

## **Chapter Five:**

### **A Case on the Tumen River Area Development**

#### **Programme (TRADP)**

##### **Introduction:**

This chapter share the same purpose as Chapter Four. It seeks to find out the most important determinant for forming a sub-regional economic zone, and the most important force to maintain a growing sub-regional economic zone. This chapter follows the format laid out by Chapter Four for the purpose of establishing a coherent and comprehensive understanding of three cases explored in this thesis.

Following the discussion of SIJORI, the first case study in this research and the first official SREZ in the East Asia Pacific, this chapter explores another significant case, the Tumen River Area Development Programme (TRADP) in Northeast Asia<sup>1</sup>.

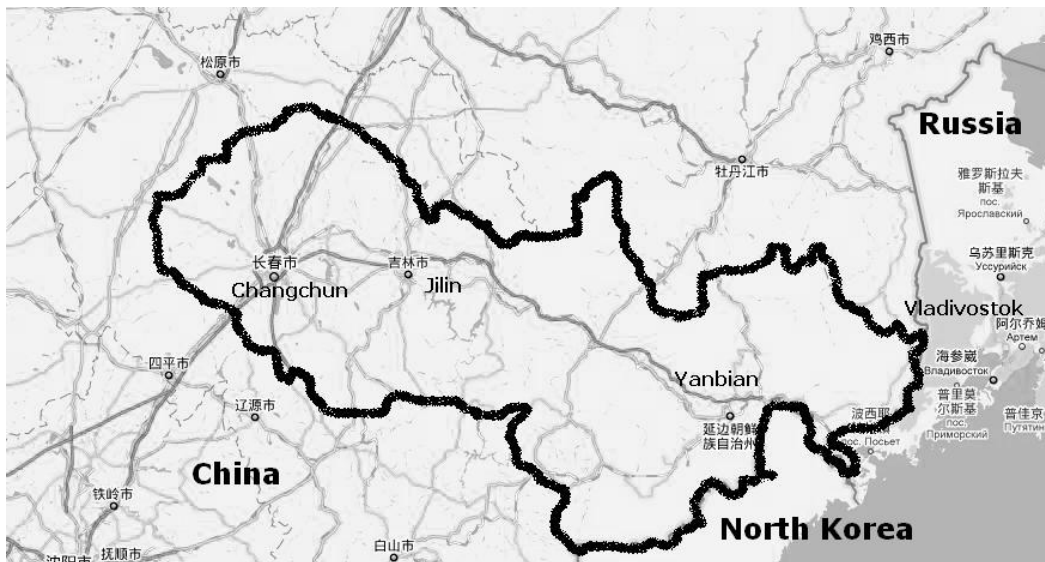
The Tumen River Delta is located on the border of Russia, China and North

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<sup>1</sup> The official abbreviation of Tumen River Area Development Programme is TRADP. However, since it is not as well-recognised as other organisations and projects, the full name or the “Tumen River Programme” will be used by turns instead of using TRADP all along in this thesis for the purpose of reminding.

Korea (see Map 5 below). It is famous for the beautiful scenery of Changbaishan Mountain and rich natural resources. Moreover, China claims that the sound industrial foundation, convenient transportation, and efficient communication in the prefecture have made it especially ideal for investment and trade (Nan, 2005). However, the sub-region is underdeveloped due to political conflict and lack of mutual trust. Though the Northeast Asian states are aware of the great economic profit the sub-region could create, a good proposal for the surrounding states to cooperate for win-win prosperity has been absent. Tumen River Area Development Programme was therefore brought up as a solution.

**Map 5: The Location of Tumen River Area Development Programme**



The ambitious programme was officially advocated by the UNDP, aiming to persuade three major countries, China, North Korea and Russia, and the other three neighbouring countries, Mongolia, South Korea and Japan, to form a free economic zone in Northeast Asia. It has been under discussion for more than a decade, and since 1995, the rough idea has finally moved from the preparation to the enactment level. The rationale is to take the sub-region as an economic axis to link the interior of Northeast Asia, which is seen as the lower economic tier, with the Sea of Japan, attracting South Korea and Japan to invest. Ideally, the regional competitiveness would be highly increased through exploiting the sub-regional economic complementarities. Yet, without the support of either an international financial institution or a super power to act as an economic balancer, the programme could neither draw enough funds for execution nor attract foreign capital for investment. In addition, the geopolitical interrelationship between the economies does not necessarily facilitate the projects. Most of the time, their concerns on national security have deeply reduced the economic incentives for further cooperation.

The first section of this chapter reviews the history of Northeast Asia and the reasons for the Tumen River Area Development Programme to come into

existence. The second section describes the key actors and their relationship with each other. The third section is an integrated analysis of the case. Along with analysing the development of the programme, this chapter will try to answer the main research question: what factor accounts for TRADP's establishment and transformation? What contribution can TRADP make to regional integration in the East Asia Pacific?

TRADP is the second case study in this empirical thesis. An initial discovery is that a regional integration starting with soft rather than hard institutional arrangements could be capable of restructuring the international order to cope with the pressure of globalisation as well as those from other regions. Although the programme was proposed under such an idea to re-shape Northeast Asia, political discordance and security confrontation have slowed down the progress of the programme. Hence, a strong coordinator rather than a nominal one would be very helpful to get the programme moving. In other words, a multilateral financial institution, the Asia Development Bank (ADB) for example, would be more prominent than the UNDP "outsider" coordinating role in eliminating bilateral suspicions that hinder the projects as it could provide loans and concrete financial support.

Moreover, it is important to have a politically-stable environment and transparent interaction among the local economies to strengthen micro-regionalisation and to balance the sub-regional economic cooperation. This will eventually lead to great amounts of investment, especially the Japanese foreign direct investment; while at the same time, micro-regionalism can only be reinforced with great profits created by largely exploiting economic complementarities. Thus, it is still likely that through taking part in the TRADP, major members could gradually ameliorate interrelationships for future integration and abandon the interference in the form of national political interest.

### **History Review**

In order to understand the progress of Northeast Asian integration, it is important to look back at the history and identify the obstacles accountable for the letdown.

Generally speaking, the process for Northeast Asian integration has experienced four different stages. In the distant past, China was once the centre of the region because of its worldwide trade power through the silk route and other connections.

Back in the 19th century, China being a suzerain was firstly able to set up its modern order on this area. On one hand, it drew the subordinate states together,

forcing them to reduce barriers for interaction; on the other hand, its loose dominance allowed them to develop their trading system for exploiting economic complementarities.

However, during the late 19th century, when the western imperialists were no longer satisfied with China's treaty port system over the area, they decided to set up their own order by prising apart the region. It led to fragmented economic networks, which served only individual interest. Cross-state economic cooperation could hardly be feasible.

Followed the withdrawal of the Western imperialists was the abrupt rise of Japan. The outbreak of the Pacific War replaced the western imperial order with a Japanese one. Unlike Western powers exploiting regional resources individually for their own interests, Japan carried out a big ambition step by step to integrate the whole area to become part of its Greater East Asian Co-prosperity Sphere, aiming to heighten regional economic, political and security interdependence. However, such military coercion on economic development resulted in unbalanced evolution over the region. The most notable example is now seen in the Korean Peninsula (Hughes, 2002: 117-118).

After the failure of Japan, the Cold War with the confrontation of bipolar groups fragmented the region even more. As the USSR and the US and their military allies staged the standoff across the Sea of Japan, the free economic interaction between the constituent members of the bipolarity was totally cut off, not to mention the political or security interactions. Even though the Cold war is now over, the economic interaction remains separated and has not yet fully come to normal relations. It is worth noting after its defeat in the war, Japan managed to excel in the global markets, which gave Japan an advantage over other countries.

As mentioned above, states in Northeast Asia have historically in the focus of confrontation rather than cooperation. There were no significant proposals brought up for them to work on regional development or integration before TRADP came to exist.

TRADP aims to open up the 516-Kilometre international river that flows through China, Russia, and North Korea. The area is in the centre of Northeast Asia and connects the borders of China, Russia, and North Korea, which faces South Korea and Japan across the sea, and interlinks the railway system in

Mongolia. This sub-region is especially notable for the vast hinterland and plentiful natural resources<sup>2</sup>. As for China, its northeast territory is famous for adequate labour forces, a huge market, and resources such as coal, petroleum, wood, food, and ironstone. Siberia and the Far East of Russia are well known for the large amount of natural resources too. It holds 1/4 to 1/3 of the world's petroleum, 1/3 of the world's natural gas, and 1/2-2/3 of the world's coal, about 610 billion steres of wood, and also other resources including noble metals, rare metals, and fishery resources (Li and Zheng, 2002:51, and Wang, Ding, Cui, and Mi, 2003: 45-48). North Korea owns both labour force and mineral resources while Mongolia owns animal husbandry resources. As for Japan and South Korea, both have abundant capital and technology but severely suffer from the shortage of natural resources. Thus, the sub-regional cooperation project in the Tumen River area should ideally form a triangle that connects three countries but actually benefits six in the Northeast Asia.

Yu, Cai and Lu (1999) believe that such a programme resulted from the great

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<sup>2</sup> The area is with various resources. In addition to fresh water, land, forest, prairies, wild animals and plants, there are numerous energy resources and minerals remaining undeveloped. For instance, Russia has vast reserves of oil, coal, gas, gold, tin, diamonds, iron, phosphate, copper and molybdenum. China also has large reserves of oil and coal, and other minerals such as iron, magnesium, magnesite, molybdenum, as well as manganese. North Korea has plenty of ores of tungsten, graphite, gold, barite mica, and iron. Mongolia also holds large amounts of coal reserves (Lavalley, 1996).



change in world politics and global economic following the end of the Cold War. In the past, due to the political conflicts, the area was closed and the development was overall slow compared to other areas in East Asia. Most foreign investments were drawn to Southeast Asia and only limited attention was paid to the northern part. However, with the end of the Cold War, states in Northeast Asia have more interaction than ever and have come to realise the potential for the superior location, numerous good harbours, and abundant natural resources. The Tumen River area is actually an important axis for transportation and communication in the region as well as the window to the world economics. Scholars like Zhao (2002) hold the same belief too. Traders are hoping to take a far shortcut and enjoy the cheaper route from the Far East to the European markets once the ports and railway facilities are fully developed along the Tumen River area. Since then, scholars from China, Russia and North Korea have urged the authorities to combine the advantages of each country, creating the greatest economic interests for all of them. China, Russia, and North Korean governments have also been aware of the feasibility that the widened and deepened sub-regional cooperation could promote steady economic growth and long-term prosperity for individual states. Nevertheless, the divergence of states' political nature has made it difficult to reach an agreement on cooperation. The United Nations, recognising the

advantage of the area to become the centre for goods, capital, service, and information at the global level, has then volunteered to be the coordinator for the projects.

The Tumen River programme was launched following the first Northeast Asian Development Conference held at China in 1990. The conference voiced the possibility of forming a “Golden Triangle” by exploiting the geographical and economic complementarities of the Tumen River. Such suggestion has reached the United Nations Development Programme (UNDP). A programme Management Committee (PMC) was soon established to assess the project (Yuan and Li, 2000:45).

The Tumen River Programme, with UNDP plays as the role of an adhesive and a conductor, brings six nearby states to co-operate with cross-border economic activities. The participating economies include the People’s Republic of China (PRC), the Democratic People’s Republic of Korea (DPRK), the Republic of Korea (ROK), Mongolia, and Russia (Japan acts as an observer<sup>3</sup>). Among them all,

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<sup>3</sup> PRC, DPRK, ROK, and Mongolia became full members of the Tumen River Programme during UNDP Northeast Asia Region Planning Meeting at Ulan Bator, Mongolia in July 1991 while Russia remained as an observer till December.

China, North Korea and Russia are more involved in the programme as the Tumen River Delta is located right on the convergence of their borders<sup>4</sup>. Through the economic interaction of the contiguous territories, the programme aims to gradually open up the Tumen Region and integrate the sub-regional development for investors, "...without compromising the soundness of the local economies of environment values..." (TCDC/ECDE, 2002). In other words, environment protection is highly relevant in building up confidence and setting standards for the cooperation.

