

DRAFT

**THE PYONGYANG INTERNATIONAL CONFERENCE
AND FIELD TRIP**

29 April-4 May 1992

Democratic People's Republic of Korea

Hosted by the Ministry of External Economic Affairs,
Democratic People's Republic of Korea

Co-sponsored by the Northeast Asia Economic Forum,
Honolulu, Hawaii
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INTRODUCTION

The Pyongyang International Conference and Field Trip was the first meeting of the Northeast Asia Economic Forum and the third in a series of conferences originated by the East-West Center to examine the possibilities and prospects for economic cooperation in Northeast Asia.¹ The topics of discussion during the conference covered the Rajin-Sombong Free Economic Trade Zone; the current status and prospects of three harbors: Chongjin, Rajin and Sombong; the existing situation and prospects of the road and railway network in the northern area; Chinese, Japanese, North Korea, Russian, and South Korean perspectives on Northeast Asia economic cooperation and the Tumen River Basin; the UNDP's plans and efforts; field observations of the ports and harbors by Japanese engineers; and a concluding multinational panel focusing on prospects for cooperation in Northeast Asia and the Tumen River Basin. (See Appendix I for the conference agenda.)

About 140 scholars, businessmen and journalists from China, Japan, Russia, North Korea, South Korea, and the United States traveled by special express train arranged by the host organization to the Chongjin-Rajin-Sombong-Tumen area adjacent to the Chinese and Russian borders. (See Appendix II for list of participants.) The group made a historic site visit to the ports and special economic zone proposed by North Korea for the Tumen River Area Development Programme. This expedition was an unprecedented opening of the North Korean countryside to Westerners and news media.

The Tumen River Project was first discussed internationally at an East-West Center conference in Changchun, China in 1990. A feasibility study on the project is being coordinated by the United Nations Development Programme. The field trip preceded the Pyongyang International Conference. The conference and field trip were hosted by the Ministry of External Economic Relations, Democratic People's Republic of Korea (North Korea), and co-chaired by Dr. Lee-Jay Cho, Vice President for Program Development at the East-West Center, and Kim Jong U, North Korea's Vice Minister for External Economic Affairs.

The conference chairs expressed appreciation for the contribution of the government of the Democratic People's Republic of Korea in hosting the meeting and arranging a tour of its three ports in the Tumen area, as well as for its full participation in the dialogue on cooperation. In the spirit of the 1991 Changchun Initiative (Appendix IV) and the Tianjin Conclusion (Appendix V), the conference reaffirmed the need for regional cooperation in the economic development of Northeast Asia. In this context, the conference recognized the value of the Northeast Asia Economic Forum in furthering the nongovernmental dialogue and research so important to the identification of concepts and prospects for economic cooperation and development in the region, as well as for building a sense of community among scholars and policymakers. A major conclusion of the conference was that each country must continue to promote mutual understanding and contribute knowledge to implement cooperation in the

¹1. International Conference on Cooperation in the Economic Development of the Coastal Zone of Northeast Asia, Changchun, China 16-18 July 1990; 2. International Conference on Economic Development in the Coastal Area of Northeast Asia, 29-31 August 1991.

economic development of the region, thus facilitating the necessary transfer of technology and capital. Thus, the conference specifically welcomed the forthcoming International Conference on Northeast Asia Economic Cooperation in Vladivostok in August 1992 as another step in the ongoing dialogue among the countries in the region.

The meeting recognized the complementarities for economic cooperation within the Tumen Basin area while also recognizing the value of existing ports such as Rajin, Sombong, and Chongjin, and individual country infrastructural development plans.

NORTH KOREAN PERSPECTIVES

The Tumen River area is at the geographic center of Northeast Asia (Figures 1-5). Air travel between the countries of Northeast Asia can be accomplished within two hours, and marine access to surrounding countries is also remarkably easy (Figure 2). For example, the sea distance from Rajin, Sombong, and Chongjin ports to Niigata, Japan is only 492 nautical miles (nm); the ports are only about 100 nm to Vladivostok and Nakhodka. It is also only about 450 nm to Pohang, Ulsan, and Pusan in South Korea. Furthermore, these ports in the lower Tumen River delta are already connected to China, Mongolia, and Russia by railways and roads. Thus, when the free economic trade zone in the Rajin-Sombong area and the free port status of Rajin, Sombong, and Chongjin becomes operational, the traffic of goods to East Asia and Europe through the Lower Tumen River delta will increase and the duration of transport will be remarkably shorter than now.

Twenty percent of Japan's total foreign trade is with Europe. It takes 40 to 60 days for goods from Japan to reach the European Continent via the Indian Ocean-Mediterranean Sea. However, goods shipped via Rajin, Sombong, and Chongjin ports will take one day by sea from Japan to the ports and one week to Europe by train. And goods from Mongolia can obtain access to the Pacific and Atlantic Oceans through the Korean East Sea via train from the Rajin-Sombong area.

North Korea believes it would be better to first develop the area that can yield the highest economic profitability with the least investment, and to expand such development gradually to a larger area based on the experience gained. Thus North Korea is emphasizing over the short-term the development of the Rajin-Sombong area, utilizing the existing ports, railways, and roads. The North Korean Administrative Council proclaimed at the end of last year a free economic trade zone in the Rajin-Sombong area and that Sombong Port, Rajin Port and Chongjin Port are free trade ports. This decision (no. 74) of the Administration Council dated 28 December 1991 proclaimed a total area of 621 km² as a free economic and trade zone, covering 14 *dongs* and *ris* of Rajin City and 10 *ris* and districts of Sombong County, North Hamgyong Province. North Korea believes this act will boost capital investment, trade, service industries, tourism, and financial affairs in the Rajin-Sombong area.

