

The Tumen River Area Development Program (TRADP) : The Present Status and Future Prospects

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Recent Developments in the TRADP

It has been more than 4 years since the Tumen River Area Development Program (TRADP) first got underway, promoted by the United Nations Development Program as a project for international cooperation within the Northeast Asian region. The TRADP ambitiously aims to explore the economic potential of the Tumen River Area, a region bordered by the Korean Peninsula, China and Russia which until now has only been of military and strategic interest, and cultivate it into a new growth triangle in Northeast Asia.

In that time, the five member nations—the three bordering countries of China, Russia, and North Korea, along with South Korea and Mongolia—have held many discussions under the guidance of the UNDP on the establishment of an institutional mechanism to promote regional cooperation and on the manner in which joint development should be pursued. They have also done a number of other specific tasks. The TRADP Program Management Committee has met a total of six times, along with the various related working groups. A meeting to explain the investment climate was also held to help attract foreign investment, and the bordering countries have been conducting training programs for their working-level officials. Plans have been drawn up and a pre-feasi-

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bility study has been carried out on the development of transportation and communications infrastructural networks. In addition, the three neighboring countries have established their own special economic zones and are developing them in earnest.

While various disagreements and mistakes did arise in the course of all of this, gradual, yet distinct progress was made on the project. Most notably, the countries participating in the TRADP met in New York and signed two international agreements and a memorandum on understanding on December 6, 1995. The two international agreements were inter-governmental agreements to form a "Consultative Commission for the Development of the Tumen River Economic Development Area and Northeast Asia" (or the "Commission" in short) and a "Tumen River Area Development Coordination Committee" (or the "Committee" in short) respectively, while the last document signed was the "Memorandum of Understanding on Environmental Principles Governing the Tumen Economic Development Area and Northeast Asia" (MOU in short). All five of the current participants in the TRADP signed the agreement to form the Commission and the MOU, while only the three adjacent nations signed the agreement to form the Committee. Once these agreements are domestically ratified by the individual countries, the 5-member-nation Commission and the 3-nation Committee will formally come into being.

The signing of these agreements has laid the institutional basis for the development of the TRADP as a multilateral cooperation project, and can be viewed as a noteworthy step which symbolizes the progress which has been made in this venture. The two bodies to be formed with the signing of these agreements are the first intergovernmental bodies in Northeast Asia, and once they are fully established, they will promote economic cooperation not only in the Tumen River Area but also the entire Northeast Asian region. In addition, the signing of these agreements in spite of some skeptical views indicates that a consensus has been reached on the basic direction of the TRADP, which will have a positive effect in their efforts to attract new members, financing from international monetary organizations, and foreign direct investment.

With the signing, the first stage of the TRADP which centered around discussing the general vision for the TRADP development and the establishment of an institutional foundation is now finally over, and the project has now entered into the second stage, in which the main work on the project will take place. Also, while in principle the UNDP will act in more of a coordinating or supporting capacity instead of being a major participant, it will still play an important role in this project.

And finally, as an agreement in which participating nations have agreed in principle to pursue business development in the Tumen River Area in an environmentally friendly manner from the very start, the Memorandum of Understanding on Environmental Principles is a sign to the international community that these nations are committed to the idea of ecologically sustainable economic growth.

Institutional Mechanisms of the TRADP

At the top of the institutional hierarchy for this project are the Commission and the Committee. Below them will be the Senior Officials meeting, the Secretariat and the Working Groups. The Committee and the Commission replace the Program Management Committee (PMC), which made the final decisions on the TRADP for the last several years. The functions of the two bodies as outlined in the agreements have been defined roughly, and there are some areas where it is difficult to distinguish how their functions differ. However, in general, the Commission is charged with promoting cooperation on the TRADP's desired business activities such as economic, technological, and environmental cooperation, as well as fostering investment within the region and other support activities, whereas the Committee's main function is settling sovereignty issues between the bordering nations and mediating their mutual interests (See Table 1).

