The Tumen River Area Development Programme

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Introduction

The meeting point of the borders of Russia, China and Korea has been a source of conflict in the centre of one of the tensest parts of the world. For the first 16km from its mouth the Tumen River forms the border between Russia and the Democratic People's Republic of Korea (DPRK), and above that point the river is the border between the People's Republic of China (hereafter referred to as China) and the DPRK. China has vigorously asserted its right of passage on the river, which is the only physical access to the sea for Jilin province.[1]

In 1938 the meeting point of the borders of the USSR, China and Korea was the scene of a dispute when Japanese forces from Manchukuo and Korea attempted to enforce claims to a hill on the northern shore of the Tumen River, but were repulsed by Soviet forces (Coox, 1977). Together with the bigger Japanese defeat by Soviet and Mongolian forces on the Mongolian border a year later (Morley, 1976: 113-78), this discouraged Japanese expansion against the Soviet Union during the first half of the 1940s (Haslam, 1992: 112-65). Since then, the border has remained tense and highly protected but peaceful. The wider area of Northeast Asia has, however, been a flashpoint in international relations with a major war in the 1950s, border skirmishes between China and the USSR in the 1960s, and continuing tension in the Korean peninsula.[2] Meanwhile, economic development has lagged in most of the region, despite proximity to one of the most dynamic parts of the world economy.

During the 1990s a cautious easing of international tensions has been taking place. The Tumen River Area Development Programme (TRADP) was initiated in 1992 under the aegis of the United Nations Development Programme (UNDP). Early proposals focused on a small area near the mouth of the Tumen River and included proposals for creating a development zone on territory of the three riparian countries. These schemes ran into difficulties, primarily associated with issues of sovereignty, and the Tumen River Project shifted to more limited objectives covering a larger geographical area. The Tumen River Economic Development Area (TREDA) covers a large part of the Russian Far East, Northeast China, North Korea and Mongolia, with South Korea and Japan also participating.

This paper analyses the progress of the TRADP in promoting cross-border cooperation. The first section summarises the evolution of trade patterns within the region. The following section describes the history of the multilateral project. So far the UNDP-guided project has fulfilled the limited objectives of promoting cooperation in a handful of fairly small international transport links. These are described in the third section. Despite the slow progress in forging official cooperation the regional economy is starting to boom, especially in the Chinese border area (Yanbian Prefecture), as a result of market-driven developments, which are analysed in the fourth section. The final section draws some conclusions.

Historical Trade Patterns in Northeast Asia

After the drawing of Cold War frontiers in Korea during the early 1950s, economic relations within the region became determined by political alignments. Sino-Soviet trade flourished in the 1950s, but then dwindled during the 1960s, and after China reopened its economy in 1979 its trading partners were primarily outside Northeast Asia. During the 1980s trade among the Northeast Asian countries was repressed and the three smaller countries (North and South Korea, Mongolia) were restricted to bilateral rather than multilateral trading links within the region (Pomfret, 1996: 132).

In 1985 the USSR, China and Japan had multilateral trade among themselves, although the amounts involved were low. The three smaller economies' trade was bilateral rather than multilateral. South Korea traded only with Japan, and that amounted to less than a fifth of the ROK's total trade. Mongolia's trade was totally dominated by the USSR. North Korea's trade, while heavily oriented towards the USSR, also involved China and Japan – but not South Korea.

By the end of the 1980s this situation had started to change, and the process accelerated during the early 1990s. Economic reform and political change in the USSR and in Russia not only led to a redirecting of Russian trade, but also affected Mongolia and North Korea (the DPRK) which had been running substantial trade deficits with the USSR until the latter was dissolved. Meanwhile the economic size of Japan and the rapid economic growth in South Korea (the ROK) led to an increasing weight of these two countries in regional trade flows.