During the UNDP Northeast Asia Region Coordination Meeting at Pyongyang in October 1991, the master plan for the Tumen River Programme first confirmed that US \$30 billion dollars would be invested in the area for a twenty-year long programme of creating a second Hong Kong, Singapore, Rotterdam or Amsterdam, and transforming the Tumen River area into an international transportation and trading centre in the region. The money was roughly distributed to three major parts: US \$13 billion dollars for city

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<sup>4</sup> The involved borders include North Hamgyong Province of DPRK, Primorsky Territory, the Russia Far East (comprising Sakha Republic, Magadan Province, Chukotka Province, Kamachataka Province, Koryak Autonomous District, Amur Province, Khabarovsk Territory, EVA Jewish Autonomous Province, Primorye Territory, and Sakhalin Province), and Yangbian Korea Autonomous Prefecture of northeast PRC (comprising Heilongjiang, Jilin and Liaoning provinces).

infrastructure, US \$11 billion dollars for transportation infrastructure, and US \$1 billion dollars in education (Ding, 1994:47) (See Table 5.1). The plan for creating a UN “international city” started with bridging three Free Economic Zones (FEZ), including Rajin in North Korea, Hunchun in China, and Posyet in Russia, to form a 1,000 km<sup>2</sup> growth triangle as the Tumen River Economic Zone (TREZ)<sup>5</sup>. It is right at the mouth of the river and is at the core of the project. In the meantime, a bigger triangle of Tumen Economic Development Area (TEDA), which is up to 10,000 km<sup>2</sup> and centred on Chongjin in North Korea, Yanji in China, and Nakhodka and Vladivostok in Russia, was established to sustain the TREZ (Yu, Cai and Lu, 1999: 4). And at the final level, an expanded cooperation of Northeast Asia Regional Development Area (NEARDA, 370,000 km<sup>2</sup>) is expected to connect the whole border provinces of the three countries (Lavallee, 1996). However, on top of these fixed expenditures, unexpected expenses may increase the total amount for a 30-year project up to US\$ 900-1,000 billion dollars (Ding, 1994).

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<sup>5</sup> TREZ is also called micro triangle while TEDA is called sub-regional triangle and NEARDA is referred to regional triangle.

<b>Table 5.1: The Estimated Expenditure of the Tumen River Programme Set in 1991</b>	
<i>Items</i>	<i>Amount (US\$ dollar)</i>
Harbours	4 billion
Inland Ports	1 billion
Inland Commercial Centres	1 billion
Airports	2 billion
Train System	2 billion
Railway System	2 billion
Road System	2 billion
500 Thousand People City Development	8 billion
Energy	2 billion
Telecommunication	1 billion
Potable Water	1 billion
Rubbish Disposition	1 billion
Education	1 billion
Other Unexpected Expenditure	2 billion
<i>Total</i>	<i>30 billion</i>

Source: Ding, 1994: 47

**Table 5.2 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

Source: Adapted from Lee, 2003:6.

PMC was then established at the same time to implement the project and six meetings followed from 1992 to 1995. The first PMC meeting was held in Seoul, ROK in February 1992 to assess the feasibility of the Tumen River Programme. Asian Development Bank (ADB) was invited as an observer during the time. Later in October, PMC had its second meeting in Beijing to discuss the infrastructure pre-investment. During the third meeting held at Pyongyang in May 1993, the programme made such impressive progress that the riparian states, including China, North Korea, and Russia, all agreed to lease land to be administered by a jointly owned Tumen River Development Corporation. However, a striking failure came a year later when the fourth meeting in July 1994 at Moscow, which announced that the TREZ land lease plan along with UNDP \$30 billion dollar master plan had been abandoned due to the difficulties of relinquishing

sovereignty and raising finance. Members then agreed to scale back their ambitions and focus on harmonising individual FEZ. Such a pragmatic implementation has led to a positive result that three important agreements were reached in Beijing during the fifth meeting in May 1995. China, North Korea, and Russia signed a draft agreement to establish Coordinating Committee for TREZ as a replacement of PMC, revitalising the project as well as coordinating the investment. Meanwhile, China, North Korea, Russia, South Korea, and Mongolia signed another draft treaty to establish a Consultative Commission for TREZ to promote communication, energy, finance and trade, and agreed on a Memorandum of Understanding on Environmental Principles. These three draft agreements were soon verified individually by their parliaments and officially signed during the sixth meeting in December 1995 at the UN headquarter. The achievement of three agreements could be seen as a milestone for the Tumen River Programme since the legitimacy for international cooperation was initially established. Moreover, the participating economies had presented stronger political commitment for further cooperation (Li and Zhang, 1997:65). Following the first Coordinating Committee at Beijing in April 1996, a Tumen River Secretariat was established to manage the project, pushing its progress at a more efficient and harmonising pace.

At the same time, despite the frustration, the UNDP did not fully withdraw but continued an active role in the programme. For example, it worked with North Korea to give US \$4.4 million dollars in technology support during the third Coordinating Committee in 1997 and proposed the establishment of the Tumen Investment Corporation during the fourth Coordinating Committee in 1999. Its enthusiasm in coordinating sub-regional economic activities has also resulted in the infrastructure improvement of FEZs in the Tumen Area and led to the opening of several new ferry routes during the last couple of years, including one from Posyet in Russia to Akita in Japan; this is considered as a big step. As for China, it has invested US \$1.3 billion dollars to improve roads around Hunchun as well as those leading to the border of North Korea. Furthermore, the Hunchun-Krakino railway was opened for convenience to cross the China-Russia border (Hughes, 2002:132).

It is the potential economic benefits of those under-developed resources that draw the member states to put aside political disputes and join the programme. For example, by exploiting the complementarities, member states could redirect their interests for their national development. This is especially important for North Korea, Far East Asia of Russia, and Northeast part of China, as these areas are



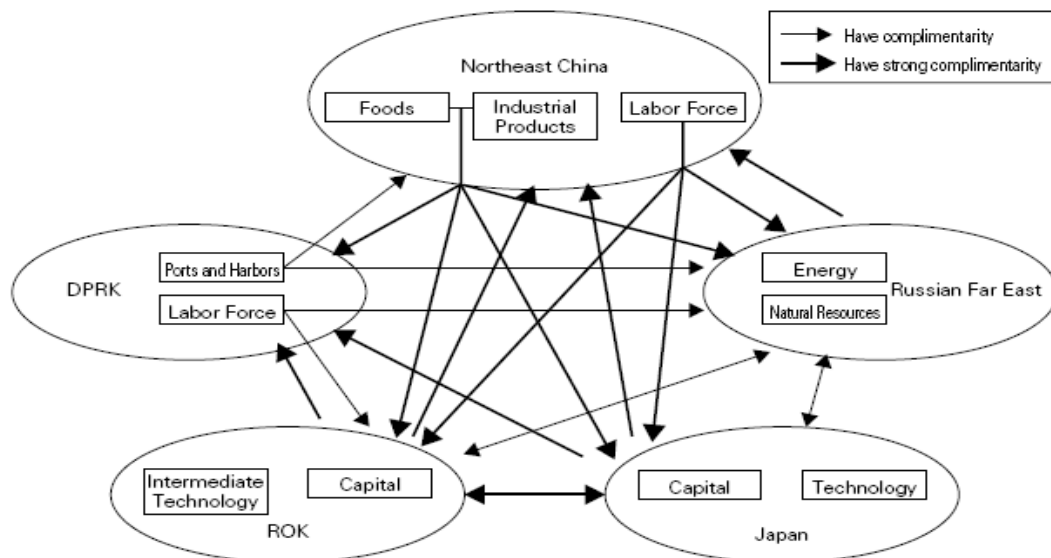
less-developed in the region. The table and the figure below indicate what comparative and complementary factors that member states could potentially take advantage of to equalise their scarcity and superabundance (See Table 5.3 and Figure 5.1).

Table 5.3 Potential Comparative and Complementary Factors in Northeast Asia.

	Japan	ROK	DPRK	Northeast China	Russian Far East	Mongolia
Arable crop land	Low	Low	Low	High	Low	Low
Pastoral crop land	Low	Low	Low	Medium	Low	High
Mineral resources	Low	Low	High	Medium	High	High
Energy resources	Low	Low	Medium	High	High	Medium
Labour surplus	Low	Low	Medium	High	Low	Low
Capital surplus	High	Medium	Low	Low	Low	Low
Advanced technology	High	High	Low	Low	Low	Low
Management expertise	High	High	Low	Low	Low	Low
Developed heavy industry	High	High	Medium	Medium	Medium	Low
Vanguard industry	High	High	Low	Low	Low	Low
Transport infrastructure	High	Medium	Medium	Medium	Low	Low

Sources: Adapted from Hwang, 1993: 299.

Figure 5.1 Diagram Showing Contemporary Economic Relationships between the Countries of Northeast Asia.



Source: Adapted from Lee, 2003:5.

The Tumen River Programme is famous for its wide range of cooperation items as compared with other cases of sub-regional cooperation. The focus of its content can be classified as follows:

*(1) Transportation:*

It is a general consensus that the lack of a transportation network is one of the main reasons for the hindered economic development in Northeast Asia. As Tumen region is located at the crossroads of trade and transport routes between Europe, Northeast Asia, and North America, the improved transportation and telecommunication links, regarded as fundamental elements to regional economic cooperation, are required to sustain its role as the northern axis of world trade.

*(2) Trade and investment:*

The Tumen River Programme was designed to promote Northeast Asian markets to local, national, regional, as well as international investors. Thus, several projects have been launched in order to meet the requirements and objectives of the international investors, including the establishment of the Northeast Asia/Tumen Investment Corporation (NEATIC), which would facilitate the

necessary infrastructure investment in the area through both public and private sectors; and the Tumen River Investor Services (TRIS) Network project, which will not only strengthen the institutional management of the investment climate, but also help to raise the profile of the area.

*(3) Energy:*

Northeast Asia is abundant in both conventional and renewable resources that are mostly under development. It is considered as the world's last land resources frontier that has rich reserves of oil, coal, minerals, timber, fresh water and etc. These resources are the main reason for the competition and discord between the six states in the area. Among them all, Russia is probably the only capable state that could play the role as a major energy supplier for other Northeast countries while others like China, South Korea, and Japan are struggling with the lack of natural resources. Mongolia and North Korea are better off in this matter as being strategically positioned to benefit from natural gas pipelines through their territories. The Tumen River Programme has therefore set up the framework for the participators to discuss mutual need over regional energy issues and aimed to build up an appropriate environment for sustainable as well as cleaner energy development in the sub-region.

*(4) Environment:*

As the restoration of the environment and the prevention from further damage is essential for both Tumen River area and global community, members of the programme have devoted themselves to resolving the relevant issues. A Memorandum of Understanding on the Environment was signed in December 1995, outlining the principles for the environmental protection in Tumen River area and hinterland. Moreover, the Tumen River Strategic Action Programme (TumenNET project) supported by the Global Environment Facility has provided member countries with concrete guidance for cooperation on environmental issues in the region.

*(5) Tourism:*

As the region is with beautiful scenery, the participators of the programme have identified tourism as one of the priority sectors contributing to regional economic cooperation and development. The World Tourism Organisation (WTO) executed a project named “Support for TRADP in the Development of Tourism in the Tumen River Region” in 2000 for a comprehensive study on tourism marketing. In addition, a Strategic Action Plan for Tourism Marketing and Product

Development in the Tumen River Region has been prepared for implementation from the years 2002 to 2006.

*(6) Telecommunications:*

Telecommunications is particularly important in the Tumen River area as inter- and intra-regional economic cooperation are hindered because of the great geographical distance and the different levels of development among the participating economies. Thus, one of the main projects is to establish cooperation networks that provides effective communication for members. Such networks could work for multitasks such as enabling governments, businesses and the public to share data, promote tourism, initiate commerce and multi-media services, as well as raise environmental awareness.

*(7) Labour Market:*

A comprehensive study including information sharing, matching of the supply and demand of labour, as well as cooperation on questions of migration was undertaken to facilitate labour markets in the area. Other issues include professional and technical standards, skills testing, certification of core trades, and gender problems have also been addressed.

*(8) Control of Transmissible disease:*

The programme is concerned about this issue, which has become increasingly important in recent days. The infectious disease has enlarged its category: HIV/AIDS, avian influenza, and SARS all have attacked human society severely in the past couple of years. It was hoped that through the networks of the programme, a promulgating and preventing system could be built up to quickly and efficiently control the dissemination of these disease.

**The Involvement of Key Actors**

Tumen River Area Development Programme is ambitiously reputed because it encompasses various projects and at the same time, has lots of participants. As participants may respond differently to the programme in light of their national development and international relations, it is important to build up a thorough understanding of Tumen River Programme's progress through examining the background of the involved economies. Therefore, this section will start with evaluating the divergence of the six economies in terms of social structure, economic system, political ideology, as well as their roles and powers in the sub-regional cooperation.