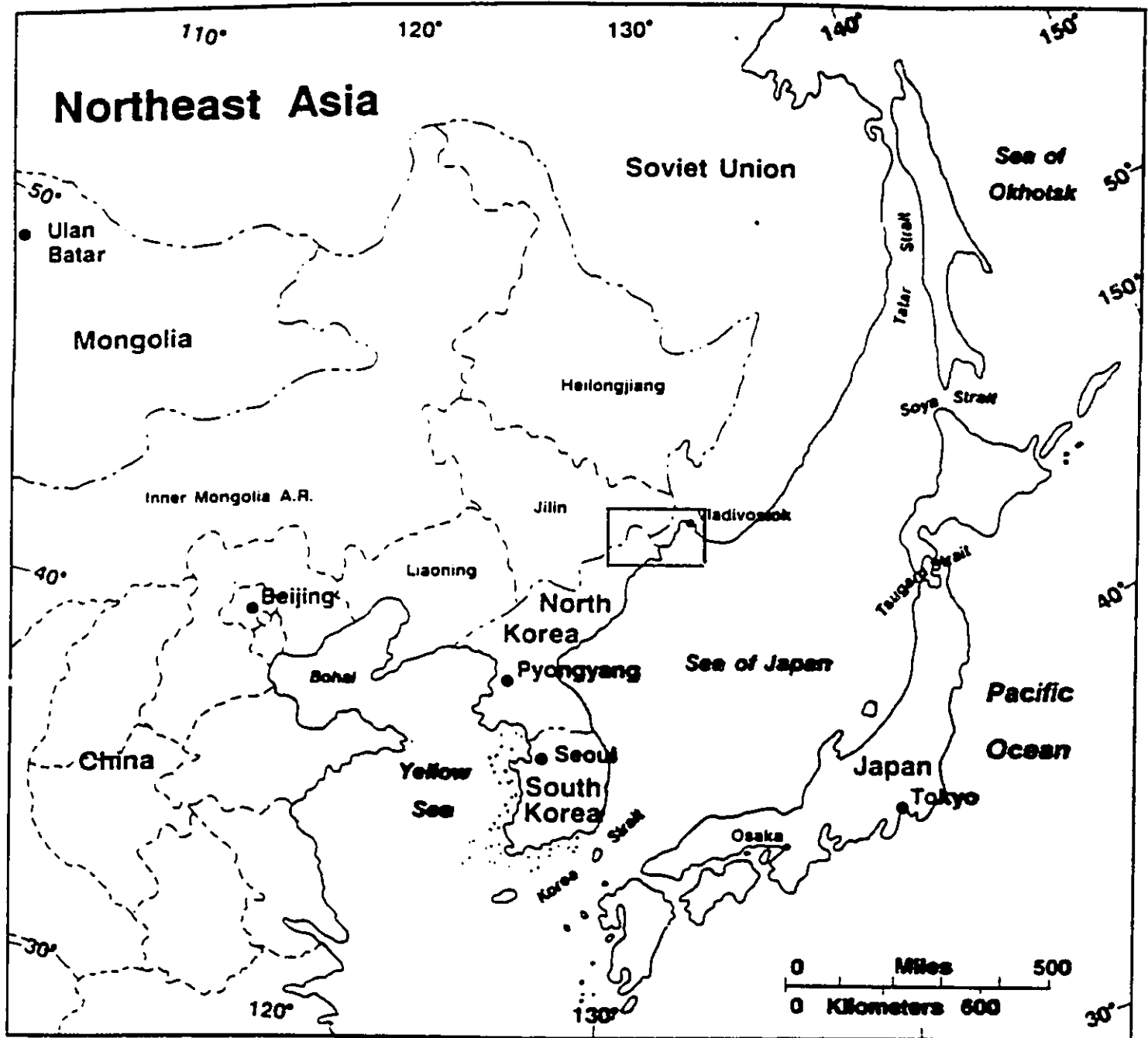


Figure 1. Northeast Asia (Courtesy of Hal Olson).