Beneath the Commission and the Committee will be a permanent Secretariat, which will oversee the various working groups. Also beneath the two groups will be a Senior Officials Meeting, which will be held before the meetings of the Commission and the

Table 1. The Respective Functions of the Commission and the Committee*

The Commission	The Committee
<ul style="list-style-type: none"> • To foster and provide support for development within Northeast Asia, particularly the TREDA region • To induce consultation, mutual understanding, and reciprocity among the residents of Northeast Asia and TREDA • To promote the economic, environmental, and technical capabilities within Northeast Asia, particularly TREDA • To identify the member's common interests and opportunities for mutual cooperation and joint intellectual development • To induce foreign investment into Northeast Asia, particularly TREDA 	<ul style="list-style-type: none"> • To consult with and mediate with the member nations on social, legal, environmental and economic issues in regards to sovereignty • To coordinate the mutual efforts relating to the economic development of the TREDA region • To offer suggestions for the economic development of the TREDA region • To coordinate and offer suggestions for the individual organizations established by the various members nations for the development of the TREDA region

* Based on their establishing agreements

Committee to coordinate their various positions. The Commission will meet twice a year for the next two years, and then once a year thereafter, while the Committee will meet twice a year. These meetings will be attended by vice-ministerial level representatives.

Also falling under the Commission and the Committee are the three existing Working Groups, for Telecommunications, Infrastructure and the Environment. However, some of the com-

mittee members have expressed the view that for matters which only pertain to the three bordering nations, only representatives from these three nations should take part in these meetings, which should cause problems among the others. Therefore, the Committee has decided to set up a fourth working group to be called the Harmonization, Coordination and Promotion of TRENDA Working Group.

As of yet, the member nations have not agreed upon where the Secretariat will be located, with Seoul, Beijing and Vladivostok competing among themselves. However, the existing UNDP TRADP Office, which is serving as a temporary Secretariat, is provisionally located in Beijing. Its operation costs are currently being met by the UNDP. For the permanent Secretariat to be established, the five member nations have agreed to share the maintenance costs, excluding the portion to be subsidized by the UNDP, although they have not agreed upon exactly how this burden will be shared. The head of the Secretariat will be chosen openly, based on a consensus of the members, and once it is judged that workload is sufficient, each member nation will dispatch one representative to the Secretariat. There are a number of items, though, which remain undecided, such as how it will differentiate between its duties to the Commission and to the Committee, and also how exactly the costs for its upkeep will be split. Some have suggested that a separate, yet linked, commercial entity be set up in addition to the Secretariat.

Changes in the TRADP Development Strategy

The ultimate aim of the TRADP project is making full use of the economic potential of the Tumen River area, and thereby contribute to the economic growth and the enhanced standard of living of the future descendants of not only the Tumen River area, but also the larger Northeast Asian region. Toward this end, the primary goals of the various participating nations have been: to improve the investment climate through individual, bilateral, and multilateral cooperative efforts; to cultivate industries which have a relative advantage over other sub-regions; and to energize intra-

regional and intermediary trade. In other words, the goal is to take advantage of the large bordering East Asian markets (Japan, Korea, and China), the abundant low-cost labor (China, North Korea), technical manpower (particularly, from the Russian Maritime Province), the possibility of becoming the eastern end of a new international transportation network linking Europe and the Asia-Pacific region (Rajin, Chongjin, Zarubino, and Vostochny), the various natural resources including forestry resources), the potential as a international tourist area, and the other elements which give this region so much economic potential.

Toward this end, the participating nations have held six Program Management Committee (PMC) meetings to discuss the manner of development, and in the course of these discussions there have been significant changes. In the early stages, discussions on the TRADP project centered around a so-called "small triangle" or the Tumen River Economic Zone (TREZ), a roughly-1,000 sq. km area linking North Korea's Rajin, China's Hunchun and Russia's Pysyet in which the various countries would provide land for rent which would be jointly developed into a free trade zone. Each country would invest in a kind of commercial entity called the Tumen River Area Development Company (TRADCO), whose main purpose would be the joint development of the area. Some also suggested the construction of an international city. If such were to occur, this would be the most effective way of distributing investment funds and controlling the location of regional industries, calling up visions of a new Hong Kong or Rotterdam within Northeast Asia. However, there were too many unresolved international issues, such as the sovereignty rights of the bordering nations, which caused the start of the project to be endlessly delayed and so these plans have been aborted at the present stage.

In place of the above-mentioned plans, the nations have adopted a "progressive harmonization" regional development strategy. This will encompass a much broader area, a "greater triangle" bounded by North Korea's Chongjin, China's Yanji and Russia's Nahodka-Vostochny to be called the Tumen River Economic Development Area (TREDA). While pursuing their own individual development plans, each bordering country will closely cooperate

with the other related countries to progressively make their institutions and economic conditions more consistent and also to build an infrastructural network linking them together. While this method seeks balanced development, certain countries may make requisite institutional improvements earlier than others, temporarily giving them superior economic conditions. Also, rather than following a master plan for regional development set up by an intergovernmental body, this method will pursue development according to market principles.