Despite the fact that Northeast Asia represents only 13% of the world territory, its massive inhabitants, up to nearly one quarter of the world population, has contributed significantly to the global economy, including producing 19% of the world output, employing 32% of the labour force, and involving in 16% of the global trade (The World Bank, 2000). It is especially notable as such high share of world population, production and trade is attributed to only six countries with enormous differences among each other (see table 2.4). The divergences can be seen in the following aspects including population density; economic developed level and management; political system; and industrial structure. Such nature has led to political confrontation and low level of interdependence for the economies in the region. Moreover, the reduced economic and political interdependency have made it difficult for the surrounding states to form an economic bloc in the region. Furthermore, as the countries are used to the atmosphere of being long-term adversaries, any intention to change the status quo, including agreement-making in a good way, could actually break the regional stability and trigger off the disagreement on other issues (Lavalley, 1996).

*(1) Japan:*

Among all other sub-regional cooperation cases along East Asia, the Tumen River Programme may be an extreme case that the involved states have the greatest gap on GNP. In 1994, the GNP of Japan was US\$4,591 billion while Mongolia only earned US\$1 billion (Kannihonkai Keizai Kenkyûjo, 1996).

After the defeat in the WWII, Japan was kept hand-off from its former colonies and markets in the Korean Peninsula and China. Ever since then, Japan has followed the US lead and potentially become antagonistic to Russia, China and North Korea, the major players of the Tumen River Programme. Its reputation of being the most durable democracy and dynamic economy in Northeast Asia makes it hard to integrate into the region or to normalise relations with other “not yet” fully open states. The absence of a peace treaty and unsolved dispute over the Northern Territories with Russia cooled them down from further cooperation. Besides, China’s suspicion on Japanese intention for regional hegemony and strong hatred, especially in the Northeast China, and its position against Japanese because of the massacre and experiment on human bodies also limited its involvement in the cooperation projects.

(2) *Russia:*



Far from tsar age, Russia always has a great ambition on dominating Korean and Manchuria. Its Far East interests were then challenged by the rising of Japan. The direct clash of Russo-Japanese War bursted in 1904. The victorious Japan successfully forced Russia to abandon its expansionist policy in the Far East and became the first Asian power to defeat a European power (ACED, 2000). Ever since then, the two countries hold hostile attitudes toward each other. During the Cold War, the mutual trade relations were seriously curtailed due to the confrontation of bipolarities. Even after the collapse of the USSR, there are still unsolved disputes on the Northern Territories between Russia and Japan. New hatred piling on the old one makes it difficult for two countries to achieve a cooperative agreement.

Besides, Russia's economy has transformed from the centrally planned command form to the market-driven capitalist since 1990s. During the time, it has experienced a rapid transformation to democracy and a market economy. Such political and economic changes are now still in progress. The pressure of national development has taken most of its energy that it could hardly put in mass investment to support the Tumen River Programme.

*(3) China:*

China remains one-party communist rulership but its policy for economic liberalisation has reengaged itself with the global economy. It has launched several special economic zones along the coasts to attract foreign capital and hopes to redirect these capitals to develop the inland<sup>6</sup>.

The GNP increases every year and it has become one of the major markets in the world. From 1978 to date, China has quadrupled its per capita income and its trade keeps posting a double digit growth rate. Gombo (2002) believes that there is yet no other country that could be able to sustain such a marvellous growth for over twenty years. Moreover, more and more scholars have pointed out the potential of China to be the regional hegemony in the forthcoming future. Its enhanced influential power has compressed the development of other contiguous states in the region. For example, India, with population over 1 billion ranked as world's number two and with world's third largest numbers of high-tech engineers, attracted less than US\$ 5 billion dollars investment last year while China attracted more US \$540 billion. Furthermore, China's economic scale has reached US\$ 1.4 million (1,400 billion), which is three times than that of India (BCC, 2004).

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<sup>6</sup> Refer to South China SREZ case study for further information.

*(4) North Korea*

The system of Democratic People's Republic of Korea (DPRK) is a mix of revolutionary socialism, anti-colonialism, Confucianism, and self-reliance. Such a system has kept it isolated from the global market. As for the regional business networks, the connection with the Republic of Korea (ROK) was once cut off completely after the Korean War. Nevertheless, South Korea is now the third largest trading partner, second largest exports market, and largest source of hard currency (CSIS, 1998:10). The trade with Japan is extremely difficult as there is no normalised diplomatic relation.

North Korea has been suffering from food and energy deficiency, which obviously decreases the capability to devote itself to the Tumen River Programme. It would be better off if it gives up holding atomic fuel, which is suspicious for nuclear weapons development, to trade for the US aids on energy, food as well as security. The first Six-Side Talk, with the DPRK, ROK, PRC, USA and Japan, was held in August 2003 at Beijing to discuss disarming the DPRK nuclear holding matter. Not much common consensus was reached though. Moreover, at the end of the second round of the Talk in February 2004, the DPRK spokesman claimed that

they were not satisfied with the result of the Talk because of the US insincerity. However, they are willing to carry on the Six-Side Talk and establish an executive team out of an intention to peacefully solve the nuclear problem in the Korean Peninsula<sup>7</sup>. Earlier in 2005, the DPRK has suddenly announced the possession of the nuclear weapon and claimed to withdraw from the TALK forever. Such action has closed the possibility for any kind of cooperation and the related countries have been working to bring it back on the table. For example, since China has a comparatively strong connection with the DPRK, both the USA and Japan have recently urged China to push a re-opening of the Talk during the 12<sup>th</sup> APEC summit in Chile in November 2004 (Liberty Times, 2004).

#### *(5) South Korea*

The ROK carries a market economy for a long time. It is now at a stage making a transition to stable democracy. Unlike the DPRK closes itself to the international intercourse, the ROK has worked hard to expand the economic networks. After realising the 38<sup>th</sup> parallel has not only cut off the ethnic link with the North Korea but also the trading opportunities with Russia and China, it urged to re-build relationship with North Korea. A series of Four-Side Peace Talk with the

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<sup>7</sup> For further details related to the Six-Side Talk, please refer to [http://jjajia.net/xinwen/xw\\_redian.php?grp\\_id=20](http://jjajia.net/xinwen/xw_redian.php?grp_id=20)

participation of the ROK, DPRK, USA and China was held since late 1997 to form an active and peaceful frame to terminate the cold war in the Korea Peninsula with treaties. Such Talks have come to a standstill in 1999. Meanwhile, the Sunshine Policy proposed in 2000 has once alleviated the tense relationship with the DPRK (CSIS, 1998:14). On the one hand, it opened the DPRK's market for enterprises in the ROK; on the other hand, it step by step integrated the DPRK into the international order and norm.

*(6) Mongolia*

Mongolia is now controlled by reformist, socialist and communist parties. It was largely integrated into the Soviet Comecon system<sup>8</sup>. Soviet has once aided at its peak accounted for more than 30% of Mongolia's GNP (Gombo, 2002:4). Even now, Russia is still willing to provide aids on its weapons, military facilities, official training and air defence construction. For more than ten years, Mongolia in a way is very much like Russia in terms of moving from centrally planned command economy to the market driven capitalist economy. It is looking forward to be further integrated into the world economy. However, being in short of both natural resources and technology has limited its interaction with contiguous states

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<sup>8</sup> Council for Mutual Economic Aid (CMEA).

and made it the most under-developed country in the area. The country is suffering from poverty that it could not even spare finance to deal with the environment damage resulted from sand-dust storm, which affect the contiguous states and even Japan seriously every year. The only positive thing about this country is that, due to the low population, civilians were able to accept and adjust themselves fairly quickly to the new-established democratic political and social institutions without suffering from long-term social chaos.

**Table 5.4 Basic Economic Indices of the Northeast Asian Countries in 2000<sup>9</sup>**

	<b>Population (millions)</b>	<b>Surface (ml.sq.km)</b>	<b>GNP (\$billions)</b>	<b>GNP (per capita \$)</b>	<b>Export (\$billions)</b>
<b>Japan</b>	126	378	4089.1	32350	436.45
<b>Russia</b>	147	17075	331.8	2260	87.73
<b>China</b>	1246	9598	1081.8	873	415.75
<b>North Korea</b>	23	121	n.a	n.a	n.a
<b>South Korea</b>	46	99	398.8	8600	156.70
<b>Mongolia</b>	3	1567	1.0	380	0.54
<b>Northeast Asia (NEA)</b>	1591	28838	5902.5	3710	1097.17
<b>World</b>	5897	133567	28835	4890	6748.11
<b>World Share of NEA in %</b>	26.9	21.5	20.4	-	16.2

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<sup>9</sup> In the section of analysis in this chapter, I will explain why I use data of the late 1990s and early 2000s more frequently than using the most recent data.

<b>World Share of NEA in %*</b>	24.6	13.4	n.a	-	n.q
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Source: World Development Indicators, 2000, World Bank.

\*\* World Share of Northeast Asia with Far Eastern but not the whole of Russia

### **Analysis of the Case**

It is quite obvious the differences of each country have suppressed the enthusiasm of participating in the programme. Nevertheless, being the major participators of the programme, China, North Korea and Russia are more active in comparison with other economies. In accordance with the launch of programme, Russia first established the Nakhodka Free Economic Zone (Nakhodka FEZ) in July 1990 while North Korea had its Rajin Free Economic and Trade Zone (FETZ) in December 1991<sup>10</sup>, and China established the Hunchun Border Economic Cooperation Zone in October 1992 (Hughes, 2002: 18). These zones are with similar functions but their openness differs in terms of level. China is with lower open level while North Korea and Russia are with higher ones (Li and Li, 2002:32).

#### *( 1) China*

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<sup>10</sup> Rajin FETZ has extended to become Rajin-Sonbong FETZ later in September 1993.

China has lost the access to the Sea of Japan ever since signing the Peking Treaty with Russia in 1860. Before the Tumen River Programme started, the most northern port for China was in the Bohai Sea area. It has to sail all over the Korean Peninsula in order to reach the Sea of Japan and the northernmost. Thus, with the implementation of the programme, China can use not only Tumen River to access the sea but also the railway, highway and harbours to launch forth. It helps to enhance the open-up and reformation, as well as to promote the economic development in Northeast China.

China has been renting Chongjin harbour for years. With the expansion of both Rajin-Sonbong free economic and trade zone, and the cooperation in the Tumen River area, China has showed a great interest than ever to increase the utilisation of these three harbours.

Despite the massive population of 1.3 billion people, China's economic growing rate is always kept above 7%. According to the long-term plan, it will need a large number of capitals and new technologies to build up the infrastructure, upgrade the industries and reform the enterprise technologies by the year of 2010 (Zhao, 2002: 43). Thus, the responsible sectors have devoted themselves to



seeking for intensive and extensive cooperation with other countries to attract foreign investment on the area ever since the launch of the programme.

*(2) North Korea (limited information reached)*

Although North Korea still holds fast to its ideology and shows intransigence against other countries for the nuclear issue and other political agreements after the collapse of most of its communist allies, it is aware of the essentiality to break the economic isolation. The slowdown in the 1980s caused by the inefficiency of the centrally planned economy and the onerous burden of maintaining the world's number four standing army has furthermore convinced North Korea of the necessity to engage in multilateral economic activities. Other diplomatic incidents such as the loss of energy inputs, including oil and coal, from the Soviet Union have resulted in the drop down of the industries and the rapid decline of the trade and production. In addition, the normalised relations between the Soviet and China, or Soviet and South Korea have malfunctioned the DPRK's strategy to bargain with these countries by playing one against another. All these incidents have become factors to push North Korea to consider the Tumen River Programme as an alternative for survival as the trade with these three countries plus Japan are nearly 50% of its total trade (see table 5.4). Thus, it sets up Rajin-Sonbong free

economic and trade zone to promote the trade relations with “the gob four” partners, and regards it as pioneer for the regional development and furthermore, the improvement of the economy of other areas.

For North Korea, it may need to make some concession in order to fit in the programme, but scholars like Flake (CSIS, 1998) says that no other states could earn more economic strength than North Korea does in such a sub-regional cooperation as trading with North Korea accounts for less than one percent to the bilateral trade in the Northeast Asian states and is probably too negligible to be mentioned. However, such statement may be questionable after North Korea slowly engages in more transnational economic activities. In the past, the DPRK set up its agenda to focus on military development rather than economic development. Nevertheless, the collapse of the USSR has proved that the heavy burden of the military cost would only push the nation to a dead end. On the contrary, the PRC, Japan and the USA have proved that increased trading relations with other countries will speedily enhanced the national development and create mutual profit for both themselves and the trading partners at the same time. Thus, countries trading with North Korea on one hand can help its domestic development, and on the other hand, they could benefit greatly from the

consequence. For example, once the DPRK has completed the transportation construction, the trading partners could utilise the shortcut route reduce the cost for exporting and importing goods from the East Asia to Europe.

