border Economic Cooperation Zone.
- 1992/10 The second plenary meeting of the PMC took place in Beijing.
- 1993/5 The third plenary meeting of the PMC took place in Pyongyang.
- 1993/9 The Tumen River Economic Development Area Conference was held in Tokyo by Keidanren.
- 1994/7 The fourth plenary meeting of the PMC took place in Moscow
- 1995/5 The fifth plenary meeting of the PMC took place in Beijing. Three treaties setting out a multilateral cooperative framework on an intergovernmental basis were initialed.
- 1995/9 Customs checkpoints at Quanhe (China) and Wonjong (the DPRK) were established.
- 1995/10 The Yanbian prefectural government held the first Tumen River Area International Investment and Trade Forum in Yanji.  
The regular Rajin-Busan container route was established
- 1995/12 The sixth plenary meeting of the PMC took place in New York. The agreements and memorandum were formally signed, establishing the Coordination Committee and the Consultative Commission. The Tumen Secretariat was established.
- 1996/4 The first meeting of the Consultative Commission and Coordination Committee took place in Beijing.

- 1996/9 The first International Investment and Business Forum in the Rajin-Sonbong Zone was held.
- 1996/10 The second meeting of the Consultative Commission and Coordination Committee took place in Beijing. The meeting passed a resolution to invite Japan to become officially affiliated to the Programme.
- 1997/1 Investment promotion workshop (Beijing)
- 1997/5 The first environment workshop (Vladivostok)
- 1997/6 Tourism workshop (Yanji)
- 1997/11 The third meeting of the Consultative Commission and Coordination Committee took place in Beijing. Agreed on the second stage development plan which ran to 1999.
- 1998/2 Workshop on measures for improving investment promotion (Vladivostok)
- 1998/5 International investment business forum in Primorsky Territory (Vladivostok)
- 1998/7 The first Tourism Working Group meeting (Yanji)
- 1998/9 Hunchun investment forum and Rajin-Sonbong investment mini-forum
- 1998/12 Transportation workshop
- 1999/1 Tourism workshop  
The UNDP opened a website focusing on the Tumen River area ([www.tradp.org](http://www.tradp.org))
- 1999/5 The new railway between Hunchun and Kraskino was officially opened.
- 1999/6 The fourth meeting of the Consultative Commission and Coordination Committee took place in Vladivostok.  
Meeting about the East-West transportation corridor (Vladivostok)
- 1999/8 Tourism workshop (Hunchun)  
The Posiet-Akita container route was established.  
The Rajin-Niigata container route was established.
- 2000/3 Tumen River area trade and investment promotion workshop (Beijing)
- 2000/4 The Hunchun-Zarubino-Sokcho (ROK) cargo and passenger ferry route was established.
- 2000/10 Transportation workshop (Changchun)  
Meeting of TRADP national coordinators.
- 2001/4 The fifth meeting of the Consultative Commission and Coordination Committee took place in Hong Kong, as well as the Council of Eminent Persons.
- 2002/6 The sixth meeting of the Consultative Commission and Coordination Committee took place in Vladivostok, with the Council of Eminent Persons.
- 2002/9 The Yanbian prefectural government held the third Tumen River Area International Investment and Trade Forum in Yanji.

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