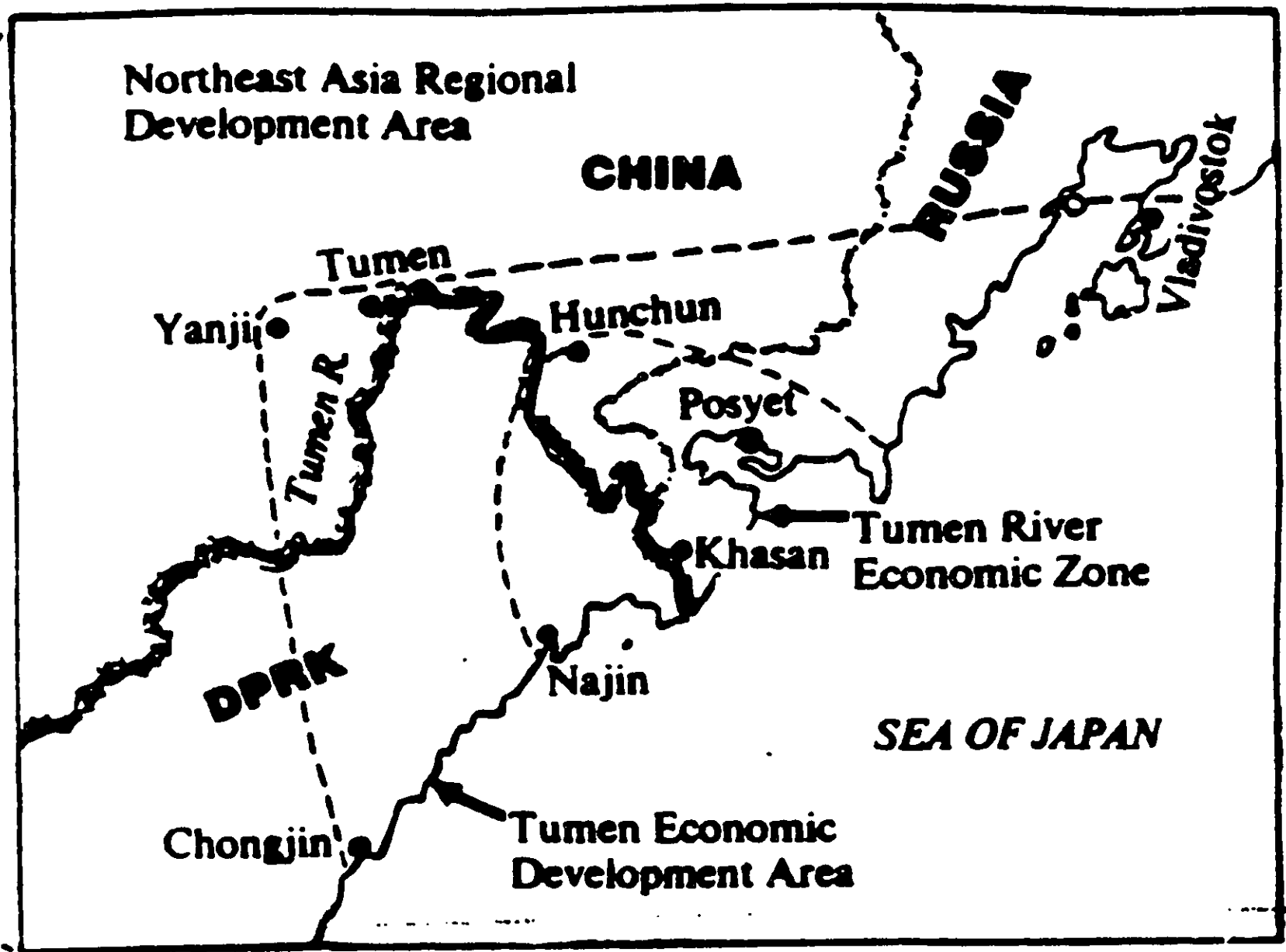


Figure 2. Tumen River Economic Zone and Tumen Economic Development Area

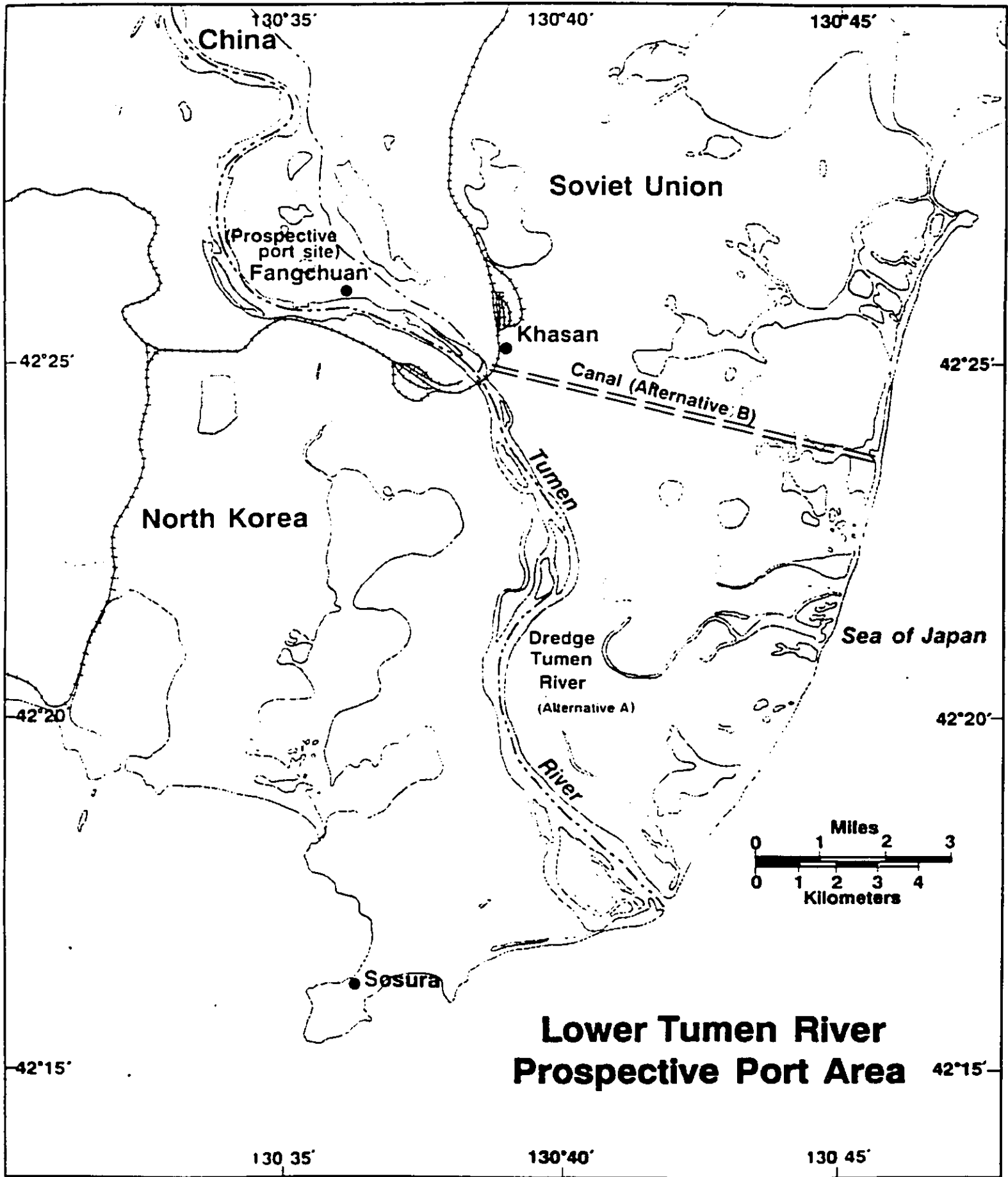


Figure 3. Lower Tumen River Prospective Port Area (Courtesy of Hal Olson).