*(3) Russia:*

For Russia, Vladivostok is always seen as its most important harbour in the Pacific Ocean. As the fundamental principle for a sub-regional cooperation is that the involved members offer comparative advantages to earn great interests, Vladivostok does not have such a complementary character to provide any good for the area. Russia thus wants to take the Tumen River Programme as a good niche to achieve its “Great Vladivostok” (Li and Zhang, 1997). It draws up several plans to carry out Great Vladivostok and hope such a plan can push forward local infrastructure and develop the economy of seafront frontier.

Li and Li (2002) point out that the establishment of free trade zones for the programme participants may be based on different “direct” purposes, albeit similarity in their fundamental purposes. As mentioned earlier, China set up Hunchun economic cooperation zone and takes it as the opportunity to open the channel of both the Sea of Japan and the Pacific Ocean. The fundamental purpose

is to strengthen the economic cooperation and trade relations with Northeast Asian states, and prosper the economics of the northeast provinces. As for North Korea, the absence of economic hinterland has limited the development of Rajin, Sonbong, Chongjin and other harbours with good natural conditions. Thus, the direct purpose to establish Rajin-Sonbong free economic and trade zone is to solve the hinterland problem and to attract great resources of Northeast China and abundant capital. Its fundamental purpose is also to take the zone as the entrance to the world, and to expand the prosperity to the national-wide level. Posyet free economic zone was also established to deal with the hinterland problem. For Russia, the distance between the Far East area and the economic hinterland is so far-off that the long-way transportation has diminished the good functions of the harbours. Posyet free economic zone was not only set up to attract large transport of goods or the capital from Japan, South Korea and other countries; more fundamentally, it is aimed to promote Vladivostok and facilitate international level of development on the Far East area.

These three free trade zones are not independent from each other. On the contrary, they are very much interconnected. However, without a coordinator to bring together and resolve all kinds of concerns, cooperation would be difficult to

work out among China, North Korea and Russia, all of which have their own interests over the Tumen River Area. The Tumen River Programme, under the advocacy of UNDP, has therefore played as an activator catalyst to make it more feasible for three countries to work on area economic cooperation.

*(4) South Korea/Japan*

These two countries joined the Tumen River Programme under very similar circumstances: their natural resources are in short supply, and the industries have both come to a bottleneck which new labour force market is needed to deal with the rising cost of the manpower and for the long-lasting development.

The interests that have drawn South Korea to take part in the programme could be seen in three ways. First, by participating in the programme, the ROK is able to meet its scarcity of natural resources by developing the mineral and energy resources in the Russian Far East. Besides, as mentioned earlier, the rising cost of labour force has become a catastrophe to South Korean labour-intensive industries. Its best chance is to transfer the technology, equipment as well as funds to contiguous countries where manpower with a lower wage is available. China and North Korea happen to be the solution in this case. Meanwhile, the Tumen River

Programme acts right as an appropriate channel for the ROK to utilise abundant labour force and cheaper productions of these two countries. Moreover, it may give a good opportunity to expand its plural interaction with North Korea. It is generally believed that only through the comprehensive communication could the two hostile countries gradually ease off misunderstanding and build up mutual trust. Such a process could enhance the possibility for them to normalise their diplomatic relationships and eventually pave the way for the future reunification.

As for Japan, the programme's perfect location gives Japan a good opportunity to open up the coastal area of the Sea of Japan, which is considered relatively undeveloped. Lavalley (1996) also points out that a successfully implemented programme would form a lucrative shortcut of transportation which brings Japanese goods to greater markets including those in China and even further away in Europe. It would also bring significant economic impact for western coastal area of Japan.

*(5) Mongolia:*

Mongolia has long wished to integrate into the international society ever since the dissolution of the Soviet Union. Being a landlocked country, its economic

development was severely limited with the absence of the coast. Hence, it has been searching for a stepping-stone to get access to the international transportation line on the sea. By participating in the programme, Mongolia could break the fetter of being landlocked and take advantage of the Tumen harbour to export its raw materials as well as other products. Moreover, after the successful excavation of abundant oil in 1997, Mongolia has a ever strong hunger, and thus is hoping the programme will eventually bridg up the trading channel from East to Europe to export the lately found oil (Mao, 1998:53).

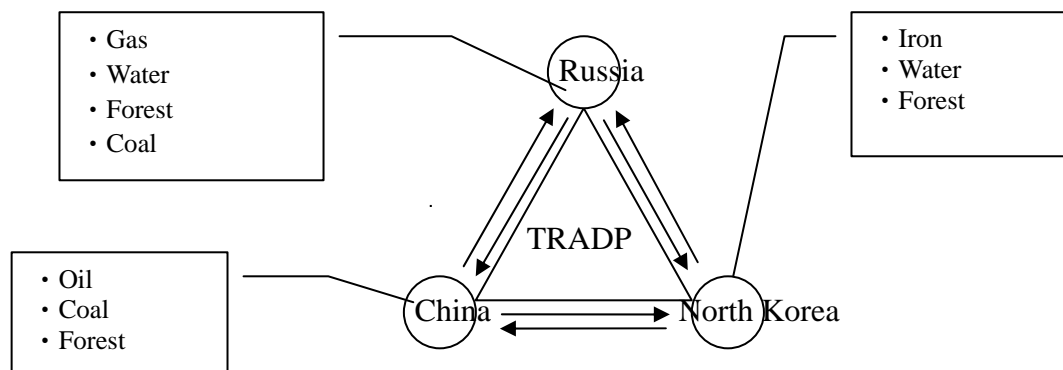
*(6) EGPIB factors*

TRADP is famous for its abundant natural resources. However, most members tend to have same resources. Economic complementarity is very low in this area. That is to say, there are not much comparative advantages to bind the members (Figure 5.2 and Table 5.2).

Supposedly, TRADP is full with potential to be a growing SREZ. However, this area is much less concerned. Russia considers itself more like European super power than East Asian super power. Therefore, Russia has it developing strategies mostly focus on Europe. As North Korea, its main focus is really in

south rather than in north. Comparatively, China is more aggressive in joining TRADP. Nevertheless, Jinlin Province is not capable of being the leader or bringing in funds.

**Figure 5.2: The Economic Complementarity in TRADP**



\* “+” means there is positive economic complementarity exists between two participants. The number of “+” refers to the tense of economic complementarity.

Although this area is full of natural resources, it is very much under-developed. It is especially obvious in terms of poor infrastructure. There is no international airport. The railway and the high way are poorly constructed. As discussed, the major participants are relatively too poor. The market and the business networks are equally poor. Thus, the urgent task for TRADP is to bring in funds to develop this area. Yet, without proper transportation system, it would



be hard to attract foreign investment. The programme has always failed to attract stable foreign investment (Table 5.6 and Table 5.7). As for political commitment and policy coordination, there is limited interaction between local governments. On the contrary, the central government of three major participants, Russia, China, and North Korea, tend to sacrifice the project for their other national interests. Even though the UNDP consider itself as a coordinator of the programme, it is much more like an outsider or an observer. In sum, all EGPIB factors can hardly be seen in TRADP. One may argue that at least geographical proximity factor exists. Nevertheless, TRADP is very much advocated by the UNDP than being established spontaneously by participants based on geographical proximity reason.

**Table 5.5: Cities and Industries of TRADP Members Last Updated in 2010**

Area	Included Region	Population	Area (km <sup>2</sup> )	Major Cities in the Greater Tumen Region	Main Industries
China	Heilongjiang Province	36,890,000	454,600	Haerbin and Heihe	Energy, equipment, food processing, forestry, petrochemicals, pharmaceuticals
	Inner Mongolia	24,000,000	1,180,000	Huhhot	Agriculture, chemicals, energy, iron and steel, textiles,

					pharmaceuticals
	Jilin Province	27,340,000	187,400	Changchun, Yanji and Hunchun	Automobiles, energy, metallurgy, petrochemicals, textiles, tourism
	Liaoning Province	42,380,000	145,900	Shenyang, Dalian and Dandong	Electronics, machinery, metallurgy, petrochemicals
<b>Mongolia</b>	Eastern Mongolia	223,000	287,600	Choibalsan	Agriculture and agro-processing, mining, tourism
<b>Republic of Korea</b>	Eastern Ports	5,300,155	3,055	Busan, Sokcho, Ulsan and Pohang	Automobiles, multimedia and IT, port logistics, equipment and spare parts, oil refinery, shipbuilding, steel production, tourism and conventions
<b>Russian Federation</b>	Primorsky Territory	2,200,000	165,900	Vladivostok	Aquaculture, engineering, food processing, forest products, mining, services, tourism

Source: Tumen River Area Development Programme  
<http://www.tumenprogramme.org/>

**Table 5.6: FDI in TRADP between 1985-2000**

(Unit: Million Dollar)

	85-93	1994	1995	1996	1997	1998	1999	2000	Total
<b>Yanbian</b>	42	61	78	134	95	47	33	29	519
<b>Rajin-Sonbong</b>	1	1	4	31	26	25	N/A	N/A	88
<b>Posyet</b>	141	2	53	97	95	56	54	78	576
<b>Mongolia</b>	10	29	46	41	42	45	72	107	392

Source: Chan-Woo Lee, translation by Eleanor Oguma, *Ten Years of Tumen River Area Development: Evaluation and Issues* (Niigata: Economics Research Institute for Northeast Asia, 2003), p.55.

One may argue that why I use data of the late 1990s and early 2000s more frequently than using the most recent data in this chapter. As we can see from the discussion, TRADP had its rampant development and attraction in the initiative stage. The scale of the programme had reached its peak in the early 2000s. Nevertheless, TRADP has kept an extremely slow progress and showed no obvious change since then. Therefore, I choose to analysis the data between the 1990s to the early 2000s that would contribute more to explain the research questions rather than using the most recent data which comprehends no significant meanings.

In addition to that, there is a great research limitation in this chapter in terms

of collecting economic data. Comparatively, the governments in this sub-region are not as open as others. The official information on the websites is limited and the updated speed is considerably slow. Such fact has hindered me from collecting the first hand and the latest data for analysis. Therefore, the second best reliable resources would be the second hand documentaries available from other scholars' study.

### **Criticism**

If we regard each participant of the Tumen River Programme as a variable, based on the discussion above, it is not difficult to envision that the programme as an inevitably difficult and complex task in comparison with other sub-regional cooperation cases. In other words, the laggard of the programme is resulted from the plan's nature, which is simply too grandiose and could not attract sufficient fund for implementation. Besides, the main participators of China, North Korea and Russia all hold different concerns and interests on the region due to the huge differences among history, ethnic, politics, economic, culture, and social system. Conflicts and distrust are therefore destined.

A good example is that after 60-year suspension of sailing on the Tumen

River, China has now reconstructed the harbour at the downstream. Such a construction not only meets the immediate need for sailing on the Tumen River, it also complements the insufficient of Russian and North Korean ports in the area. Li and Zhang (1997: 67) command that from a long-term perspective, it is an indispensable component to establish Tumen River harbour groups. However, being aware of the potential economic profits does not push the involved states to put in necessary degree of regionalist sentiment or political commitment. It seems especially difficult to bear the political toleration of, for example, leasing sovereignty. When it comes to border territory acquired for projects, many cases are still in dispute and China-Russia border at Tumen is one of them.

Other conflicts can also be found in the following topics.

*(1) Security Concerns:*

China is trapped as it controls only small range of Tumen River's exit while Russia and North Korea equally share most part of the exit. Thus it cannot make better profit for the northeast territory without Russia's or North Korea's permission to exploit the river. Thus, China has made every effort to break the deadlock, encouraging both countries to step forward for cooperation ever since the Tumen

River Programme was announced. Nevertheless, security concern may be an important reason which holds Russia back from fully devoting itself to the cooperation. No matter in the past history or in the present reality, Russia always focuses its political and economic interests in Europe. To Russia, the Far East Area means more to be a military fortress than being an economic centre. Before getting out of the economic crises, the Far East area and Siberia were simply treated as one of the resource-supplying markets (Mao, 1998:52). Despite the frigid weather, Russia's Far East is with abundant resources as the land is extremely rich and fertile. It bears only one harvest every year but the yield of the black soil is more than enough. However, Siberia used to be part of China back in the history and was ceded to Russia in a series of unfair occasions. It is not only a shame but also a wound for the PRC people. Furthermore, as China is still partially in a agriculture-centred stage, it can never give up its interest on Siberia's fertile land.