In 1990 the zeros had disappeared from the trade matrix, and only intra-Korean trade and Mongolia's non-USSR trade remained minimal. Despite this diversification of trade flows, Northeast Asian trade had become more concentrated, in the sense that trade flows between the two market economies, Japan and ROK, accounted for US$30 billion out of US$65 billion total trade. In 1991 the USSR's trade with Mongolia and DPRK collapsed dramatically, while the USSR's trade with ROK grew. Meanwhile, DPRK's exports to ROK increased from US$11 million to US$95 million, making ROK the DPRK's third largest market after Japan and the USSR. For all Northeast Asian countries, Japan was now the largest regional export market, and ROK the fastest growing market in the region.[3]

These developments continued through the early and mid-1990s. The DPRK came under further pressure as the establishment of diplomatic ties between China and the ROK provided a sign that China might also become less willing to continue running a trade deficit by offering credits which were unlikely to be repaid. Meanwhile, ROK-PRC trade surged to about US$9 billion in 1993, making China the ROK's third largest trading partner and the ROK China's sixth biggest. Intra-Korean trade also expanded, by some estimates to about US$200 million in 1994, mostly through Hong Kong.[4] In November 1994 the ROK President, Kim Young Sam, announced a partial lifting of the official ban on trade with the DPRK. In 1995 Japan, China and the ROK accounted for 70% of the DPRK's trade, while Russia's share had diminished to negligible amounts.

Trade in the narrowly defined Tumen River area was extremely limited during the 1970s and 1980s. In particular, Yanbian Prefecture was closed to foreign trade between 1970 and 1982. Although USSR-DPRK trade passed through Primorski Krai, little of the trade involved products from Primorski or from Northeastern DPRK. Despite the gradual reopening of Yanbian's foreign trade after 1982, the value remained small through the 1980s and the direction was mainly with the DPRK. In 1991 and 1992, however, trade began to grow more rapidly with both riparian partners. A substantial part of this trade is transit trade from outside the immediate Tumen River area.

Trade between Jilin and the two neighbouring countries is dominated by a few products. Imports of cars and trucks accounted for over half of Jilin's trade with Russia in 1992 and 1993. In 1992 fertilisers were China' next most important import from Russia through Yanbian, but their significance declined in 1993 due to supply problems. In 1993 the steel trade was more valuable. Trade between China and the DPRK across the Tumen River also has a high degree of commodity concentration. Chinese exports to the DPRK are dominated by coal from Heilongjiang; over a million tons in 1993, valued at almost US$50 million. Maize, cotton yarn, cooking oil, canned meat, sugar, soap and wheat are also important. The DPRK's exports to China through the Tumen River area are dominated by steel and iron ore, together amounting to over 800,000 tons valued at more than US$150 million in 1993. The DPRK also exported 27,826 vehicles valued at US$49 million, and seafood, fertiliser and alumina.[5]

Russia-DPRK trade has been in severe decline during the 1990s, and its commodity composition is not well-documented. In the early 1990s Tumangan rail station handled about 6-7 million tons of traffic a year. The Russian-DPRK railway line is designed to deliver up to 6,000 tons of oil per day direct to the Sungri refinery in Rajin, but Russian supplies of crude oil ceased in July 1993, after which most of the DPRK's oil came from Libya and Iran (apparently financed by exports from the DPRK's large military-industrial complex). Sonbong wharf facilities used to handle 300,000 tons per year of Russian oil and petroleum products in transit to Singapore and Hong Kong. The DPRK also imported Russian steel (by rail to Chongjin West Port), logs (by rail to Ungsang port, for transport to DPRK sawmills), coal, transport equipment and machinery. Russia imports fruits, vegetables and food products from the DPRK, and Dalso (a Russian joint stock company) imports alumina from Australia and India into Rajin, where it is transferred to rail transport for Bratsk.

The official statistics ignore the rapidly growing border trade by individuals. By its nature such trade is hard to document, and existing estimates are guesses based on the number of cross-border crossings. In 1993 these crossings amounted to around a quarter of a million between China and DPRK. Assuming trade per crossing at 1,000 yuan, this would add 250 million yuan (over US$40 million at the official exchange rate) to PRC-DPRK trade through Yanbian.[6] This trade is primarily in consumer goods, with clothes, TVs, household articles and some food products being taken out of China and seafood and other foodstuffs out of the DPRK.

Despite recent growth in trade, the area is still composed of three fairly closed economies. The 1991 export/GNP ratio of Jilin Province was 9%, or half of the average for China. For North Korea the ratio was 7%, which is low for a country of 20 million people, and for Primorski Krai it was 8%, again very low for a region whose name means *"near the sea."*[7]

The three riparian countries and Mongolia have all been centrally planned economies and can all be characterised as partially reformed economies. Economic reforms have, however, been implemented for differing lengths of time, at differing speeds and in differing sequences. In the riparian countries some domestic prices still deviate substantially from world prices, and from prices in neighbouring countries. In order to restrict opportunities for profitable arbitrage trading, governments have retained a significant role in regional trade and a large share of trade is currently being conducted by barter.