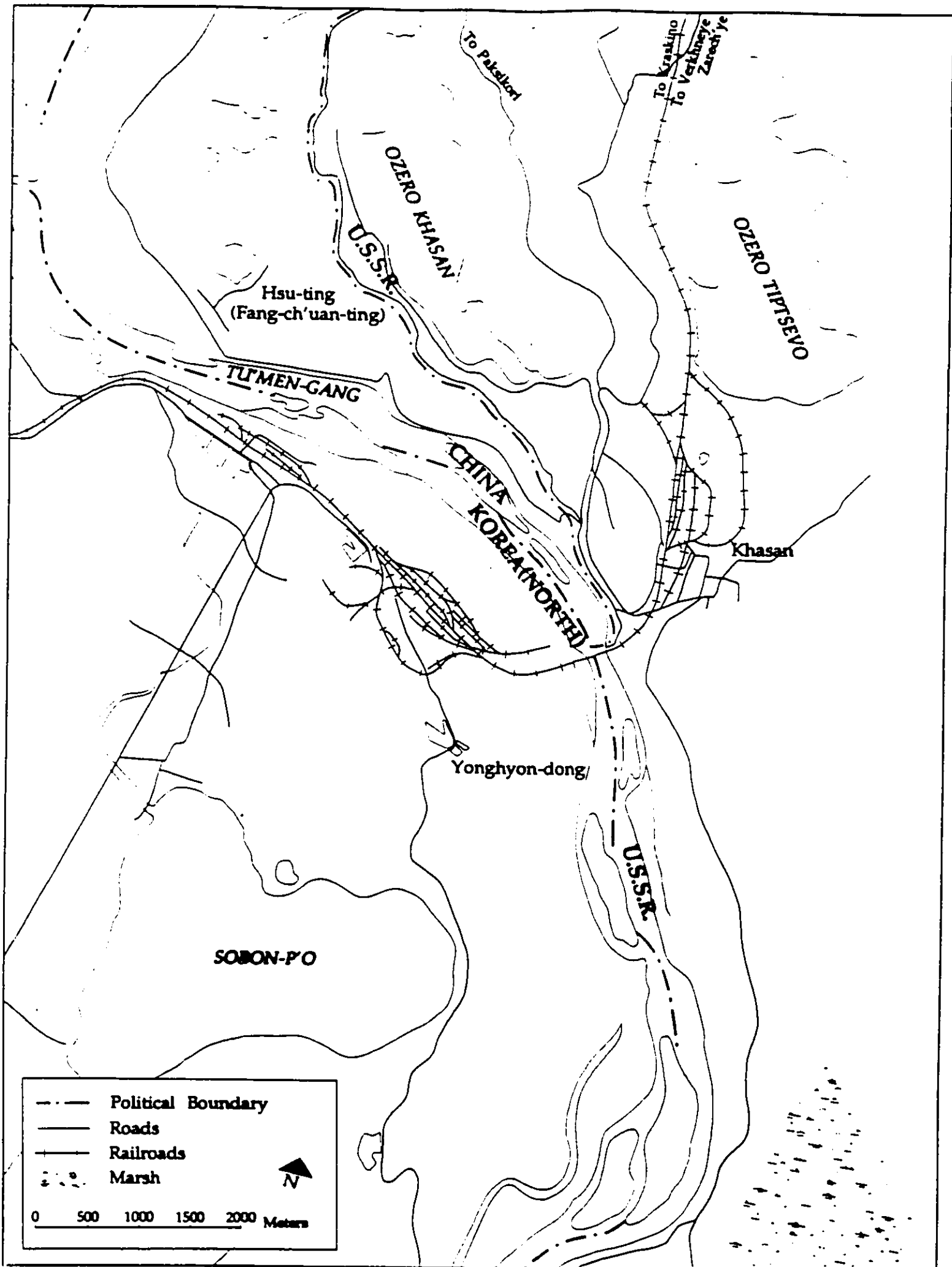


Figure 4. Tumen River Basin: Roads and Railroads

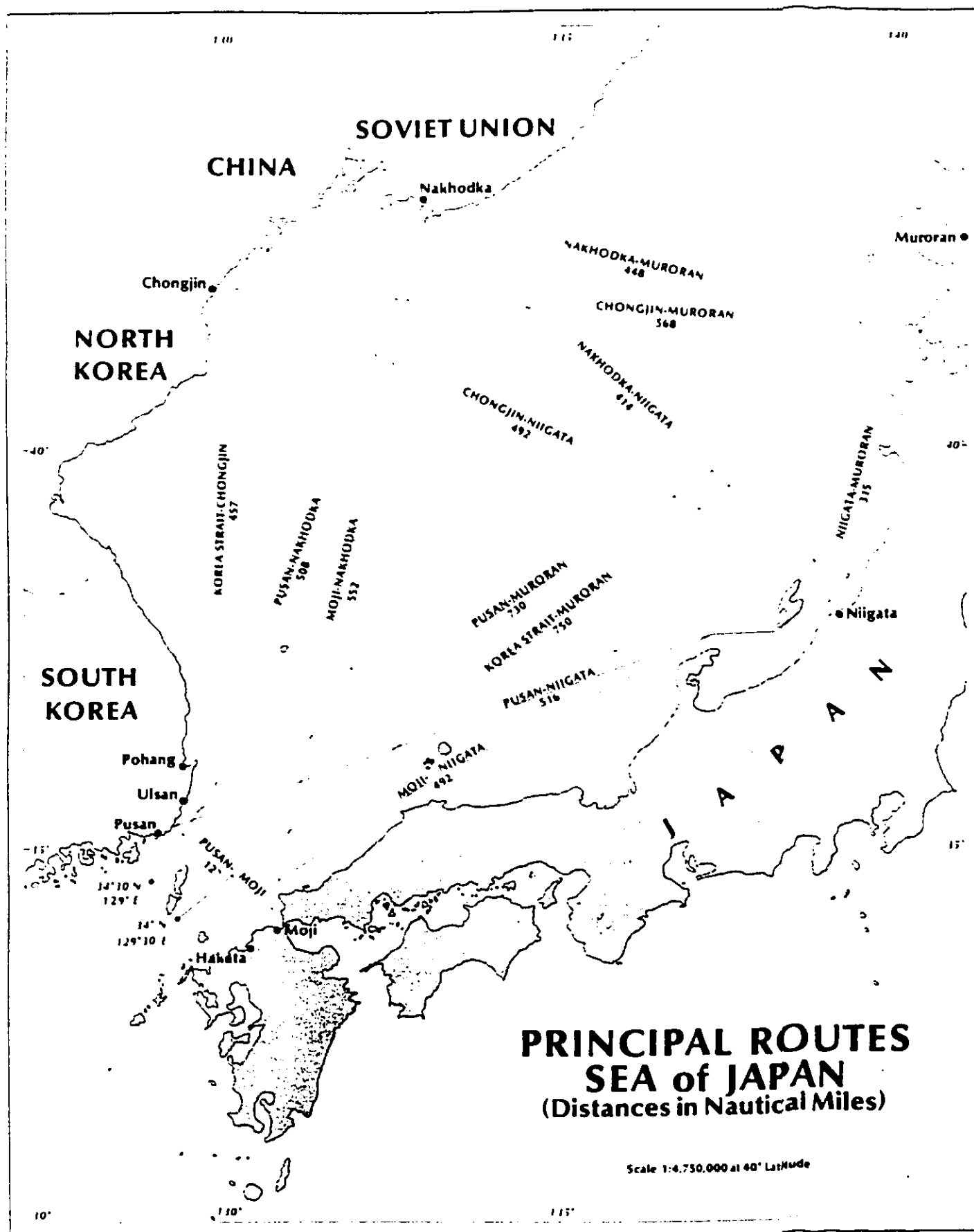


Figure 5. Principal Routes: Sea of Japan (Courtesy of Hal Olson)

In the near term, North Korea is planning to improve and consolidate the infrastructure in the Rajin-Sombong area while making detailed site investigations to further develop bilateral and multilateral economic cooperation. At the same time, North Korea intends to increase its own investment in the area and also attract foreign investment. Foreign capital invested and income therefrom will be protected by law and encouraged by various incentives and facilities, including reduction or exemption from custom duties and income tax. Such laws, regulations and rules applicable to the free economic trade zone are being formulated and will be proclaimed in the second half of 1992. The intent is to accelerate the development of the Rajin-Sombong Free Economic Trade Zone as a base for manufacturing industries, transport of goods in trade and transit, and ultimately, as a center of regional economic cooperation in Northeast Asia.

North Korea first expressed interest in the Tumen River scheme at the 1991 Changchun Conference. The impetus for North Korea's interest in the Tumen River Basin project stems from global political development and economic change. The Cold War has ended. The socialist market has collapsed. As a result, North Korea is experiencing some difficulties, particularly regarding imports of oil and natural resources. Formerly, North Korea imported these raw materials and paid for them with its own goods. Now it cannot export goods to the former socialist countries so raw material imports have decreased sharply. Basic needs are being met, but consumer goods are in short supply. The foreign debt is about US\$7 billion and North Korea wishes to postpone its repayment to countries like Russia and those in Eastern Europe. Accordingly, North Korea is directing its efforts toward the capitalist world. This is the context of its interest in the Tumen River Basin project. However, North Korea feels it needs to first develop its own adjacent region to the level of its neighbors. China is rapidly developing the infrastructure—roads and railways in particular—in the adjacent Yonbian Korean Autonomous Province. North Korea feels it must keep up with the developments on the Chinese side. Only in this way can the zones be coordinated, jointly managed, or merged. North Korea is eyeing the growing demand in Russia and China for port facilities. Since Russia's ports are frozen for four months of the year, North Korean ports may help meet the demand.

Similarly in Northeast China, there will be a growing demand for transport facilities, especially those directed toward the east to Japan, Korea, and the Pacific. The route via Rajin or Sombong is the shortest and most economical. North Korea's initial plan is to utilize its existing rail and port facilities and then gradually expand transportation facilities as demand increases. In setting priorities, emphasis would be placed on investments that provide a quick return, particularly road and rail facilities. North Korea is also hoping that China, Russia, or Japan might take part in the investment in the larger Tumen River delta development scheme as partners acting in their own economic interest. Thus, North Korea's initial position on the Tumen River development project is that each country should proceed with its own plans, and that cooperation and coordination could come later. This strategy would also minimize probable side effects associated with its new attempt to open part of its territory to the outside world and avoid raising the question of sovereignty.

North Korea also wants to improve its technology for its own survival. This can be done through joint ventures. To have foreign investment in its free economic zone, North Korea must have laws that satisfy the demands of the investors—such laws are being formulated. Preferential treatment to investors will be accorded for visas, entry and exit, and taxes. There will be tax incentives and exemptions from income tax for foreigners. North Korea argues that the zone will be better than other such special zones because there will be no 'thieves, punks, or pimps' in North Korea's special economic zone. Workers will be hardworking and modest in behavior. However, different laws will apply in the zone and mandatory ideological instruction may not apply there. North Korea believes that this policy is not contradictory to *juche* (self-reliance) because independence does not exclude foreign investment. Indeed, North Korea encourages such investment but feels its policy has not been successful because it has been isolated by the United States.

In North Korea's view, the Tumen River project may even help reunification of the Korean peninsula. North Korea hopes South Korea will be the first and foremost investor. However, the major cost of development of the North Korean zone will be borne by North Korea itself.