So far the immigration population from the Northeast China to Siberia is now over one million. The number is far beyond the local Russian residence or the troop stationed. With the promotion of the Tumen River Programme in both deeper and wider facets, more Chinese immigration may be attracted into Siberia through easier ways. A potential risk is that these people may raise their influential

power and gradually take over the local power. Once these Chinese control the area and claim for independence in a radical way, it would be a calamity for the central government to suppress the situation due to the huge gap between the number of the military and that of Chinese residence.

In addition, Vladivostok, Russia's most important military base in the Far East, is right in the circle of the Tumen River area. It gets harder to promise the security when the entrance gate is getting wider with the degree of Vladivostok's involvement in the projects. Especially after the split, Russia is vigilant to China's military threat and the potential of being its geographically proximal enemy. According to Nuechterlein's (1985: 19) definition, national interests can be divided into four levels in which the surviving interest is supreme to all other kinds<sup>11</sup>. Thus, it is very unlikely for Russia to risk its national safety for economic benefits.

Some scholars believe that North Korea, as a "vassal" to Russia, would certainly take side and support Russia's decision in any means in this case. In fact,

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<sup>11</sup> According to priority, national interests are survival interest, vital interest, major interest and peripheral interest in which political and economic interests usually belong to second or third levels.

North Korea itself is reluctant to give in the sovereignty for any reason. The government has long made its stand clearly that national security is its top concern and any economic activity that requires a surrender of sovereignty over the territories is not acceptable. The intransigency can be seen in the face-off of nuclear weapons with other countries, and especially against the United States. Its Ministry of Foreign Affairs, for the first time, has publicly confirmed the possession of the nuclear weapons on 10 February 2005. The authorities stated they have come to realise that the unbreakable military power is the only way assuring the justice and the truth. “The nuclear deterrent power is produced for self-defence reason and would be used to against the US policy of isolating and suffocating the DPRK” (ETtoday, 2005).

Meanwhile, the DPRK has also announced the withdrawal from the Six Sides Talk for an infinite period. Doubtlessly, such declaration would in some degree severely block the moving of the TRADP. First, it changes the mutual relationship between North Korea and China. China used to be a close ally of the DPRK and even now, DPRK is still counting on its aids on grain and oil. In the meantime, China is also the host of the Six Sides Talk for the past six times. It has long vouched for North Korea’s unchanged determination of keeping a peaceful and



nuclear-free peninsula. It is generally believed that as North Korea imports more than one million tons of oil and two million tons of coal as well as nearly 70-80% of its goods and materials from China, China is so far the only country that maybe not yet to the degree of “commanding” North Korea, but at least has better influential power on its policy (China Gate, 2005). However, from the fact that the DPRK suddenly withdraws from the Six-Side Talk and places the hosting country China in an awkward situation, such statement may no longer be considered as the truth. Moreover, whether China will continue open its railways or roads for interflowing goods and materials to North Korea will be in doubt as well.

Besides, despite the intention of promoting investment by expanding the economic zone for the Tumen River Programme, the DPRK’s recent announcement about the nuclear weapons is highly likely to block the foreign investment. For instance, the US industries will not be able to invest the area according to the US law and due to the poor diplomatic relations. As for other states, most of the US allies may also take the same action to avoid political discord with the USA, and other economies will also keep their hands off in such an unstable region. In short, the DPRK is trading tons of economic interests for its so-called necessary security action.

*(2) The Instable of Foreign Capital:*

Parsonage (1992: 315) points out that “Growth Triangle represents the emergence of regional efforts to secure future investment by enhancing integration with regional sources of capital.” However, unlike South China Sub-regional Economic Zone (SC SREZ) or Singapore-Johor-Riau Growth Triangle (SJORI) with a strong and stable network of overseas Chinese as logistic support, the Tumen River Programme without ethnic mobilisation can neither articulate political and economic issues nor keep a stable flow of foreign direct investment. The examples that the project could not attract sufficient finance and that the US \$30 billion dollar master plan had been abandoned have both well described such a dilemma.

Another key problem is that Japan, being the wealthiest and the most capable state to finance the project, is not very supportive and keeps a low level of economic and political interdependence with the surrounding states. Being segmented from the inland by the Sea of Japan as well as carrying a very different political system and economic structure from the rest of the participants have naturally cut down its interaction with the others. It is fair enough to say that except UNDP, not a single enthusiastic and competent hegemony has yet been

recognised in the region to urge development of the project. In fact, many local authorities along the Sea of Japan coastline are keen to increase cooperation with neighbouring states in order to stimulate prefectural economics. Moreover, both local actors and non-state actors are hoping that enhanced cooperation can result in higher degree of interdependence and generate ‘people-to-people diplomacy’, transforming the Sea of Japan into a ‘sea of peace and friendship’ (Hughes, 2002: 138). Nevertheless, the central government’s imperturbation towards the Tumen River Programme has discouraged the private sectors to seek for further investment on the region and decelerated local government’s efforts to facilitate interdependent relations with Northeast Asia (Rozman, 1999).

Generally speaking, Japan’s prime economic interest are located in other regions rather than in Northeast Asia. From the table 2.5 below, it shows that Japan is the greatest investor in the Tumen River sub-region. However, that is only 4.5% of its direct investment in the world. Moreover, its investment in the sub-region is mostly in China while that in other states is fairly poor.

The reason why Japan does not show an enthusiastic attitude toward the programme is rooted in its poor relations with the neighbouring states. The

absence of a peace treaty with Russia leaves them “technically at war”. In addition, the long-lasting dispute over the Northern Isles issue has prevented it from proposing any serious economic cooperation with the Russian Far East. The Northern Isles issue is a historical problem. In the Russo-Japanese War during 1904-1905, Russia, being the defeated side, recognised four isles as Japan’s territory. It retook the sovereignty of the isles during the WWII. Although Russia has once signed a joint declaration that two of the isles should be returned to Japan after signing a peace treaty, due to the fact that the Northern Isles are with abundant energy and metal mineral resources as well as being strategically important, no agreement has ever been achieved on whether Russia shall return just two or four isles. Recently, as Russia is eager to win over Japan to invest the Far East area development, Vladimir Putin has made up his mind to determine the dispute and create a friendly atmosphere for large-scale economic cooperation in the future (Sina News, 2004a). However, Japan insists to negotiate with Russia for peace treaty issue following the Tokyo Declaration signed in 1993. The Prime Minister has again strongly emphasised the unchangeable policy on 16 November 2004 that Japan will not sign any peace treaty with Russia before the Northern Isles issue is fully solved (Sina News, 2004b). Hence, the dispute has made Japan’s investment on Russia related projects remain in the planning stage rather

than the executing level.

**Table 5.7 Northeast Asia Sub-regional FDI Matrix 1997 (US\$ million)**

	Japan	ROK	DPRK	PRC	Russia	Mongolia	Total sub-regional FDI	Share of country's/region's total world FDI	Total world FDI
Japan		442 [0.8] (14.3)	0 [0.0] (0.0)	1,987 [3.7] (4.4)	9 [0.01] (0.1)	0.85 [0.001] (0.3)	2,439	4.5	53,972
ROK	69 [2.3] (1.2)		n.a	627 [20.8] (1.4)	n.a	2.9 [0.1] (1.2)	699	23.2	3,010
DPRK	0	0		0	0	0	0	0.0	0
PRC	5 [1.5] (0.1)	23 [7.1] (0.7)	3.5 [1.1] (33.7)		0	18.2 [5.6] (7.2)	50	15.3	325
Russia	0	0	0	0		0	0	0.0	2,617
Mongolia	0	0	0	0	0		0	0.0	0
Total sub-regional FDI	74	465	4	2,614	9	21.95			
Share of investing country's/region's total world FDI	1.3	15.1	33.7	5.8	0.1	8.7			
Total world FDI	5,527	3,086	10	45,257	6,241	252			

Figures in [ ] are percentages of investing country/region's total world FDI

Figures in ( ) are percentages of receiving country/region's total world FDI

Source: Jetro Bôeki Hakusho 1999nenhan.

Besides, Japan is especially cautious of investing North Korea as it has experienced a calamitous failure in the 1970s and was defaulted on up to US\$900 loans (Hughes, 1999:134-7). In fact, the debate of the potential collapse of the North Korea regime over the past couple of years has directly lowered the investors' interests on the programme as one school argues that to engage the DPRK economically is only to prop up a dying regime and investment will be all in vain (CSIS, 1998). Nevertheless, another school holds a positive view saying

that engaging the DPRK economically can actually bring a new atmosphere in trade. As mentioned earlier, this school believes a continuous investment in North Korea will sustain the regime and open up the nation. In the end, all investors will benefit from the bilateral trade. However, Japan is not fully convinced by the latter statement as the lack of normalised relations with North Korea has alarmed their corporations that they have to take all kinds of risk and cannot count upon governmental support to run business in the area. Most “Japanese” firms have therefore made their stand clearly to remain a constant but small-scale investment in North Korea until political constrains are gone. So far, the only long-standing economic ties between the DPRK and Japan are the pro-Pyongyang Korean residents of Japan, who have coordinated the remittance of funds to North Korea as well as trade and investment. Hence, the best chance for the DPRK to attract capital from Japan is to enhance self-competitiveness by carrying out a successful sub-regional cooperation.

A positive result of the Tumen River Programme may be that the participators are more likely to develop equitable relations with every member to maintain a “real triangle” under such a situation and no one would regard itself being “played off” to against other participators. Nevertheless, a negative example

is that in SIJORI, as the bilateral cooperation between Johor-Singapore and Singapor-Riau are intensive while the interaction between Johor and Riau is extremely poor. A suspicion was consequently raised that Singapore is taking Riau as a bargain with Johor, ensuring its economic security and the alternative supply of water and energy (Parsonage, 1992:314). It may undermine the development of growth triangle when mutual trust is levelled down.

*(3) The Incapability between the Central and the Local Governments*

As one of the characteristics of sub-regional cooperation is that the central government granting certain degree of the power to the local government, a concern is that it may affect the territorial integrity as well as reverse the core-periphery relations of a state. Such a contradiction is seen in Johor taking part in the Singapore-Johor-Riau Growth Triangle (SIJORI). Johor is famous for its successful and independent state government and State Economic Development Corporation. Being the birthplace of United Malays National Organisation that dominates Malaysian politics, it is also a prominent force. However, with deeper and wider cooperation of SIJORI, a discernible concern has arouse, questioning that Johor is getting increasingly oriented to Singapore rather than the federal government in Kuala Lumpur. The Malaysia's political economy may therefore

shift southwards as a consequence.

As for the Russian Federation government, it also concerns that the Tumen River Programme would somehow encourage political separatism. Such a fear of the Far East being pulled away from Moscow's control has impeded the progress of the programme and limited the economic freedom of local provinces, preventing rich resources captured for foreign powers (Kerr. 1996:946). An exemplificative action is that the government rescinded Nakhodsk free economic zone's tax privileges in 1993 Duma's decision. Besides, it continually delayed the ratification of a Russian-ROK agreement in 1999 to create an industrial complex in the Nakhodka FEZ (Tumen River Area Development Programme 2000).

Compared to most participators, China has put more efforts to support the Tumen River Area Development Programme. However, having a similar political concern like Russia's, the Chinese government is equally not comfortable to distribute too much autonomy to the frontier with various ethnic minorities settled. Cotton (1996) and also other scholars agreed that the major reason for China to support the programme is to reduce its dependence on Russian ports, getting access to the Sea of Japan, rather than to promote mutual interdependence with



states involved in the project. Thus, no matter how much efforts China has contributed to construct the Hunchun Border Economic Cooperation Zone as the most successful Free Economic Zone (FEZ) along the Tumen River, the central government has clearly made the national priorities that no other economic development project is greater than those of South China, Shanghai and the Three Gorges project. Such a commitment at some degree explains the reason why South China Growth Triangle is smoother and far-reached compared with other sub-regional cooperation in the nation.