For China, Russia and Mongolia, which have all taken the decision to integrate their economies into the world trading system, the institutional endpoint is clear. They will all benefit from joining the World Trade Organization (WTO). China has been pursuing this goal since 1986, although negotiations have been protracted due to the many WTO-incompatible features of China's partly reformed economy. Russia's application was more recent, but her trade policies are now probably more WTO-compatible than China's. Mongolia acceded to the WTO in 1996, and subsequently abolished all trade taxes.

The major issue with respect to trade practices is a quintessential transition issue: how to deal with the period of partial reform, before the countries adopt the rules of the market-based world trading system? Some steps, such as coordinating and simplifying customs procedures, are self-evident, while others are more tricky because they depend upon domestic reforms being implemented. The benefits from a regional approach to this transition process lie in the common problem of price distortions starting from a similar base (i.e. four countries had variants of Soviet central planning in the 1970s) and in the fact that relative price differences provide the incentive for trade.

The Tumen River Area Development Programme (TRADP)[8]

Tumen River area coordination began to be reconsidered during the second half of the 1980s. For the previous two decades relations between the USSR and China had been frosty (and included a small border war in 1969). The DPRK had uniquely remained on good terms with both countries during this period, but external economic links were limited in line with the official strategy of self-reliance. Border trade between China and the Soviet Far East was resumed in 1983 and Gorbachev's 1986 Vladivostock speech called for peaceful cooperation in the east, but actual economic links grew slowly.

The history of TRADP dates from a July 1990 international conference in Changchun, at which China called for coordinated measures to create a 'Golden Triangle' involving the contiguous areas of China, the USSR and the DPRK (Figure 1). The United Nations Development Programme (UNDP) expressed interest and at a second international conference held in Ulaanbaatar in July 1991 agreed to provide support. At an October 1991 conference in Pyongyang the UNDP presented a preliminary report, whose most publicised element was an estimate that US$30 billion in infrastructure investment was required to open up the Tumen area and provide transit routes from eastern Mongolia and northeast China to the Sea of Japan.

To get the ball rolling the UNDP approved a two-year US$3,515,000 project to assist a Programme Management Committee (PMC), consisting of the three riparian countries, Mongolia and South Korea, with Japan as an observer. The PMC was mandated to undertake short-term measures to facilitate trade and cooperation within the Tumen River area and to propose a long-term program to develop the region. The UNDP also appointed a coordinator for the project, who began to commission background studies.