North Korea passed a joint venture law in 1984, but its implementation has only just begun. This conference was considered the beginning of its implementation. Although North Korea also welcomes joint ventures in other areas, the Tumen area is viewed as the initial experiment. Later North Korea may open Wonsan and Nampo, which may also become free tourist areas. In this context, North Korea is very concerned with environmental pollution and protection. A small number of factories are polluting now but they are being controlled. Environmental protection measures will be implemented for the Tumen River area.

North Korea recognizes that advice and more detailed work is necessary to achieve its goals. One problem is the lack of data. This is a common shortcoming of socialist countries because the objectives are not solely economic. Much work needs to be done and is being done to provide the data required by foreign investors.

Only 190 km² out of the 621 km² free economic and trade zone will be developed. The cost will be about 4.1 billion. Chongjin is excluded from the free economic zone but will handle cargo overload. Chongjin is now a free trade port and open to ships of any country. Free trade means there are exemptions from tariffs and customs duties. Within Chongjin Port there will be a duty free area and an airport will be built near Lake Dongbon. Communications facilities in the area are currently poor but will be upgraded in the special economic zone.

The first stage of development will include electrification and double-tracking of the railways. Infrastructure construction will begin in late 1993. Loans from other countries would be welcome. In this regard, North Korea has applied for admittance to the Asian Development Bank. Wages will be about \$70-\$100 per month for workers and they will be

able to travel freely in and out of the zone. Land will be leased for 20 to 30 years and the leases can be extended if the arrangement is mutually satisfactory.

The zone will be managed by a central body and all foreigners will be treated equally. The population in the area is expected to increase to 500,000 and skilled workers are currently being trained. South Korean investment is expected to be in light industrial manufactures while Japanese investment will be in manufacturing of motors and electrical appliances.

Industrial Development Plan

The basis for metallurgical, chemical, machine, shipbuilding, mining, and light industries has been established in the Rajin-Sombong free economic and trade zone and its vicinity. There are useful mineral deposits nearby, such as iron ore, coal, and ceramic materials. The traffic conditions are favorable to an industrial layout. The zone has a very gentle slope of 1-2 percent and solid ground with an internal strength of 20 t/m².

Several projects are being considered for the area: heavy industry such as a machine tools plant, an engine manufacturing plant, a measuring apparatus factory, a hydraulic device factory, and a ship repair plant. Light industry will include factories producing knitwear and garments, shoes, cosmetics, daily necessities, school products, electronic materials and goods, canned fish, beverages, foodstuffs, wood fittings, upholstery, and bicycles. Investments will be encouraged in the processing, transportation, communication, and power industries and in service industries through joint ventures and coproduction with foreign enterprises.

Concomitant with the construction of infrastructure in the free economic trade zone is the necessity of proper land planning, particularly in the Rajin-Sombong area. For planning purposes, the area is divided into five subareas: Rajin (Huchangri included), Sombong and Ungsang as the industrial and population area, Uam (Sosura) for tourism, and Hongui (Tumangang) as the base for service facilities. Industrial establishments that will experience a lot of goods traffic will be placed near the ports, and pollution-free light industries such as garments, daily necessities, arts and crafts, food processing, and electronics will be situated near the populated areas. Service enterprises and the commercial sector will be at the center of the cities.

Thus Rajin will be a transit, manufacturing, and trading city with service and commercial centers and garment industries. Sombong will be a chemical and electronic industry complex with petrochemical and electronic industries. The Ungsang area will be a port city and a center for wood processing and building material industries. Uam (Sosura) will be a base for tourism focused on the natural lakes, coastal scenery, and hills. Hongui (Tumangang), a border city, will be a service and supply center.

Rajin will be the focus of the first stage of construction. Its population will increase to a maximum of 300,00 and city construction will be extended gradually to the Sombong and Ungsang areas.

Immediate demand for domestic water will be supplied from existing sources, and short-term needs for the increasing population in Rajin (260,000 m³/day) will be satisfied by increasing the capacity of the existing intake dam in Huchang Stream and by building another dam in Muchangri, upstream of Sochong Stream. In the longer term, dams will be built in Rokyari and Gumsongri of Undok County, upstream of Oryong Stream to supply water and generate electricity.

Site investigations, preparation of a national land master plan, general city plan, general design and study, and estimation works are all underway. The site investigation was completed in June and followed by finalization of the national land master plan and general city plan. Thereafter, construction and investment projects will be implemented step-by-step.

CHINESE PERSPECTIVE

China's position in the scheme is as critical as it is complex. North Korea's special economic zone and indeed the entire Tumen River Area Development Programme depend on the hinterland of Northeast China, along with Mongolia and the Russian Far East, to supply raw materials, imports, and exports. There are a billion tons of coal in Yonbian; 1.4×10^6 kilowatts of electricity; and agriculture, livestock breeding, timber, and tourism potential. Hunchun has a coal mine which produces 5×10^6 tons per year from three pits and a 140×10^3 kilowatt power station.

By according Hunchun the coveted special economic zone status enjoyed by only five other enclaves, all of them on the southern coast, China has implicitly thrown its weight behind the Tumen River Area Development Programme (TRAD). Previously, the idea had generated more enthusiasm in northeast China than in Peking, where it met resistance from lobbyists for other regional interests. The Hunchun announcement stopped well short of outright endorsement of the TRAD concept. Indeed, it seemed to go out of its way to avoid directly mentioning trilateral cooperation with China's two northeastern neighbors. One option for China would be to rent a port in North Korea or Russia or building a port on a small island off North Korea. China attempted large-scale exports through Chongjin several years ago but suspended this practice when its freight cars were not always returned after unloading. The current transit cargo handled for China and others is only 100–150 thousand tons a year. Nor has the Chinese Government formally given up on its hope of turning Fangchuan into a river port by dredging the last 18 km of the Tumen River or building a canal from Fangchuan across Russian territory. Under an 1868 treaty, this stretch of river lies outside China and forms the Russian–North Korean border, though China theoretically retained navigation rights through the Beijing Treaty of 1895.

China feels it is its destiny to regain access to the Sea of Japan. It wants to restore the trade and cultural linkages through this region that existed for centuries and were "temporarily" interrupted. Its ultimate goal is to provide a "landbridge" between northeast China and the Japan Sea through the Tumen River delta. Thus China will proceed with its plans and development of its portion of the region, regardless of what other countries do. It is conducting its own feasibility study and will make a decision on the site and size of a port on the river, probably at Fangchuan.

JAPANESE PERSPECTIVE

Japan Sea economic rim studies began with a conference in 1987 in Niigata. Japan is aware of the similar cultural and historical heritage of most of the countries surrounding the Japan Sea. It considers itself an integral part of this region and wishes to restore and impart a modern dimension to trade and exchange in Northeast Asia. Moreover, Japan recognizes that it is now an economic "superpower" and that it should contribute to the economic development and prosperity of the lesser-developed parts of the region. Thus Japan's motivation in this regard is not strictly economic in a conventional sense and success will not be measured in conventional economic terms. Japan is also mindful of the new world situation and the complementarities of the region. It expects to benefit by applying Japanese capital, technology, know-how, and market access to Russian and Mongolian natural resources, using cheap Russian, Chinese, and North Korean labor and energy. For Japan, the area could serve as a land-bridge to Asia and thus contribute to overall world development.