North Korea has been the most active advocator of the Tumen River Programme but it also encounters the dilemma of keeping an equitable relation between the central and the local governments. As a totalitarian regime itself, the DPRK works as hard as either Russia or China to ensure Pyongyang holds absolute political and economic control over the nation. North Korea takes a cagey policy for sub-regional economic engagement and interdependence with neighbouring states, especially with its racial rival South Korea. Many restrictions were applied to limit the ROK's involvement in the region and not until recently, does the DPRK reluctantly put aside the confrontation and accept the ROK's large-scale of Foreign Direct Investment (FDI). However, Hughes (2002: 137)

indicated that South Korea's greatest political and business interests lie not really in the Rajin-Sonbong Free Economic and Trade Zone as proposed in accordance to the Tumen River Programme, but rather outside the zone. Hence, North Korea can only take Rajin-Sonbong Free Economic Trade Zone (FETZ) as a niche to attract the ROK's capital to invest on the outer area, for example, carrying on Hyundai's plan for an industrial complex at Haeju close to the demilitarized Zone (DMZ). Thus, free economic interchange in Rajin-Sonbong FETZ is confined in order to make sure Pyongyang's status of being the centre of capital and economic power is not challenged by any other areas. All the aforementioned factors have resulted in the laggard progress of the Tumen River Programme.

*(4) Geopolitics vs. Geoeconomics?*

It is generally agreed that the territorial approximation and the economic complementarity are the dominant factors for successful sub-regional cooperation. The Tumen River Delta is believed to be the area most strongly affected by the geopolitics compared to the rest of the world. Since more than a hundred years ago, the region has been one of the places on the earth that are full of prominent political contradictories, not to mention being the battlefield during the Cold War. However, ever since the beginning of the 20<sup>th</sup> century, the international relations in

the region has moved from confrontation to cooperation in which geoeconomics is claimed to be the leading force in the transformation. Some scholars like Chen (2002) furthermore affirmed that the main reason for Tumen River area sub-regional cooperation, a special kind of economic zone, is because of the development of geopolitics and geoeconomics. However, how much related they are to each other or to what degree they have affected the project are still in doubt. As mentioned earlier, the major economies of the programme differ in political system, ideology, economic management, cultural background and also other interest concerns. Enhanced contact and communication can increase mutual trust for seeking regional benefit but advocating the importance of geopolitics and geoeconomics may not necessarily be the key to facilitate the Tumen River Programme.

Take Russia for an instance. Ever since Vladimir Putin has inaugurated as president, the diplomatic strategy of the country is to revive its super power status. On one hand, it inherits the “dicephalous-eagle strategy” from the Czar, keeping eyes on both Europe and Asia. On the other hand, it intensifies centralisation, rectifies national order, as well as restores economic development. However, as a super power crossing Eurasia, Russia’s political and economic focus is on Europe

rather than on Asia. It cares more about the connection with Europeans and Americans on the matters of the expansion of the EU, the eastward moving of the NATO, problems on Caucasus and the Middle East and so on (Chen, 2001). All those matters have taken lots of energy of Russia that it can hardly put any more efforts in developing its east territory. Thus, its geopolitical connection with China, for example, is limited to activities such as stabilising the border or low level of political cooperation, which in some degree fits China's interests completely. The geo-economical linkage with China is also confined to energy, raw materials, light industrial products and some military technology cooperation as Russia is more concerned with developing economics and trading relations with advanced countries like the USA, Europe, Japan and South Korea.

As for North Korea, it may not necessarily a free rider of the Tumen River Programme. Nevertheless, its efforts to support the project are definitely in lower scale compared to the other two major participators. Realising that North Korea is trapped with its poor finance, China and South Korea will probably put more efforts in any possible means to help it get more devoted into the programme for potential profit-earning. It is generally believed that the stable Korea Peninsula lies in the stable regimes on it. Roh Moo-Hyun, the president of the ROK has stated in

Warsaw in December 2004 that neither the ROK nor the PRC are willing to see the DPRK collapses as millions of people would travel across the Yalu River and raise the difficulties of management for China (BCC, 2004). The ROK may encounter with the similar political dilemma too. Therefore, China has provided lots of help to prevent such possibility. South Korea may not have as much interaction with North Korea as China does due to the political confrontation but is still willing to offer any possible help. Thus, the best result is that North Korea can divert the interests from the growth triangle to wider area and furthermore, to sustain both national development and the regime for the stability in the Northeast Asia.

Although there is a school arguing that the collapse of the DPRK is inevitable, and North Korea's economic performance is not significant in the world markets that the trade with North Korea is less than one percent of the bilateral trade of each of its major trading partners, the international society does believe that its existence is essential for the regional security and the stability. Both China and South Korea are especially aware of the necessity that North Korea remains as an active regime in the area and they have practiced certain policy to sustain the DPRK. The former country has been the DPRK's biggest trading partner ever since the 1990s (see Table 5.8). As having a large ethnic Korean population on its

border, China cannot be more sensitive to the threat of instability in the region. In order to keep this economic “buffer state” alive, China on one hand grants North Korea with large number of grain and oil at concessionary prices; on the other hand, it helps North Korea to be part of the regional arena. South Korea is another country who strongly supports maintaining the status quo of the peninsula after recognising its incapability to handle unification at the moment or to take over large amount of North Korean refugees (Seoul Yonhap, 1998). In other words, a stable and developed regime in the North would be in the best of its interests. “Peaceful coexistence” was therefore brought up to the pave the way for promoting inter-Korean economic relations. Moreover, since no matter which way unification will occur, either from the bottom up or top down, mutual exchange and confidence are essential in the process. Hence, South Korea is willing to push forward the involvement of both itself and North Korea in the Tumen River Programme as such cooperation serves as a good medium for building up mutual trust and understanding, which are believed to be the key to unification. Other policies that President Kim Dae-chung has announced in his inauguration included the deterrence of armed aggression, exclusion of unification by absorption, and realisation of reconciliation and cooperation (CSIS, 1998). What is worth noting is that Kim Dae-chung’s “sunshine” policy is to not only relay friendly message to

North Korea but also serve as a means to constrain China's economic influence on the peninsula. South Korea aims to prevent the possibility that North Korea may highly increase its power by being a close ally to China. South Korea also shows the same tendency in the matter of Japan investing in North Korea. It is possible that South Korea expects an on-going sub-regional cooperation rather than a fully successful one as it is unwilling to have Japan involved in the programme or the peninsula affairs deeply. In other words, South Korea insists on the principle, "inter-Korean relations first and normalisation of North Korea-USA-Japan ties later" (CSIS, 1998:9).

**Table 5.8: North Korean Trade: 1990-1997 (in millions of U.S.\$)** <sup>12</sup>

	1990	1991	1992	1993	1994	1995	1996	1997
<b>PRC-DPRK</b>	483	611	696	919	623	550	566	656
<b>Japan-DPRK</b>	476	508	480	472	494	595	518	483
<b>ROK-DPRK</b>	13	111	173	187	195	287	252	308
<b>Russia-DPRK</b>	2,716	385	292	228	140	83	65	N/A
<b>Total</b>	4,733	2,831	2,833	2,827	2,305	2,347	2,232	N/A

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<sup>12</sup> There is only limited economic data of North Korea that is available. From 1997 and onwards, the trade volume between Russia and North Korean is not available. Therefore, Table 5.7 choose the time period between 1990-1997 which is with more significancy.

Source: CSIS, 1998:4.

In short, the sub-region is much underdeveloped. Most of the member states are still in an autarkic state that they may not be capable enough to launch massive cooperation with contiguous countries. The focus would be much more on improving their living standard and solving interior matters.

*(5) Environmental Matters:*

As one of the main objectives of the Tumen River Programme is to exploit its rich natural resources, a number of environmental concerns have emerged with the progress of the programme. The area has large fragile wetlands, which is a crucial habitat for birds and wildlife. Once the area is opened up and stationed by industries, the expeditious deforestation and degradation of the world largest remaining forests would endanger the unique ecosystems and bring rare species of wildlife to extinction. Lavalley (1996) gives an example that there are only 30 wild Far Easter Leopards left in the world and their habitat is only 150 kilometres away from the Tumen River Delta in Russia. The distance is so close that there is seemingly impossible to carry out the projects without disturbing the living environment of these precious animals. Developing Tumen River area would



seriously crush the ecological environment and these scarce leopards will have nowhere to go. In other words, habitat loss is inevitable.

In this area, the most likely products for trading are raw materials including oil, natural gas, coal, minerals, timber and so on. Such fact has put the project into a dilemma. On one hand, it is necessary to exploit these raw materials that bring great impacts on the products. On the other hand, as these resources are non-renewable, over-extraction would break natural balance of the environment and may result in earthly disaster in the future.

Being the advocator of the programme, the UNDP has never denied the potential environmental crises as a result of the sub-regional development. However, disregarding the fact that member states have hoped for its role to oversee environmental protection, the UNDP confines its role as a coordinator dealing with intergovernmental relations, joint economic development and international agreements, for examples. It claims that the local governments are the ones responsible to institute regulation for environmental protection and monitor the results.

Although the UNDP have gone through a series of assessments, they remain to be academic studies and could hardly tell exactly how badly the environment would be affected as the programme goes on. As the damage of the environment will be irreversible, scholars argue that these natural treasures should not be traded for any commercial interests.

### **Analysis of the Data**

Has Tumen River Area Development Programme failed its mission totally? Gombo (2002), the UNDP Tumen secretariat, had admitted that the programme does not function as well as it was expected to open up Northeast Asia for creating a common market and integrated economic sphere. However, the fundamental function of the programme, which is guiding principles for promoting regional development in a larger, region-wide integration process, is generally practiced. In other words, despite that no official treaty has been signed among Northeast Asian states for formal cooperation or future integration, the flexibility of sub-regional cooperation has still encouraged the involved states to devote themselves more seriously to the regional economic activities.

The Tumen River Programme is especially beneficial for the three major participators. In 1996, North Korea had 48.1% of its export in the Tumen River micro-region, while Northeast China had 46.9% and the Russian Far East had over 40% of their export in this micro-region (see Table 5.9). Meanwhile, these three countries also shared most of the micro-regional imports. Since these major states are comparatively under-developed, their imports are mostly from South Korea and Japan. Even North Korea, whose official relationship with South Korea has been cut off for many years, keeps active import from South Korea in the Tumen River area. As for the trade relations between other three participators in the programme, Japan remains as the main export destination for Mongolia and South Korea in the programme.

**Table 5.9: TRADP Micro-regional and Sub-regional Trade Matrix 1996 (US\$ million)**

Importing country	Japan	ROK	DPRK	PRC	Northeast PRC	Russia	Russian Far East	Mongolia	Total micro-regional exports	Share of micro-regional exports (%)	Total sub-regional exports	Share of sub-regional exports (%)	Total world exports
Japan		31,396 [7.0] (20.9)	226 [0.1] (11.7)	29,190 [6.5] (21.0)	1,438 [0.3] (24.2)	968 [0.2] (1.5)	160 [0.04] (7.9)	66 [0.01] (15.0)	33,286	7.4	61,846	13.8	447,961
ROK	15,980 [13.8] (4.6)		70 [0.06] (3.6)	12,484 [10.8] (9.0)	516 [0.4] (8.7)	472 [0.4] (0.8)	307 [0.3] (15.1)	18 [0.02] (4.1)	16,891	14.6	29,024	25.0	115,975
DPRK	291 [26.3] (0.08)	182 [16.4] (0.1)		69 [6.2] (0.05)	59 [5.3] (1.0)	347 [31.3] (0.6)	n.a.	n.a.	532	48.1	889	80.3	1,107
PRC	40,405 [15.9] (11.6)	8,533 [3.3] (5.7)	497 [0.2] (25.7)			996 [0.4] (1.6)	219 [0.1] (10.8)	80 [0.03] (18.2)	n.a.	n.a.	50,511	19.8	254,773
Northeast PRC	4,027 [34.6] (1.2)	1,133 [9.7] (0.8)	300 [2.6] (15.5)			808 [6.9] (1.3)	n.a.	2 [0.02] (0.5)	5,462	46.9	n.a.	n.a.	11,655
Russia	3,922 [4.6] (1.1)	1,807 [2.1] (1.2)	525 [0.6] (27.2)	5,150 [6.0] (3.7)	814 [1.0] (13.7)			211 [0.2] (48.1)	n.a.	n.a.	11,615	13.6	85,294
Russian Far East	1,037 [31.0] (0.3)	329 [9.8] (0.2)	n.a.	707 [21.1] (0.5)	n.a.			n.a.	1,366	40.8	n.a.	n.a.	3,345
Mongolia	89 [21.4] (0.03)	2 [0.5] (0.001)	0	126 [30.4] (0.09)	2 [0.5] (0.03)	84 [20.2] (0.1)	n.a.		93	22.4	301	72.5	415
Total micro-regional imports:	21,424	33,042	526.08	n.a.	2,015	n.a.	467	86					
Share of micro-regional imports (%)	6.1	22.0	27.2	n.a.	33.9	n.a.	23.0	19.6					
Total sub-regional imports:	60,687	41,920	1,318	47,019	n.a.	2,867	n.a.	375					
Share of sub-regional imports (%)	17.4	27.9	68.3	33.8	n.a.	4.6	n.a.	85.4					
Total world imports:	349,508	150,370	1,931	138,949	5,949	62,678	2,031	439					

Figures in [ ] are percentages of exporting country/region's total world exports

Figures in ( ) are percentages of importing country/region's total world imports

Source: KanNihonkai Keizai Kenkyujo, p. 6.