Some of the specific tasks entailed in this development plan include locating and removing institutional obstacles to the free movement of human and material resources within the TREDAs area, preventing redundant infrastructure construction and developing a network interlinking the region, and working together to attract foreign capital, among others, and it is through this process that more fundamental joint development will be possible. As a result, based on the consensus that joint development is preferable to individual development for everyone involved, this strategy focuses on an extremely realistic cooperation based on progress in feasible areas as opposed to trying to remove the numerous impediments to pursuing joint development all at once. While it is true that in the short term it will be difficult to attract international interest and constant coordination of the interests of the bordering countries is required, this interaction strategy is pragmatic in that it allows individual, bilateral and multilateral cooperation with related countries, and allows them to proceed with the project even though each individual country's overall interests have not been fully settled or reconciled.

At the 6th PMC meeting held in New York last December, the participants agreed that the basic tasks of this strategy would be prioritized in the following order: 1) resource mobilization; 2) attracting investment and investment guarantees; 3) building an infrastructural network interlinking the region; 4) conducting feasibility surveys; 5) improving the investment and trade environments; and 6) protecting the environment. The temporary Secretariat is preparing the basic plans for these individual tasks and will report on their progress to the member nations.

The Current Status of the Tumen River Area's Development

Already, a certain amount of progress has been made on some of the tasks outlined in the "progressive harmonization" strategy. Progress, albeit gradual, is taking place in expanding existing infrastructure, extending the intra- and inter-regional transportation network, increasing cross-border traffic and other exchanges of people, boosting intra-regional and intermediary trade, inducing foreign investment, and in other areas.

In North Korea's Rajin area, investment by Russian companies and Korean-Chinese joint ventures have led to an expansion of the Rajin port cargo facilities, the construction of an international hotel and a heliport, the electrification of the Rajin-Namyang railroad, and other activities, all of which have been completed or are in their final stages. In addition, other works are underway such as the expansion and structural reinforcement of the Rajin-Wonjong and Chongjin-Hoeryong highways and the construction of telecommunications center (from investment by Thailand). In the case of Russia, plans are being drafted for the modernization of the port of Zarubino with the help of Japanese experts, and the basic facilities of the Nahodka free trade zone are being expanded. In China, the first stage of construction for the Hunchun Border Economic Cooperation Zone has been completed, with industrial facilities, and part of the foreign invested factories, bonded warehouses, foreign living quarters, and other facilities having been constructed.

While regional construction of transportation infrastructure linking the countries still remains somewhat slow, nonetheless there is distinct progress being made. For example, construction on the railroad between China's Hunchun and Russia's Zarubino has entered into its final stages, and the two sides are expected to link near their border in the first half of 1996. Test operation will take place in the second half of the year, and full-scale operation is expected to begin in 1997. In addition, reconstruction work on the highway connecting Hunchun-Kraskino-Zarubino is in progress, and both sides have already built border entry and customs stops.

The bridge linking China's Kwonha with North Korea's Wonjongri was reopened in October 1995, making it possible to directly enter North Korea's Rajin-Sonbong area from China. At present, entry into North Korea without a visa via this bridge is restricted by the Chinese side (there are no customs facilities for foreigners) and thus limited to the Chinese; however, it is expected that foreigners will also be allowed entry in the middle of 1996. There is also a transportation link to outside the region with the establishment of a regular container route between Rajin and South Korea's Pusan beginning in October 1995 and a non-regular bulk route between Chongjin and Pusan. The majority of the cargo transported on these routes is trade between South Korea and China's Jilin province, although part of this is trade between North and South Korea.

According to the reports of the UNDP and the United Nations Industrial Development Organization (UNIDO), up until the first half of 1995, the total foreign investment in the entire TRENDA region amounted to US\$220 million, breaking down to \$140 million in China, \$60 million in Russia, and \$20 million in North Korea. However, according to latest from North Korea, as of the end of 1995, foreign investment in the Rajin Sonbong area totalled \$330 million in 33 projects on a contractual basis, with actual investment amounting to \$200 million in 16 cases.

While there have been relative improvements in the physical infrastructure, and intermediary trade and foreign investment have increased to a certain degree, these levels remain far from adequate. Furthermore, many are saying that little has been done to improve the economic conditions in terms of institutions or practices. In other words, it will most likely take more time than is needed for the construction of physical infrastructure, for the software-related economic conditions within the region, including practices related to border crossing, customs, cross-border cargo transport, financing, trade and foreign investment, to be improved to the point where international businesses can comfortably operate.