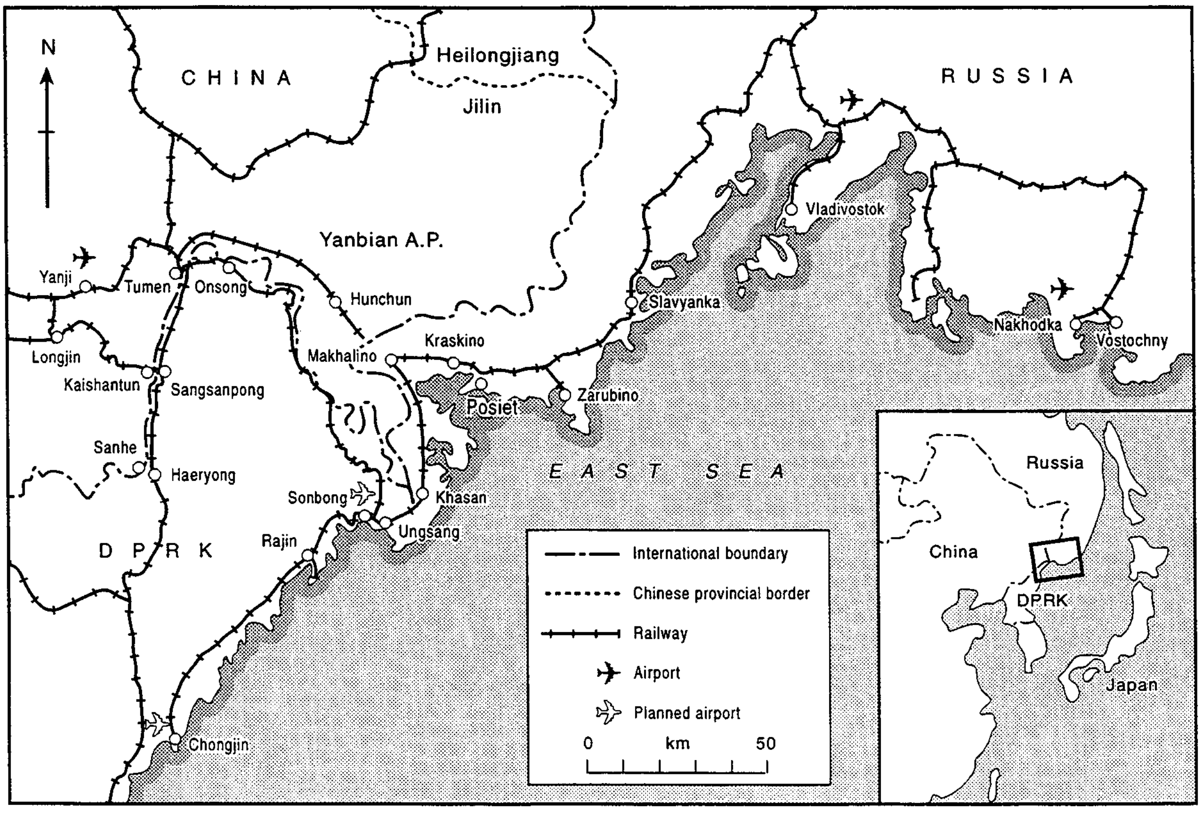
The first two PMC meetings, in Seoul in February 1992 and in Beijing in October 1992, achieved little. PMC III, held in Pyongyang in May 1993, however, produced two agreements. First, a Tumen River Area Development Incorporated Company would be established with capital from each of the PMC member countries and, second, each riparian country would lease land to the corporation in order to create an internationally managed cross-border Tumen River Economic Zone (TREZ).

When the UNDP coordinator started to implement these agreements, he encountered reservations. Russia, in particular, had second thoughts about leasing land to a supranational authority, and declared that land leases were still not permitted under Russian law. Russia also began to emphasise environmental arguments against developing its territory adjacent to the Tumen estuary, which contains a protected marine area and a unique bird habitat. Underlying Russian reservations were deeper concerns about sovereignty, which were to some extent shared by the other riparian countries. Matters came to a head, however, over a more mundane subject; when the UNDP coordinator knocked on the PMC members' doors for their share of the corporation's capital, several of them were unwilling to put up money for an organisation which they considered too vaguely defined.

The PMC meeting scheduled for the second half of 1993 was postponed. As the PMC III agreements unravelled, towards the end of 1993 the UNDP coordinator let TREZ and the corporation drop. A January 1994 Informal Meeting of National Teams in New York endorsed this decision, although the DPRK delegation was unable to participate due to difficulties in obtaining US visas. The UNDP organised another informal workshop in Beijing in March 1994, attended by delegations from China, Russia and the two Koreas, but not Mongolia. The March workshop reflected the disarray into which TRADP had descended. The DPRK delegates argued that the PMC III agreements were still binding (and the New York meeting was informal and non-binding, especially as one of the participating countries was not present), while the Russians insisted that TREZ and the corporation were dead, and the Chinese took a pragmatic position that TREZ and a corporation might be the first-best approach but were not a practical short-term road to Tumen River area development.

After much delay the fourth PMC meeting was called for Moscow on 15-19 July 1994. The Chinese and Mongolians sent strong delegations ready to sign agreements. A week before the meetings, however, Kim Il-sung died. In the general mourning the DPRK did not attend the Moscow meetings, thus downgrading it from full

Figure 1: The Russia – China – DPRK Border Region



PMC status and preventing any formal agreements from being reached. Although a Tumen project office was established by the UNDP in Beijing, little progress had been made on any front by the next PMC meeting in Beijing in May 1995.[9]

By its own terms of reference the TRADP had achieved little as the UNDP's two-year project ended with no concrete results either in short-term facilitation of trade and economic cooperation or in putting together a long-term regional development strategy. That is not to say that the project was worthless. Any measures leading to greater personal contact among policy-makers in this volatile part of the world is beneficial in furthering understanding and hopefully reducing the possibility of nuclear war. Even on the narrow level of specific infrastructure projects there is an aura of mutual distrust, which has been reduced by the TRADP discussion process (see next section). For the Koreans, the PMC meetings were the first official ROK-DPRK meetings.[10] Such confidence-building is difficult to measure, but it appeared to be a slim return on the US$3.5 million of the world taxpayers' money spent by the UNDP on TRADP.