Japan was the greatest trade partner for almost every state participating in the programme except for North Korea. It shows that Japan's involvement would be a prominent factor affecting the progress of the Tumen River Programme. In other words, if the programme requires a powerful actor to be the head, with the role of balancing economic activities, Japan would be more capable than any other states in the region. As for the only exception that Japan was not its number one import state, Northeast China was an important trade partner for North Korea equally in terms of export and import. This is believed to be one of the reasons why China is

highly expected and very likely to push North Korea back to the negotiating table for its nuclear weapon matter. Thus, such transnational engagement in mutually beneficial economic cooperation could be the niche to create a legal and institutional framework to promote the political commitment either for broader cooperation or for the regional integration.

Tumen River Area Development may not have resulted in significant regional integration, but under UNDP's great effort, the historically belligerent neighbours have at least joined the multilateral talks for consultations, and member states have also showed more interests to operate in the projects. A prominent indication is that in October 1995, China arranged a Tumen River Area International Investment and Trade Conference at Yan-Ji City, the capital of Yanbian State. It is the most important business event in the Tumen River area international economic cooperation and multinational development in recent years. The conference has successfully drawn in lots of foreign businesses and the achievements have greatly transcended the initial goals. Yuan, Wang and Huang assessed the conference to be the best one among all other similar business-recruiting conferences the United Nations Industrial Development Organisation (UNIDO) has ever held in China. And from then on, the Tumen

River Programme has moved from academic research and demonstrative phase to practically extensive implementation (Yuan, Wang and Huang, 1996:6-9).

Some participators have also improved their relationships with other states after taking part in the programme. Take Mongolia for an instance, it is sometimes seen as an “orphan” in both regional and global system. However, the Tumen River Programme has opened up the opportunity for Mongolia to lift itself up in regional affairs. Being included in the programme, Mongolia is able to interact with those who are not even contiguous to its border like Japan, North Korea and South Korea. In a sense, Mongolia has made itself more visible to others. Moreover, it has attracted investors’ attention that the FDI in the area has grown impressively year by year in the Table 5.10 below. As we have explained earlier in this chapter, TRADP does not have much progress after the early 2000s. Therefore, the period of time that Table 5.10 includes is from 1985 to 2001.

**Table 5.10: FDI Attracted to the Tumen River Area**

	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 Secretariat, 2005.

The similar effect can be seen on North Korea as well. North Korea has long locked itself up and cut off the relationship with other countries. The programme has in some degree reinforced its relations with the contiguous states. Take its recent matter of possessing nuclear weapons for example. North Korea's threat to East Asia or even across the Pacific Ocean, to United States, has never eased with time. It had refused to give up its ambition of possessing nuclear weapons or go back to the negotiating table in the first place. However, the trade interdependency with others in Tumen River area has made its diplomatic decision negotiable that it has gradually softened the attitude after being pressed by China and Japan.

Take South Korea for another example. It keeps positive relationships with other actors involved in the programme. Recently, national hatred to Japan over the territory conflict was evident in South Korea. However, it continuously participates in Tumen River Area Development Programme. It seems like sub-regional cooperation can be separated from national-level confrontation. The similar tendency can also be seen at the Northern Isles territory dispute between Japan and Russia. In addition, South Korea used to have extremely limited interaction with North Korea. Nevertheless, the Tumen River Programme has

opened up an opportunity for them to put aside their political conflict and make contact with each other. Through participating in the programme, it has had the possibility to cooperate with North Korea. The government values the power of micro-regionalisation and hoping such a market-led force could help both sides to work on further cooperation and pave the way for integration. Thus, South Korea has decided to loosen regulations for non-governmental communication, granting its people more freedom to go into trade, cultural exchange and academic activities with the other side (BCC News, 04 May 2005). It is the first time that the Congress has defined trading with North Korea is a form of domestic exchange of goods. The decision is made to pave the way for free trade arrangements and South Korea is expected to build up a friendly atmosphere for future integration.

Is Tumen River Area Development Programme a failed sub-regional cooperation? The programme may have not achieved every single goal in the expected time frame, it does succeed in completing some of its missions. According to the UNDP on-line archive, twenty-one projects have been completed during 1998-2001, including the study for border impediments, transport, investment and tourism development, environmental impact assessment,



economic maps, market analysis, etc<sup>13</sup>. About US\$675,000 dollar was spent to establish the investment service networks for Tumen River area in order to improve the investment environment and attract both national and foreign capital. Besides, the Global Environmental Fund has offered Tumen River Strategic Action Programme (TumenNET) US\$ 4.68 million dollar with the goal to diminish the loss of living creatures and the pollution on international water field. Such action was to execute the MOU signed in 1995. Furthermore, the United Nations Department of Economic and Social Affairs (UNDESA) has provided 150 thousand dollars for two sophisticated SPPD Tumen River Maps. And another 130 thousand dollars was offered by the UNDP for a 7-month-long study on Tumen River Tourism. The World Tourism Organisation carried out the project and the focus was to promote the area and ensure the easy access for international tourists. As for controlling transmissible disease, the participators of the Tumen River programme have engaged in controlling SARS in the Tumen River area in 2003. During the time, Russia has provided medicine to China's border adjoining to the Russian Far East. Experts from two countries have also engaged in a series of talk and cooperation for prophylaxis (TCDC/ECDE, 2005). In short, the Tumen River

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<sup>13</sup> 1998-2001 completed tasks are listed by UNDP Please refer to 2002 Project Profiles for the Tumen River Area Development Programme at [http://www.ecdc.net.cn/newindex/english/page/tumen/2002\\_tumen\\_project/003.htm](http://www.ecdc.net.cn/newindex/english/page/tumen/2002_tumen_project/003.htm) for further details.

programme is a long-term programme and, despite the frustration, is making some substantial progress at the moment.

### **The Clash between Micro-regionalism and Micro-regionalisation**

Hughes (2000:18) claims that Tumen River Programme can be seen as the result of renaissance in regionalism in Northeast Asia. It seems like the programme is implemented with official enthusiasm. However, it is not only regionalism at work in the programme. More precisely, I believe Tumen River Area is a microcosm where micro-regionalism and micro-regionalisation do not match with each other very well. It is the clash between the two forces that has led to the slow progress of the programme in terms of integrating Northeast Asia as a whole.

The programme was proposed to facilitate regional integration by focusing on characters of territorial contiguities and economic complementarities of the surrounding states. Somehow, an opposite force existed at the same time that territorial disputes and political confrontation of the major states were intensified with the proceeding of the project. Such conflict has resulted in the fact that the Tumen River Programme in the end has become a microcosm of rivalries rather than cooperation. Hence, Hughes (2002) believed that the mismatch of

regionalisation and regionalism should be responsible for the slow progress of the programme. Rozman (1998) holds a similar view by stating that the progress of the Tumen River Programme was undermined primarily by “flawed” regionalism.

Generally speaking, regionalisation would be the first step of the region-building process. Interdependence among the contiguous states, especially on the economic affairs, has naturally come to exist with the private sectors playing as the major forces for the cooperation. Various economic actors and several political and security actors have worked unconsciously to enhance the regional integration. Such economic regionalisation works in the same way on the sub-regional- or micro-scales that trade and investment flow across the territorial boundaries for the latent “natural economic territories” in order to exploit the complementarities (Scalapino 1991-92: 19-30; Jordan and Khanna 1995: 433-62).

Usually, regionalism, subsequent to regionalisation, is the second step to work in the service of region-building. Unlike the nature of regionalisation, a conscious attempt is handed down by the central, local governments or even by non-state actors like international organisations to carry out the principles and projects for regional integration. Official conventions, regimes or institutions

would usually be made to foster the cooperation for region-building. Alternatively, governments would simply approve the existent regionalisation. The minimal efforts would be made to create frameworks which allow freer operation for the regionalisation forces and, at the very least; an implicit political commitment would be given for the implementation of regionalisation projects.

It works in the same way in the Tumen River case. The rich economic complementarities of the surrounding states have raised the concern for enhanced economic cooperation and private-led micro-regionalisation for a long time. However, the fact that governments and the international organisation uphold micro-regionalism and intervene the cooperation projects has in some degree eliminated the potential successful operation of regionalisation processes. It is especially difficult for sub-regional cooperation to proceed when micro-regionalisation is not strong enough to cope with the reverse function micro-regionalism has brought in the Tumen River Area.

The mismatch of micro-regionalisation and micro-regionalism can be seen in the following example. A very unique phenomenon in the Tumen River area is that the importers and exporters are very unequal. Member states can be roughly

divided into two groups with Russia, North Korea and Mongolia acting as main exporters while Japan, South Korea and China as main importers. As for the former three economies, they have very limited resources to import either materials or products from other countries. Especially for North Korea and Mongolia, their GNP is far too low as compared to the rest of member states. Possessing insufficient hard currency has made them unlikely to purchase and import very much goods from other countries. Hence, they tend to export huge number of goods in order to exchange for hard currency, and raw materials are what they have the most in hand. Such intention perfectly meets Japan, South Korea and China's need and save them from the raw materials shortage. With the catalysis of micro-regionalisation, the trading relationship between these two groups of countries has therefore been formed.

Originally, the beneficial interaction took shape naturally without outer intervention, and the economic concern is growing tight day by day. However, the greater interests it brings, the firmer the authorities decide to engage in. The involved members have then taken these mutually beneficial economic activities as the bargain counter to cultivate other territories or enlarge their interests on other aspects. From the earlier sections of this chapter, a point was raised that that

except for North Korea and Mongolia, trade in Tumen area is not the major interest for any other member states. Besides, it still takes many years for the area to be well-developed for attracting large foreign direct investment. The fact that the Tumen River Programme could not raise sufficient funds to operate the programme implies two scenarios: first, private sectors are not very keen to invest the area. Second, governments are more interested in enjoying the fruit rather than supporting the programme financially. In other words, when official intervention has continuously rubbed in to protect self-interests in the region and micro-regionalisation is not yet strong enough for the member states to give in their sovereignty, sub-regional cooperation is inevitably postponed or largely slowed down.

For the time being, micro-regionalism has overridden micro-regionalisation. As the two wheels of micro-regionalism and micro-regionalisation can not move forward in coordination with each other, the defects of micro-regionalism have overwhelmed the programme that not only a common political commitment can not be achieved to share the economic interests, other national-level conflicts or nonnegotiable disputes on history, culture and security issues have greatly impeded the process of projects as well as the involvement of the economies. The

consequence of both micro-regionalisation and micro-regionalism interacting in the programme is that such sub-regional cooperation is moving laggardly than ever expected.

### **Summary and Suggestion**

The flexibility of sub-regional cooperation is regarded as the most feasible way to outwit political rivalries and promote integration in East Asia. It was expected that by growing interdependence among the states, either through unconscious force or official attempt, the region-building will start to take shape. However, Tumen River Area Development Programme has not yet become a strong support for the regional integration. The final part of this chapter is to conclude and outline the reasons why the programme has failed its mission. Suggestions will be given in the end for possible improvement on the progress of East Asian integration.

This Chapter is the second case study in this research. The sub-regional cooperation in the Tumen River Area was launched to develop Northeast Asia. The process is expected to start from bilateral to multilateral cooperation and from simple to profound integration. Through exploiting complementarities, participators are expected to gradually even the divergence in terms of economic development. Moreover, the increased interdependency could serve as the basis

for seeking regional integration. However, the Tumen River Programme is very behind in achieving these goals and it is sometimes regarded as a failed case of sub-regional cooperation. The laggard progress can be attributed to two main reasons: First, the over-proliferation of varying regionalist conceptions about the type and extent of region-building exists that strongly dictates the project. Second, the mismatched economic and political interests of multifarious central and local states and other actors involved. Although the UN claimed the effects of increased sub-regional cooperation in the Tumen River Area are especially significant in terms of political and psychological confidence-building, Hughes (2000: 7) pointed out that “TRADP as a potential micro-region has fallen victim to becoming a microcosm of the political rivalries in the region”. In other words, political discordance is the greatest impediment for the regional integration.