Perspectives on the Development of North Korea's Rajin-Sonbong Area and the TRADP

Related to the TRADP multilateral cooperation project, North Korea has been pursuing a restricted opening to foreigners and regional development in the form of its Rajin-Sonbong plans. However, it has been more than four years since North Korea designated the Rajin-Sonbong as a free trade economic zone in December 1991, and up until now, they have only managed weak results which have fallen far short of their expectations and left them perplexed. As a result, they have readjusted the goals of their development plans and are shifting toward a more practical manner of development.

More specifically, they have radically altered their ambitious, original three-stage plan to invest and attract huge investments, the first stage to have taken place from 1993 to 1995. They are viewing the already implemented legal foundation as the preliminary stage, and have extended the first stage to the year 2000 to encompass building up infrastructure to foster the area as an intermediate cargo zone and an international tourist attraction, which is indeed a much more realistic position. They have also announced that the second stage of their plans is to make the area into a second "Singapore" by 2010, although this appears to be merely a vague and nebulous blueprint without any concrete plans. Thus, priority is being placed on developing the Rajin-Sonbong area as an intermediate cargo zone, a tourist area, and an export processing base, in that order. In particular, at the present stage, a strong emphasis is being placed on the area as an intermediate cargo zone linking the Northeast region centering around China's Jilin province and South Korea and Japan. The plans to develop it as an industrial region by building 10 industrial complexes have been set back significantly, and they have taken the more realistic approach of developing a single industrial complex as a model.

To develop the Rajin-Sonbong area, North Korea is trying to build up its infrastructure to the best of its ability by mobilizing its available domestic capital and human resources, but they are falling far short of meeting the enormous capital requirements. In

addition, as part of its policy, North Korea will use domestic funds for basic infrastructure such as highways and railroads, but for docking and cargo facilities, industrial complexes, and other areas, it will not invest domestic funds if foreign investment is possible. Furthermore, having realized that support from international financial institutions is absolutely indispensable for financing investment into its infrastructure, North Korea has been cautiously seeking entry into the Asia Development Bank (ADB) and is placing hope on the Tumen Trust Fund which the UNDP is planning to set up.

North Korea is trying to effectively link its plans for the Rajin-Sonbong area to the Tumen River Area development plans. For instance, in the realization that cooperation with other nations is essential for establishing the Rajin-Sonbong area as an intermediate cargo, tourist, and export processing zone, North Korea has been actively participating in TRADP, which is, of course, an international project to promote cooperation within the region. Also, through this international cooperative venture, North Korea is receiving technical assistance from the specialists of international organizations such as the UNDP and UNIDO. What North Korea desires most, though, is obtaining financing and capital through the TRADP, particularly financing for expanding its infrastructure and foreign direct investment; however, this has not proven as successful as desired. In other words, North Korea has had high hopes on utilizing the TRADP to the utmost to promote its development plans for the Rajin-Sonbong area and thereby induce foreign capital, but in truth, they have been disappointed by the weak amount of foreign capital they have obtained. However, they understand that much of this is due to problems with the overall North Korean system, and they recognize that by participating in the TRADP project, they are benefitting from substantive public information, practical training and enhanced human resources, and the potential to still attract foreign capital.

Currently, North Korea is counting upon investment by Korean businesses and overseas Koreans to play a big role just in the same way investment by overseas Chinese played a major role in China's special economic zones during its economic develop-

ment. In other words, they realize that at the present stage, it is difficult to expect foreign investment other than that by Korean businesses. Given the current stoppage in North-South Korean dialogue, it is difficult for North Korea to expect full-scale investment by South Korean businesses; therefore, they are striving to attract investments from Koreans residing in the U.S., Japan, and other foreign countries, while also trying to attract foreign investment at least on a symbolic level. In addition, while North-South dialogue remains at a standstill, they are trying to circumvent this and induce investment from private corporations. As a result, one can say that the technocrats in North Korea's international economic sector who have been pushing the Rajin-Sonbong development plans are doing their best to make these plans succeed, but under fixed conditions.

However, for the time being, it seems unlikely that there will be any significant progress in the Rajin-Sonbong plans. To begin with, for North Korea to be able to join the ADB, it will require the support of the U.S., Japan, and South Korea, and it has been reluctant to submit the economic data statistics needed for entry. Thus, the chances of its entry are slim. Even for the Tumen Trust Fund, it is difficult for them to expect anything more than support for a feasibility study. Furthermore, it is hard to expect that foreign direct investment will increase significantly in the near future. This can be blamed on the institutional gap between the Rajin-Sonbong area and the other North Korean region (in other words, reform of the overall North Korean economy is needed), the lack of adequate infrastructure, and the political instability stemming from the uncertainty in North-South relations, among other things. As a result, beyond some investments by foreign Koreans and by the few foreign companies willing to take these high risks in order to take the lead in penetrating the North Korean market, investment to a sizeable degree is unlikely.