There are, however, a number of problems that must be overcome. Political relations between Japan and Russia and Japan and North Korea must be normalized. Comprehensive research is needed and Niigata will be the center of this effort. More economic data is required from North Korea, e.g., present and projected cargo types. The Tumen area should be viewed as a center of development for the whole world and as such, it must consider the interests of all. Development thinking must be long term. It is impractical to pursue immediate benefit. Efforts must be harmonized and here UNDP can play an important coordinating role. For example, there must be a division of labor between China and North Korea. China should use North Korean ports. Fangchuan port could be built later as the industrial base expands. These ports could then co-exist. Infrastructure must be further developed.

By 2010, there will be 250×10^3 tons of cargo handled in Nakhodka/Vostochny, 50 million tons in the three North Korean ports, and 50 million tons in Wonsan. Where will this cargo come from? Will these ports will be compatible or competitive? To avoid competition, each side must rethink its strategy with a view to making one or more of the ports specialized.

RUSSIAN PERSPECTIVE

The initial view of the government of Primorsky toward the Tumen River project was negative because of its emphasis on Vladivostok–Nakhodka as the major port for the Russian Far East. But now Khabarovsk and Sakhalin have more autonomy and may go their own way economically. So Primorsky is now more interested. The plan to establish the Greater Vladivostok Free Economic Zone is now undergoing major revisions due to feasibility problems. Russia has also acknowledged the need to coordinate its own development plan with the Tumen River Area development.

Russia's primary concern arises from the possibility that significant development of the North Korean ports, together with rail links through China to the Trans-Siberian Railway, might cut off the Primorsky region or lead to a devaluation of the investment in the Russian ports of Vladivostok and Nakhodka. Such problems, however, can be circumvented with proper consultation and reconciliation. Local areas or groups to be affected by development, including the South Primorsky region, would need to be consulted on this issue.

In the long run, however, the current economic foundations of the Primorsky region will be greatly enhanced by economic cooperation with the Tumen River development project. When the Primorsky region is linked to the proposed development area around the Tumen River, the advantages of raw material endowments and a low-cost labor force in the initial stage would be realized. It is also expected that the development potential of natural resources in the Siberian region will be greatly enhanced by expanded Northeast Asian economic cooperation in the Tumen River area.

Russia has already expressed its preference for the idea of designating a large development zone from Vladivostok to Chongjin as proposed by China. A free trade zone would be established in the Nakhodka area. The rationale for the zone would be to encourage foreign capital and expertise, accelerate development, increase the supply of goods and services available, and increase exports. Approximately half the zone's production would be exported. Activities in the zone would include processing of local materials such as fish, timber, and minerals; ship repair; manufacturing of equipment for the fishing and timber industries; light industry (clothing, footwear, and electronics); agro-industry; construction; tourism; and recreational activities. The importance of environmental concerns are recognized and will be addressed.

SOUTH KOREAN PERSPECTIVE

The Tumen hinterland boasts rich resources including timber, minerals, oil, coal, abundant farmland, and plenty of cheap labor. By developing export-oriented light manufacturing industries and extractive industries in this subregion, the three countries bordering the river would be able to earn much-needed foreign exchange and secure capital, goods and technology. At the same time, other Northeast Asian countries like Japan and

South Korea may be able to get easier access to cheap labor and natural resources, which are in short supply in their countries. In addition, Japan and South Korea may be able to diversify their export markets. Further, the development of the Tumen River mouth may also pave the way for North Korean and Russian ports to engage in entrepôt trade with other Northeast Asian countries.

The Tumen River area, particularly part of North Korea, Siberia, and Northeast China has long been cut off from the world market. Promotion of entrepôt trade would enable this secluded area to develop into a center of transit trade or bonded processing area for the Northeast Asian subregion. In particular, if the area were effectively linked to the Trans-Siberian Railway, the other land-locked areas surrounding the Tumen River mouth may work as effective inland ports.

The Rajin-Sombong area has good potential. A rough assessment of the infrastructure of the North Korean ports indicates that development of the Rajin-Sombong area is attractive. In order for such an entrepôt or inland port to be realized, however, multilateral efforts are essential to ease the institutional and legal hurdles related to cross-border and multi-jurisdictional trade.

The development of the Tumen River area may enlarge opportunities for neighboring countries to establish new relationships with each other with respect to the promotion of trade, investment and technology transfer. In the process of establishing separate developed zones or a jointly managed zone, participating countries may be able to better understand each other's institutional arrangements and characteristics such as legal and political systems.

The development of the Tumen River area may generate benefits at the microlevel, too. Firms operating in a free economic zone may be able to learn new management styles and technical knowhow from their foreign partners. And joint venture or foreign-invested firms may be able to economize their production costs by taking advantage of tax breaks, cheap labor, and low-cost raw materials, thereby strengthening their price competitiveness in the international market.

The Tumen River Area Development Programme, by generating these benefits, may eventually contribute to the economic development of Northeast Asian countries and to the general improvement of the welfare of the people in the region. In addition, the program, through direct and indirect channels, may enhance the synergy and allocative efficiency not only of the industries in the three countries contiguous to the Tumen River, but also of those other Northeast Asian countries joining the program.

Even at the pre-investment stage, however, there are serious constraints and obstacles that must be overcome. There is a gap between the development concept and the establishment of priorities in the design of the regional development program. North Korea wishes to develop the Rajin-Sombong area as a free economic zone with the help of foreign capital and technology, but independently of any supranational administrative authority. By

contrast, China seems to prefer the jointly managed enterprise concept to that of separate economic zones and insists on early formation of the financing consultative group to accelerate the pace of the development program. Russia, suffering from domestic uncertainties, has yet to make its official position clear.

Such a wide gap in perception is normal, because each option has its own merits and demerits, and because China, North Korea, and Russia are each at a different stage of economic development and thus have different political and economic interests. What is important is that the perception gap is also due in part to the precedence of national interest over global or common interest, based on the rigid assumption that the several concepts proposed by UNDP are mutually exclusive and final. The lack of flexibility in the selection and interpretation of the development options may result in difficulty in drawing financial support from other countries and international development organizations like the ADB and the World Bank. The concepts or development options have yet to be fixed, and are subject to change and compromise.

In fact there is a high likelihood that a hybrid form of option may appear through on-and-off consultations among the countries involved and through mediation by third nations or the UNDP. For example, the countries may choose the option of separately and independently developing three free economic zones that may or may not be contiguous to the border of the other countries. At this stage, the harmonization of development policies may not materialize due to conflicts of national interests. But with first tangible results of separate development, these three countries may discuss the possibility of enhancing the level of cooperation to the degree of jointly establishing a supranational "enterprise," jointly owned and jointly supervised by the countries concerned. Whether the "enterprise" is commercially oriented or not is only secondary to the fostering of regional economic cooperation. This is just an example of many possible scenarios, and there can be many other mixed solutions. By pursuing such compromise solutions, the wide perception gap may be narrowed and the countries can forge ahead with a more advanced level of subregional economic cooperation.

Even though the nature and composition of the final option remains to be seen, the success of the program hinges largely upon the objective and neutral study of economic and technical feasibilities in the area. The Tumen River area has long been cut off from the growth poles of the Asian economies, because it is one of the more sensitive areas, politically and militarily, in Northeast Asia. Here the interests of large and small countries are intertwined in a complex way. Thus, South Korea believes that to secure the success of the TRAD it is vital for participating countries or those considering participation to strive to be politically neutral and base their decision on objective evidence and precise economic and technical feasibility studies.