In December 1995 the TRADP entered a new phase. At a final PMC meeting in New York, two agreements were signed providing a legal basis for the Tumen Secretariat to manage cooperation in both the narrower region involving the three riparian counties and in the wider area covering all of Northeast Asia. Meetings similar to PMC meetings were held in April and October 1996, but now the Secretariat provided a continuity between meetings which had been absent before and this in turn made the meetings themselves less momentous.

The focus of the TRADP has also changed from the early emphasis on (unrealistic) blueprints such as US$30 billion in infrastructure or the supranational TREZ to a Secretariat providing support for more modest schemes proposed by the participating nations. Thus the Secretariat coordinated publication in March 1996 of an investment guide (TREDA, 1996), sponsored an environmental workshop in Primorski Krai and an investment fair in Rajin-Sonbong, and worked through the UNDP in Seoul to produce a July 1997 report on improving financial services within the Tumen area (UNDP, 1997). The Secretariat is the UNDP's coordinating agent for TRADP-related projects such as a pre-feasibility study of a rail link from eastern Mongolia to Jilin Province completed in mid-1997 with Swedish aid. Perhaps most important of all, the Secretariat acts as a facilitator to smooth relations between prickly neighbours or to reduce misunderstandings between countries due to lack of domestic policy transparency.

Infrastructure Projects in the Tumen River Economic Development Area (TREDA)

With the collapse of TREZ, the TRADP was turned into a program for developing a wider and imprecisely defined area through trade facilitation and coordinated infrastructure development. The Tumen River Economic Development Area (TREDA), initially defined at PMC I in Seoul in February 1992 to cover Yanji, Chongjin and Vladivostock, was extended at PMC IV in Moscow in July 1994 to be the triangle with Chongjin, Yanji and Nakhodka/Vostochny as its points. So far, there has been much talk and little action on trade facilitation and infrastructure coordination, apart from a handful of transport projects. The latter are, however, key links which could provide precedents for subsequent international projects in the region.

Most of the cross-border trade within TREDA passes over two railway bridges. One crosses the lower part of the Tumen River and links the DPRK to the Russian rail network. The other at the Chinese city of Tumen links the DPRK and China. There are also five road crossings between Yanbian Prefecture and the DPRK and one between Yanbian and Russia. The roads leading to these crossings were mostly unpaved and of poor quality in the early 1990s, especially those from Longjin in China to the DPRK border, from Kraskino in Russia to the Chinese border, and many on the DPRK side.

Yanbian Prefecture has taken the initiative in improving its links to the Sea of Japan. The Hunchun-Yanji road has been upgraded, shortening the travel time from seven hours to two, and work on the Longjin-Sanhe (DPRK border) road is under way. Yanbian has also been involved in improving the road from Haeryong, across from Sanhe, to the Korean port of Chongjin. The railway from Hunchun to Makhalino (on the Russian line to Zarubino and further north) was quickly completed on the Chinese side of the border, but proceeded more slowly on the Russian side of the border.

In the DPRK and in Russia, however, these limited but key projects have been dogged by delays due to misunderstandings. The DPRK reached an agreement with the Yanbian authorities over Chinese financial contributions to the Haeryong-

Chongjin road, but was then put out when the central government failed to authorise the Yanbian expenditures. The DPRK authorities considered this to be an act of bad faith on the Chinese side and were reluctant to enter into any further agreements with such untrustworthy partners. Better understanding of the Chinese system would have avoided such a breakdown insofar as the Koreans would have been aware that the Prefecture's promises could only be conditional and that the central government had the final say.