On the other hand, North Korea has restructured its plans in a more practical fashion, and it has also come to realize that it must adopt a more open attitude if this project is to bear fruit, something which offer new potential. In particular, if North-South relations were to improve and South Korean businesses were able to make

full-scale investments, distinct progress would clearly be possible.

The Prospects for the Tumen River Area Development Program

As the signed agreements are to take effect and the Secretariat is go into operation in some form or another within this year, the TRADP project is likely to show some progress. More specifically, the UNDP will soon establish the Tumen Trust Fund, and publish a "TREDA Investment Guide," and the GEF (Global Environment Facility) will provide funds for drafting an action program for the Memorandum of Understanding on Environmental Principles. In addition, many other activities have been scheduled, such as: the Rajin-Sonbong Investment Forum in September; meetings of the telecommunications, transportation, and environmental working group; and other feasibility studies supported by the UNDP and the UNIDO.

In conjunction with these activities, the three bordering countries will most likely come to an agreement on many pending issues such as minimizing border controls and customs, transportation linkages, and priority changes for certain projects, thus improving the investment conditions of this area. In particular, the Hunchun-Zarubino railway and the Kwonha-Wonjong highway will be opened, the already established Rajin-Pusan seaway will become more active, and new seaways (Niigata-Zarubino, Pusan-Niigata-Rajin) may be established. As a result, the Tumen area will show some limited accomplishments, such as an increase in both intra-regional and intermediary trade, and an expansion of infrastructure, and investments in several light industries thanks to increased inflow of foreign capital.

Through the new agreement, Japan has become a member of the Commission, which increases the possibility of the country's official participation in the TRADP. So far, the Japanese government has not participated in the project officially for a number of reasons, including the absence of diplomatic relations with North Korea, the Northern Islands dispute with Russia, and the lukewarm interests of Japanese businesses in the project. Without any

significant changes in these factors, Japan's position is not likely to change in the short term. With the signing of the new agreements, however, Japanese regional governments and businessmen have begun to demonstrate greater interest in the project. In particular, the fact that the agreement successfully established the first-ever intergovernmental organizations in Northeast Asia greatly enhances the possibility of Japan's participation. Japan's official participation is likely to take place at a time when there are some significant changes in the international environment, e.g., a progress in the normalization talks between North Korea and Japan.

In looking at the above-mentioned items, there is little doubt that the TRADP will make some progress, but it seems equally clear that the extent of progress will be limited, at least in the short term. Many factors exist that cloud the prospects of the TRADP.

First, as already seen before, the agreements are somewhat ambiguous on the respective roles of the Commission and the Committee, and consequently leaves room for conflict between the two organs. Unlike the unitary system of the PMC in the past, the existence of two separate entities could create many potential sources of conflict among the member countries. In particular, the problem of information asymmetry between bordering and non-bordering countries would be severe, as the former are represented in both bodies while the latter only participates in the Commission.

Second, the construction of infrastructure requires coordination among concerned countries in order to avoid redundant investment. Such coordination will not be easy, however, as the three bordering countries have clearly conflicting interests in such matters as where to build such infrastructures, and how to allocate funds. In short, relations among the bordering countries are likely to be characterized by competition and conflict, rather than cooperation and coordination.

Third, the question of funding and financing for the project still remains unclear. At present, it is impossible for international financial institutions such as the World Bank and the ADB to lend

funds to an intergovernmental organization. The Commission and the Committee thus have clear limits in attracting funds. Some member countries, such as China and Mongolia, have not included the TRADP in those projects for which they have requested funds from international financial institutions and Japan. Meantime, North Korea is not a member of these institutions, and has no diplomatic ties with Japan. These factors will be serious obstacles for the future progress of the TRADP. However, considering its enormous potential and the possibility of unexpected changes in the international environment (e.g., an improvement in inter-Korean relations, and Japan's active participation following progress in North Korea-Japan talks for normalization), South Korea must be fully prepared for the possibility of the TRADP's successful progress. In particular, South Korea must take into account the possibility of this project being a potential means of promoting inter-Korean economic cooperation and North Korea's opening to the international community. ■■■