It is equally important to fully take into account the diversity of the participating countries' economies, their different levels of economic development, and the complementarities of factor endowments of the countries in designing the practical framework of the TRAD. If the rules of the market mechanism and the primacy of economic

considerations are ignored or undervalued in comparison with political considerations, the program is bound to bring about inefficiencies in resource allocation and may eventually prove to be useless, as it may not attract foreign capital to finance large-scale infrastructural investments.

Therefore, the TRAD should be designed in such a way as to maximize the growth potential of the Tumen River area. To this end, it is vital to ensure that the practical information gathered through on-the-spot study tours and investigations is fully incorporated in the program document. It is also equally important that a balance be struck between the construction of physical infrastructure and the development of institutional infrastructure. If the direction and outcome of research is biased towards the physical plant, it may soon cause serious problems in coordinating different national interests and harmonizing different economic systems, and thus delay the implementation of the program.

To promote the TRAD, foreigners should be provided with easy access to the Tumen River area, unless this causes serious problems in security. Second, institutional mechanisms should be set up to enable specialists of the countries concerned to freely exchange views. Perhaps a project coordinating center could be established near the Tumen River area so that comprehensive planning for physical, institutional, financial, and other related needs could be undertaken. Third, exchanges of personnel and physical resources in the conduct of feasibility studies would also enable foreigners to experience and resolve various kinds of difficulties that may arise in the pre-investment phase of the program. In this manner, foreigners can better evaluate the economic and technical feasibility of the Tumen River program in a more objective and precise manner, and publicize the results to potential investors.

Although bilateral economic cooperation may resolve some problems, it is insufficient to resolve all problems, particularly those to be encountered in financing the huge development costs estimated at US\$30 billion. It is possible that once relations are reestablished Japanese compensation for wrongs inflicted during World War II may be directed to this project. This huge financial need dictates that the mode of regional development or subregional economic cooperation must be multilateral rather than bilateral. All countries can benefit from the plan. Consensus, once formed, should be respected at the preparation and implementation stages.

This conference series has laid a firm foundation for the more objective evaluation and promotion of the TRAD.

There appears to be general agreement on goals but not on the approaches to attain them. The proposals of North Korea and China should be harmonized. A wider rather than smaller area should be developed as a free economic trade zone. More research is necessary to determine the costs for developing the North Korean ports and on the time frame for doing so, as well as for the costs of the wider zone. Priorities must be set. ROK feels the project should have a 30 to 40 year time horizon, not 20 years. Establishment of political relations

between Japan and North Korea will make Japanese investment possible. Although there is a proposal to establish a Northeast Asian Development Bank, perhaps existing banks such as the Asian Development Bank should be used instead.

Rajin has favorable conditions for a port. It is protected by high mountains which conversely may prevent infrastructure development in the area. Sombong is nearer to both China and Russia and has the necessary facilities for transshipment of cargos, but lacks infrastructure for a port or for tourism development. Chongjin is a large port surrounded by heavy industry including steelworks. These industries may prevent expansion of the port. What is needed is a master plan with short-, medium-, and long-term components. North Korea must decide on its priorities for development—the west coast or east coast. South Korea is prepared to work with North Korea in developing plans and regulations for its free economic trade zone. A multinational center for experts and scientists from each country should be established in the Tumen area to coordinate and control development plans in the area and recommend regulations and tariffs.

Of course there is an emotional factor underpinning North-South economic cooperation. Blood is thicker than water. Kinship bonds have been used to promote economic cooperation between Taiwan and Fujian and Guangdong Provinces of China. Both Koreas feel that the kinship ties of some 13 million families separated by the division of the peninsula provide a firm and ready avenue for such economic cooperation. Indeed, both North and South Korea feel that they should have priority with each other in such endeavors. This applies as well to South Korean investment in China's Korean autonomous region, home to some 1 million ethnic Koreans living in China adjacent to North Korea.

UNDP PERSPECTIVES AND PROGRESS REPORT

The UNDP has pronounced the building of a river port for 3,000-ton vessels and dredging of the lower 18 km of the Tumen River to be prohibitively costly. It has instead conceived the Tumen River Area Development Programme (TRAD) as a network of specialized Russian and North Korean harbors linked through an "inland port" and rail hub at China's Hunchun. The Tumen River Area Development Programme includes a core Tumen River Economic Zone (TREZ) (Hunchun-Posiyet-Rajin) surrounded by a much more extensive industrial hinterland, the Tumen Economic Development Zone (TEDZ) (Tanjin-Vladivostok-Chongjin). This includes 621 km² in North Korea and 1,000 km² in China.

China is considering making the undeveloped town of Jingxi its corner of the TREZ and leaving the new Hunchun SEZ as part of the TEDZ, rather than placing it within the joint management area. The TEDZ might also include the Russian ports of Vladivostok, Nakhodka, and Vostochny. These had previously been excluded from TRAD but were the subject of another UN-backed report with Japanese technical assistance. Mongolia is already negotiating with the ADB to establish its rail link to the area.

Consideration is being given to the establishment of a special economic zone in East Mongolia to attract foreign investment. Mongolia would like not only to be an observer of, but an active partner in Northeast Asian economic cooperation. Mongolia places particular emphasis on international cooperation in developing international transportation links through the Tumen River region. The idea of a landbridge linking the Tumen River Area with Europe via East Mongolia is especially attractive from the Mongolian viewpoint. East Mongolia in particular is underdeveloped and a major international transport link through the area would open up significant development possibilities.

UNDP feels that the project is a natural, and it cannot be denied. It will happen. But the real question is what exactly will happen? Whatever it is, UNDP feels the plan should be for 20 years; 40 years is too long because the world changes so fast.

The TRAD Council, the project's board of directors, convened its first working group session in Peking in late April 1992. The three-day meeting focused on the possible legal, tariff, and currency regimes in TRAD, ways of financing the project, and the siting of component facilities. Concrete answers to these questions are still a long way off. But some progress has been made.

A work plan for the next 18 months has been formulated. UNDP has been asked to lead the project because the countries would not agree to a rotating country leadership. The next step is for the working groups to report to the Program Management Committee (PMC) in six months. The PMC consists of representatives of China, Mongolia, North Korea, and South Korea. Japan and Russia are observers. Russia will become a member after it joins the International Monetary Fund and the World Bank, and then UNDP.

The concept and strategy paper for TRAD has been approved with revisions. The financial strategy, work plan, and planning budget were also approved—\$850,000 of which is now being spent. UNDP has budgeted a total of \$3.5 million for the studies. A project manager has been selected with a background in economics and finance. The budget will first be used for communication equipment, e.g., fax machines, satellite receivers, and computers. The operating issues have been worked out by the six countries.

The form and mechanics of administration of the zone have not yet been agreed to by the parties. There are several concepts. UNDP says China now accepts transnational administration and joint ownership of facilities in the TREZ, by itself, North Korea, Russia, and Mongolia; but North Korea prefers instead a coordinated zone in keeping with its principle of *juche* or self-reliance. The TEDZ may still comprise contiguous but separately administered industrial zones in the three countries.