The railway from the Chinese border to Makhalino was also delayed. The Chinese and Russians had reached an agreement on financing this line, but the Chinese had difficulty raising their part of the capital because the People's Bank of China (PBOC) would not guarantee any loans. The Russians interpreted this as a poor excuse on the Chinese side, but again it had been a previous Chinese policy for the PBOC only to guarantee loans for projects entirely on Chinese soil. As with the DPRK-Yanbian case, the atmosphere deteriorated because the two sides did not talk to one another, so that mutual recriminations festered. Although the track from Makhalino to the border was finally completed in November 1996, the marshalling yards and bogey-changing equipment (for the change of gauge) were still not in place nine months later. The parallel road link from Kraskino to the Chinese border was also only recently completed.

By meeting in the TRADP fora the authorities from the riparian countries can air their dissatisfactions and work to achieve commonly desired infrastructure projects. Air transport links could also benefit from coordination, especially once ground transport has improved so that travellers throughout the Tumen River area could reach various airports. At present only Vladivostock has international flights (to Niigata, Anchorage, Seoul, Toyama, Harbin and Changchun). Yanji started flights to Tianjin in March 1994, intended to connect with Tianjin-Seoul flights, but still has no direct international flights despite expansion of the civilian-military airport and planned construction of a new and bigger civilian airport.[11] In Primorski a large military airport near Nakhodka is to be converted to civilian use, and the DPRK intends to build an international airport in the Rajin-Sonbong zone. If all these plans go ahead, they will mean a huge increase in airport capacity, but each place is planning its own expansion and routes.

Another priority for Russia and China is to coordinate the development of the transit tourist trade (mainly from South Korea) which could pass through Zarubino port en route to Changbaishan, a mountain on the Yanbian side of the Sino-Korean border which is sacred to many Koreans. Without better transport facilities, improved hotel accommodation and a coordinated approach to visas, this potentially lucrative business is likely to be stillborn. North Korea would also like to be included; in 1997 negotiations were under way to start a high speed ferry linking Sokcho (ROK) to Rajin.

Private Sector Developments

Although implementation of the infrastructure projects has been slow, the Tumen River area is developing economic momentum. The reason is partly due to national and local government policies, but a crucial role is being played by entrepreneurs, especially from South Korea.

Before the 1990s foreign investment was minimal in the whole Tumen River area. Although China had allowed foreign investment since 1979 and there had been investment booms elsewhere, Yanbian Prefecture was passed by. In the USSR and DPRK foreign investment was discouraged until the late 1980s. With *perestroika* during the Gorbachev era the situation began to change in the USSR, and especially as the USSR disintegrated in 1991 the Russian successor state adopted more liberal economic policies. Foreign investment in Primorski grew rapidly after 1991, especially in Nakhodka which had become a free economic zone.

The Chinese government responded to the collapse of the USSR and of Comecon, by trying to promote some of the border areas, including Hunchun in Yanbian Prefecture. Hunchun received open city status, and a border economic cooperation zone established in 1992 was allowed to offer further investment incentives. Physical construction in Hunchun since 1992 has been rapid.

The DPRK also began a more limited experiment with market-oriented policies, creating the special economic zone of Rajin-Sonbong (Cotton, 1994). Although the legal framework and investment incentives resemble those of China's special economic zones, poor infrastructure and political uncertainty have deterred foreign investment in Rajin-Sonbong.[12]

Foreign investment in Primorski appears to be primarily resource-oriented, especially towards exploiting the seafood potential. The foreign investors include South Korean partners, but also many other nationalities. The intended markets, for export-oriented joint ventures, appear to be mainly South Korea and Japan. By number, the dominant partner nationality is the PRC, but these Sino-Russian joint ventures are small-scale, mostly in trade (e.g. Yanbian companies opening offices in Russian ports to monitor their goods in transit), restaurants or other service activities. The large South Korean corporations such as Hyundai are also becoming involved in infrastructure projects such as port development.

In Yanbian about half of the approved joint ventures have South Korean partners. Here a crucial facilitating step was diplomatic recognition in mid-1992. Before then some South Korean firms had invested in China, often through Hong Kong offices or intermediaries, but diplomatic recognition removed an important source of worry and South Korean investment flows to China increased rapidly. The goods produced by these Sino-Korean joint ventures are overwhelmingly labour-intensive manufactures, often activities which have been moved from Korea where they are no longer competitive (Pomfret, 1995: Appendix).