Doubtlessly, the programme is associated with a number of problems. One of the unique reasons why it is very difficult to progress in comparison with the other two sub-regional cooperation cases, SC SREZ is that the TRADP is too trivial to attract investors’ attention. The initial coverage area is not only too small in size, but also in the remote and underdevelopment status that it can hardly be influential in terms of manipulating international political or economical matters. Besides,



each border state of the programme has been struggling with the decision to give up a piece of the land for the development of the area. The trans-boundary issue, highly related to sovereignty, is always an impediment to transnational cooperation. Lavalle (1996:7) said that the historical legacy of each country in Northeast Asia “creates a surface of suspicion and a tendency to be very protective of boundaries” while trying to capture the natural wealth in the area. Hence, it requires greater political commitment and extra efforts in policy coordination, or the extent of the Tumen River Programme would be limited to cooperation in just tourism, industrial processing zones and other projects that have less to do with sacrificing sovereignty.

The official support of the central governments rather than just that of the local governments is especially required for the Tumen River Programme in comparison with other sub-regional cooperation projects because certain actions, such as Russia and North Korea granting the sailing permission to China or South Korea allowing capital flows to North Korea for examples, are actually contradictory to their single interests and national policies. With the widening and the elaboration of TRADP, it is very likely that more obstacles concerning compromising sovereignty will occur in the future. Thus, how much progress the

programme could make relies heavily on to what degree the involved economies are willing to make sacrifices for the programme. The concessions may include, for example, legislating laws for favourable cooperation conditions, or changing national policies to accommodate conflicting interests. Deregulation is highly emphasised in sub-regional cooperation as removing the barriers for economic cooperation is regarded as an essential term for building up positive relationships with other member states. Scholars like Taylor (CSIS, 1998: 14) has further brought up the neighbouring countries in North America as an example to demonstrate that economic cooperation is the way to strengthen the relations for regional stability.

It seems that many political obstacles stand in the way for Northeast Asia integration; yet, advocates of the Tumen River Programme have not given up the hope to achieve regional integration through implementing sub-regional cooperation in the Tumen River area. Since the market in Northeast Asia, with a population of approximately 300 million, creates a collective GNP of over US \$3 trillion dollars, counting as nearly 1/4 of the world trade, it is always worth trying to amend the programme instead of abandoning the project totally (The World Bank, 2000). Several possible solutions to improve the programme have been

discussed for many years, and fund raising is believed to be the most urgent task to be achieved. As the Tumen River programme is a large-scale international cooperation that requires US \$ 1,000 billion in 30 years, China, Russia and North Korea are not able to afford such great amount of money themselves. Moreover, not a single corporation or financial institute would be willing to risk putting in funds alone. Thus, private sectors are essential in terms of providing funds. However, due to the relatively unopened nature of this area, data are kept hidden for political sensitivities in the main actors, especially North Korea, of the programme. Since it is hard to access the information for rating investment risk, while at the same time, UNDP's academic assessment could be way too far from the real practice, investors may not be keen to step in without reservation. Thus, reinforcing micro-regionalisation in the area becomes an urgent task.

Ding (1994) pointed out that most of the efforts should be made to open all avenues for capital. The major three countries of the programme should start granting favourite loans to attract investment since the direct allotment from governments for the projects has been gradually decreasing especially after China and Russia have adopted economic reformation for the market economic system. So far, North Korea is esteemed to have the most funds allotted from the central

government as it is the only one still carrying out central planned economic system in Northeast Asia. As to China and Russia, since the commercial banks have come to exist after the reformation, commercial loans from banks as a form of investment in the sub-region should be advocated. Besides, the investment from enterprises is also remarkable for concreting the capital. It is agreed by most that the greatest work the UNDP has achieved so far is the establishment of Tumen Investment Corporation. However, it is almost impossible for the corporation to cover all expenditure for constructing infrastructures. Thus, funds from various private enterprises would be helpful in overcoming the deficiency and sharing the financial burden. Nevertheless, can reinforcing micro-regionalisation be possible while political conflicts remain unsolved in the Tumen River Area? It would be useful to compare the Tumen River Programme with another case, the Southern SC SREZ. The similarity of these two cases is that they are both located in a politically tensioned region. In SC SREZ, China is keen to break the cross-strait status quo by passing anti-session law against Taiwan (BBC News, 2005). Yet, the direct confrontation does not stop capital flowing to the zone. From the case, it shows that political conflict may be an obstruction for sub-regional cooperation, but it does not necessarily cut off micro-regionalisation in the region. As for the Tumen River area, the direct confrontation is the split of the Korean Peninsula.

However, the degree of confrontation is much lower as both North and South Korea have recognised their incapability to deal with the unification at the moment and have wished to leave the matter solved in the long-term future. Therefore, it is theoretically easier to stir up stronger micro-regionalisation that, in the end, may become a positive force for the national unification and create a win-win situation for the contiguous states.

Other methods to materialize the capital for the programme include obtaining loans from foreign commercial banks or syndicates, attracting funds from both non-bank system financial institutions or the direct investment from super economies, or make stocks go public. As mentioned earlier, the Tumen River Programme is such a large-scale programme that the investment risk is beyond the endurance of any individual investor. Even Japan, the economic leading power in Northeast Asia, would not dare to finance the programme alone. Some scholars have therefore commented that the absence of Japan playing as a balancer and infusing stable capital in the regional economic affairs, as similar to the USA's role in keeping the Northeast Asian security, is the key why the Tumen River programme can never attract sufficient funds for smooth development.

What other methods could succeed in elevating micro-regionalisation in the Tumen River Area? What type of international fund concentration could disperse the great investment risk? BOT has once been proposed as a fast way to collect money for building up infrastructure<sup>14</sup>. This kind of fund concentrating mode was first introduced to the world in the mid-80s. During the time, global markets were under the shadow of the international debt crises. In order to cope with the economic depression, financial departments had set their priorities to study how to decrease the risk of the investment on one hand, and to increase the revenue on the other hand. BOT, with ownership and operating right separated temporally, was then brought up as a solution. In the framework of chartered agreements, the local government can neither own the direct control of the construction for a certain period of time, nor earn money by running the facilities. The only profit it gets before the chartered time is due is merely indirect economic and social benefit. Scholars like Ju (Ju, 2003:18-19) pointed out that the characteristics and the operating mode of BOT are very much suitable for large-scale infrastructure building such as harbour facilities, energy powering, or railway system. After all, those temporary disadvantages are acceptable as BOT with governmental support will bring greater advantages attracting international funds and advanced

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<sup>14</sup> BOT is the initials of Built, Operate and Transfer (Ju, 2003:18).

technologies.

As for the Tumen River Programme, BOT, especially with transnational corporations involved, could be an alternative to raise funds. It has a lot to do with the nature of transnational corporations as they agglomerate producing, trading, investing, financing, technology developing, skill transferring as well as other services on their own (Cheng and Gao, 1996:11). Usually these corporations are with abundant capital, advanced technologies and vast markets. As they are willing and more capable to engage in massive investment and focus more on long-term interests rather than on short-term ones, they do not withdraw capital easily and tend to re-invest the revenue for expanding the production scale. Thus, as long as the government holds consistent policies and clear regulations, BOT with transnational corporations is not only ideal in keeping the steady investment, establishing economic scales quickly, producing high-value goods and enhancing regional business management, it also meets the Tumen River programme's aim of upgrading its sub-regional competitiveness in the international markets

Besides BOT, seeking support from the international or regional banks could be another feasible solution to fund-raising. The potential candidates include the

World Bank (WB), Asia Development Bank (ADB) or the European Bank for Reconstruction and Development (EBRD). The ADB would be more relevant to the Tumen River Programme as it was once invited to join PMC as an observer. Although it is not a full partner in the programme so far and North Korea and Russia are not yet members of it, most scholars have agreed that the participation of ADB can not only alleviate the pressure of fund-raising but also eliminate bilateral suspicions which hinder the project (Hughes, 2000; Yu, Cai, and Lu, 1999; and Wang and Ren, 2004). In short, Tumen River Programme is very much encouraged to massively utilise loans from Asian or European countries as plural finance sources are safeguard to being severely affected by fluctuation of the international finance market.

In addition to the weak micro-regionalisation in the Tumen River area, another obstacle that stumbles the progress of the Tumen River Programme is the absence of an explicit and harmonised goal from the involved economies. This has a lot to do with the fact that member states are heavily relying on the coordinating role of the UNDP. However, the UNDP is not as active as it initially was in the programme. A sensible suspicion as to why the UNDP has withdrawn from the programme is that, in some degree, it aimed to prevent the possibility that a fully



successful sub-regional cooperation will bolster the regimes in the area, especially those of the PRC and the DPRK, who are notorious for not practicing human-rights and other democratic elements. When the UNDP is no longer a strong coordinator for the members, it would be then necessary to match each member's knowledge, policies, as well as the position toward the programme. Since the discrepancy in regulations is the main impediment of the cross-border movement of people and goods in the sub-region, it is generally agreed that the local governments should make legislative arrangement on common concerns such as customs procedures, working hours, and technical standards to support the programme's activities.

Scholars have also pointed out that as China and Russia, the two major participators of the Tumen River Programme, are growing to be economic powers in the region, an officially signed agreement between these two countries will not only promote the free trade development in the Tumen River Area, but also trigger a series of a chain reaction and positive response among the relative states. Zhao (2002: 43) gave an example that after USA and Canada signed a free trade agreement in 1989, Mexico was aware of the risk being excluded from the free trade zone. Thus, it had no choice but to actively contact with USA and Canada in

order to control the potential loss brought by the agreement. A win-win consequence was reached in 1993 when USA, Canada and Mexico signed a free trade agreement and then a regional economic bloc began to take shape. Such treaty on one hand allows the three economies to enjoy greater economic profits; on the other hand, it also brings impact to both global markets and other regions in the world. Therefore, it is believed that if China and Russia are able to sign an agreement, it will not only bring the programme to a higher level but also increase the competitiveness of the area in the global markets.

Other official efforts which may reduce the political conflict and build mutual confidence for sub-regional cooperation include a new “Euroasia” policy announced by Rime Minister Hashimoto Ryutaro, emphasising the development of the Russian Far East; South Korea’s “sunshine” policy which may improve inter-Korea economic cooperation; as well as the restart of the Four-Side Peace Talk in the Korean Peninsula which aims to lower the political obstacles and to enhance economic interdependency. It is expected that these efforts may gradually strengthen micro-regionalism and coordinate it well with micro-regionalisation for a smoother the Tumen River programme, which could eventually achieve the initiate goal of promoting Northeast Asian integration. Meanwhile, it is also

expected that when the political disputes are minimised, participators of the programme will ultimately sign an economic treaty that would highly reinforce the political stability of this region.

In short, although a less successful growth triangle like the Tumen River Area Development Programme may fail to achieve its ambitious goals at the moment; it has provided opportunities for the contiguous states that used to cut off any possible working relationships with each other. However, unless the growth triangle itself has “grown up” to a certain degree, such cooperation can hardly become a force strong enough in promoting regional integration. Nevertheless, the question of how to speed up the progress of the Tumen River Area Development Programme remains a dilemma. As previously mentioned, the micro-region has always been way far underdeveloped as compared to other areas in East Asia. It takes lots of governmental efforts to establish infrastructure and build up a convenient environment to attract foreign investment. Yet, lack of funds to implement the programme has been the greatest problem for the authorities involved. As China and Russia have no longer carried out central-planned economic system, the local governments have to bear more responsibility to raise funds for the programme. North Korea is the only state that still carries out

central-planned economic system. Ideally, the central government is able to fully support the programme in terms of finance. However, its economic development is the weakest one in the region. In addition, economic growth has never been its major concern. It concentrates most of the national funds in strengthening military force and developing nuclear weapons. As for China, despite that it has released a series of preferential policies and constructed the transportation networks such as railway and highway in the micro-region to attract foreign investment, firms seem to have more interests to engage in the southern costal area where infrastructure is well established and the environment is comparatively matured for investment. And for Russia, it has always regarded itself as a European power, and put most of its focus on the western territory. The Far East Russia weighs more in terms of security than in terms of economics.