By 1995 actual foreign investment exceeded US$150 million in Yanbian and US$60 million in Primorski, and came to about US$20 million in Rajin-Sonbong (TREDA, 1996: 3). There has also been an upgrading of port facilities, sometimes with foreign financial assistance. Vostochny/Nakhodka has been modernised most, but Rajin has also improved services and since late 1995 an increasing share of exports from eastern Jilin and Heilongjiang provinces has been passing through Rajin-Sonbong.[13] A feasibility study for upgrading Zarubino port is being prepared with Japanese assistance. As with the overland transport projects, the individual port projects are fairly limited but their cumulative impact is becoming significant.

Conclusions

At the official level, progress on the Tumen River Area Development Programme moves slowly. In large part this is because the three riparian countries are unsure of what they want from TRADP.

The other three participants also have mixed expectations, or gaps between what they want from TRADP and what they are willing or able to contribute. Mongolia wants lots of infrastructure spending and especially alternative routes to the sea, but has little to offer. Japan (and the multilateral institutions), from whom funding was hoped to come, would vaguely like to promote its west coast and the Sea of Japan area, but sees little real return from TRADP and has shown lukewarm interest. South Korea is more involved, with parts of the government viewing TRADP as a possible lever with which to promote economic reform in North Korea and hence mitigate the cost of future reunification. There are, however, intra-government conflicts, with some ROK ministries attracted by the commercial possibilities of TRADP, while the Ministry for Reunification may obstruct measures which other ministries are supporting.

The North Korean situation is the most opaque. The proclamation of the Rajin-Sonbong Economic and Free Trade Zone (RSFETZ) in late 1991 was a cautious first step towards reform on the Chinese pattern of regionally limited experiments, but the RSFETZ is located as far as possible from Pyongyang and the development of the zone has been closely monitored. Participation in TRADP is related to the promotion of the RSFETZ, and appears to be just as cautious. The political situation since Kim Il-sung's death in July 1994 is unclear, but economic conditions appear to be deteriorating rapidly. DPRK-ROK relations continue to be volatile; in 1994, for example, the DPRK was upset by the ROK's failure to send condolences after Kim Il-sung's death, while in 1996 after a North Korean spy submarine ran aground on South Korean rocks the ROK broke off relations with the DPRK (which were quietly reinstated in 1997).

Russian policymaking is more open, but characterised by many conflicting voices. Economists in Primorski are the most vociferous in arguing the need for a regional perspective, with emphasis on promoting links with neighbouring countries. The central government is more cautious and aware of the long lifeline between Moscow and Vladivostock. Local interests are also in conflict, as different port managers keep an eye on their competitive position. Less reformist politicians and officials are keener on maintaining a tighter hold over the economy, while reformers are more willing to reduce obstacles to trade. Finally, a largely unspoken but still powerful fear exists of being overrun by the millions of Chinese across the border from sparsely populated Primorski.

The Chinese are the most pragmatic. The Northeast has lagged in China's rapid economic development over the last two decades, and especially now that the military threat from the USSR/Russia has subsided the central government is promoting economic reform and diversification in Jilin and Heilongjiang provinces. TRADP, and even more so an east-west rail axis from the sea to Mongolia, could provide infrastructure to assist this development. The process would be facilitated by trade liberalisation, and a probable scenario is that Sino-Russian trade could be conducted under WTO rules in the foreseeable future. The TRADP forum, however, provides a fallback possibility of conducting trade within the ambit of a regional trading arrangement if Chinese or Russian WTO accession negotiations break down.

Given the disparate goals, mutual suspicion and unwillingness on all sides to put up money for joint projects, the slow progress is unsurprising. Yet, some infrastructure projects have great potential benefits, especially the rail and road links between Yanbian and the Russian and Korean ports. So, some progress is made, and some transport links are slowly being built or improved.

The benefits from private economic activity are even more pronounced. Primorski has resources in demand in South Korea and Japan, some of which can be best exploited with the assistance of capital and skills from those countries. Yanbian and North Korea have abundant unskilled labour willing to work for wages well below those in South Korea. Using equipment and skills developed when South Korea exported labour-intensive manufactures in conjunction with this labour offers the prospect of large gains from trade. So far this division of labour has not been encouraged in North Korea, but it is taking off in Yanbian. The export trade will exert additional pressure in favour of the infrastructure improvements and promises to finally get the economy of this economically backward corner of Northeast Asia moving. The key question then arises of whether such interconnected economic growth will also be a force for peaceful international relations in the region.

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Notes

This paper draws on a chapter in Pomfret (1996) and on a longer paper (Pomfret, 1995), which contain more detailed information and data obtained from various officials in Primorski Krai, Yanbian

Prefecture, Changchun, Beijing and Ulaanbaatar during field trips in March and June 1994 undertaken as a consultant to the United Nations Development Programme. I am also grateful to Ian Davies, Officer-in-Charge of the Tumen Secretariat, for his help during an August 1997 visit to Beijing. A grant from the Australian Research Council for a large project on Regionalisation in Asia provided funds for writing up the research.

1 Passage to the sea is hindered by the low railway bridge between Russia and Korea, and is navigable only for small craft (several Chinese boats have made the journey in the 1990s as an assertion of sovereign rights). Earlier this century commercial shipping used the Tumen River, but even without the railway bridge the commercial viability of river shipping today is debatable because of a silting problem. Dredging would upset the ecological balance and threaten wildlife in marshes on the Russian side of the river.

2 Northeast Asia refers in this paper to the two Koreas, Japan, Mongolia, the Russian Far East and the three northeast provinces of China (Liaoning, Jilin and Heilongjiang). In Tumen River jargon the riparian states are North Korea, China and Russia, and discussion of the riparian states typically focuses on Yanbian autonomous prefecture in Jilin Province, Primorski Krai in the Russian Far East, and Haeryong Province of the DPRK.

3 Japan displaced Russia as Mongolia's largest export market, but was itself displaced by Kazakhstan in 1996, a change driven by the smelting destination of Mongolia's copper concentrate exports.

4 The Economist Intelligence Unit, *Country Profile: North Korea, 1993/4*: 73.

5 The vehicle trade through the DPRK (and much of that through Primorski Krai) to China is artificial, due to Chinese administrative procedures which only allow the vehicles to enter through Yanbian even though many come from Eastern Europe and they are destined for all over China.

6 The 1,000 yuan figure is used by von Kirchbach and Zhang (1993).

7 Ratios are from von Kirchbach and Zhang (1993). Primorski trade is difficult to identify because under USSR statistics the provenance of goods was not always stated (e.g. goods produced by factories directly controlled by all-Union ministries were recorded in the central rather than regional output figures). Von Kirchbach and Zhang (1993: 5) report an estimate that Primorski was running a 3-4 billion ruble trade deficit with the rest of the USSR during the final years of the Soviet Union, which could imply a substantial adjustment in trade flows in the more market-oriented post-USSR environment as the region has to cover more of its imports out of sales of its own goods and services rather than relying on subsidies from Moscow.

8 The existing literature on the Tumen River project is limited, see Valencia (1992), von Kirchbach and Zhang (1993), Shiode (1994), UNIDO (1994), Marton *et al* (1995) and Lew (1995).

9 South Korea offered US$5 million's worth of extra studies, without reference to the by now extensive number of background reports, and revived the TREZ concept, which was a political non-starter. Japan earmarked $30 million of its European Bank for Reconstruction and Development (EBRD) funds for projects in the Russian Far East and talked of donating US$30 million to the Asian Development Bank (ADB) for Tumen Area projects, rather than putting money directly into TRADP. Japan's caution had its downside when the five PMC members rebuffed a proposal to hold PMC VI in Niigata on the grounds that Japan only had observer status on the PMC.

10 They perhaps facilitated the DPRK's 1993 decision to allow ROK-flag ships to use Chongjin port.

11 The problem is not physical capacity but bureaucratic opposition by Chinese aviation officials in Changchun and other cities who fear that granting international route rights to Yanji would divert traffic from their own airports.

12 Lee (1997) refers to a report on a September 1996 visit by two economists from the Institute for International Economics in Washington DC who draw these conclusions. The situation may have changed in 1997 when further liberalisation occurred in the zone, including establishment of a realistic exchange rate.

13 Since late 1995 one Chinese-flagged ship has provided a weekly container service to Pusan, which is to be extended to Osaka in 1997. Another provides a Chongjin-Niigata service.

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