It should be remembered that the driving force behind the Tumen River development scheme is China: 80 percent of the goods will be imported or exported from there. China wants to regain the right of access to the sea. UNDP's proposal is to have the ships come into Rajin, Sombong, and Vladivostok and load the goods directly onto bonded trains or store

them in bonded warehouses exempt from customs and taxes. An inland port for customs and cargo sorting and classification would be built at Hunchun. Cargos would then be redistributed to Mongolia, Siberia, and northeast China. China and North Korea could build a new port together and jointly manage it. The Khasan area would be protected and undeveloped.

One hard currency must be established to replace the three weak currencies. A currency board would be established. Cooperative management would require a treaty. A consortium would negotiate a convention for transactions with foreign businesses, and UNDP would monitor the convention.

Decisions must be taken soon. After 18 months the strategic options will be submitted, a consensus will emerge, and decisions will be made. Still needed are assessments of environmental impact, economic feasibility, infrastructure and communications requirements, and estimates of short-term trade, transport, and tourism. A complete industry strategy has been worked out including primary, secondary, and light industries; tourism; service industries; and agriculture. There may be a dozen or more different terminals but it is very important that ports not be mixed but be dedicated to a particular type of cargo.

OBSERVATIONS OF THE AUTHORS

We seem to be witnessing the emergence of a soft regionalism in Northeast Asia, which has important economic implications. This conference has contributed to it. Indeed with the removal of political barriers, the unimaginable becomes possible. The economic needs and assets of the region's countries are thought to be complementary. Japan and South Korea have capital, technology, managerial skills, and markets, but need cheap labor and natural resources. China and North Korea have considerable natural resources—coal, petroleum, timber, fresh water, minerals, and agricultural products. These factors can be combined. Further, economic cooperation around the Sea of Japan can redress the internal development gaps in each country between its Sea of Japan coast and other parts. This is the context of the proposed Tumen River area project.

But just as there are great potential advantages of the proposal, there are also potential problems to be overcome. Institutional barriers and incompatible values are basic problems. The possibility of competition rather than cooperation is another. If plans are not coordinated, there may be competition within countries or between countries, e.g., between Vladivostok, Hunchun, and the Sombong/Rajin/Chongjin area. Perhaps a partial compromise would include China's navigation right on the Tumen; China's use of Vladivostok and Rajin for major imports and exports; and possibly an inland port in China.

There is obvious political risk—regional relations must continue to improve. If they do not or they become cool, the project will suffer, like the Mekong Project in which tens of millions of dollars were wasted when political tensions disrupted the project. There are clear

environmental concerns regarding the massive developments planned for the area—an environmental impact assessment will have to be done and it may carry unacceptable costs for World Bank or ADB funding, or the countries may have to adjust their plans.

Outstanding questions include: (1) What are the net economic benefits of development of the Tumen River basin as opposed to development of other coastal areas within countries in the region? (2) What are the net benefits of cooperation as compared with Russia or North Korea going it alone? (3) How will the profits be derived—from reduction of transportation costs, removal of border constraints, tax breaks? and (4) How will prices and exchange rates be set?

While the plan is exciting and ambitious, some of the pieces of the jigsaw puzzle still do not fit. China still wants symbolic access to the sea. It wants to be able to navigate the river. Such access must be part of the package. The construction of an inland port may not be efficient. Classification could take place at the point of entry, e.g., Vladivostok. There is no direct advantage of this scheme for Russia, particularly if the Khasan area is preserved. And the manufacturing and processing portion is missing from the scheme. There is also a shortage of skilled labor. There are only 130 thousand people in the Rajin/Sombong area with a labor force of perhaps only 30 thousand. An important question is how to supply inexpensive skilled labor in the area.

Nevertheless, it does seem that the current political trend supports the project. Therefore, first steps might include agreement on joint use of the Tumen River and agreement on protection of the river and the coastal environment in the area before the project is started. The bottom line is that the Tumen River Economic Zone is an imaginative concept and the timing may be right. Nevertheless much research needs to be done to determine the project's political, technical, and economic feasibility. The pieces of the jigsaw puzzle must be fit together in a complementary fashion, and the best way to proceed must be determined. Mutual benefit remains the key principle that must be met.

CONCLUSIONS

The viewpoints expressed by the various countries can be grouped under three categories: The first option is for each country bordering the Tumen River to establish and develop one or more areas in its respective region as special trade zones with some form of cooperation in politics, procedures, and administration, along with general cooperation on trade and economic development. This is a moderate extension of the currently existing special trade zones in the respective countries.

The second option is for the three bordering countries to establish or expand already existing special trade zones within their territorial jurisdiction so that they are contiguous with the others, thus forming one large special economic zone in the Tumen River area. Each

country would administer its own territory, and the three separate administrative units would coordinate their policies, procedures, and administrative practices.

The third option is for the three countries to jointly designate an area in the region as part of a special economic zone with joint administrative arrangements for its development and management. The participating countries would, in effect, create a jointly owned and managed "enterprise" that would be responsible for the development and operation of certain facilities such as ports, roads, and rail facilities, and designate areas for the establishment of industrial parks, stand-alone manufacturing plants, and office and housing complexes. However, this "enterprise" should be organized so that it would not infringe on the sovereignty of each nation over its portion of the zone.

China (and UNDP) favor the last option while North Korea favors independent or loosely coordinated zones. Although the positions are tentative at this stage and subject to the outcome of development studies and discussions, there are some important differences between the parties. The challenge will be to find an approach that can maximize benefits for all the parties concerned, while taking into consideration each nation's articulated objectives. One probable scenario is that one option will be adopted at the initial stage, and then gradually transformed into another option.

During the study phase lasting until July 1993, the participating countries will try to minimize the differences on the initial concepts, assumptions, and options for development. Ideally, the design of the institutional framework and operational arrangements for the TRAD as well as the necessary legal documentation providing a basis for such international cooperation will be developed by the end of this phase.

Once a specific project plan has been adopted by the governments, the design and implementation phase, which is expected to last from 15 to 20 years, will begin. The facilities will be designed in light of studies made during the preinvestment phase, the requirements of investors, and the study of environmental impacts.

The conference reaffirmed the findings of the previous meetings that the economic trends and potential in Northeast Asia made desirable and necessary a continuation of scholarly interaction and coordination of research on economic development and cooperation in Northeast Asia. To provide an institutional network and a coordinating mechanism, the Changchun Initiative emanating from the second Conference promoted the establishment of a nongovernmental organization entitled "The Northeast Asia Economic Forum" (including technology) for the purpose of organizing discussions and coordinating research, and for promoting exchange of information on economic development and cooperation in Northeast Asia. That initiative further recommended that the coordinating mechanism for the Northeast Asia Economic Forum be located in Hawaii and assigned to Lee-Jay Cho. It further stipulated that the Forum be open to membership by institutions, organizations in private capacity, and individuals concerned with economic development and cooperation in Northeast Asia. Thus the Forum was established in 1992 and served as co-organizer of the Pyongyang

International Conference. Moreover, the Forum is now planning the fourth conference in this series to be held in Vladivostok in August 1992.

The work of the Northeast Asia Economic Forum is just beginning. The long and arduous process is designed to assist Northeast Asia in moving from the relevant and very necessary academic studies to real government to government cooperation. Many problems will be addressed in the initial stages of academic research and interchange, and many of the answers will have interest to the broader community. Thus, the Northeast Asia Forum must facilitate the continuation of consultations and discussions between all interested parties and the dissemination of research results among them. Only with success at these initial stages is it likely that the Northeast Asian community can move on to solve the formidable institutional and infrastructural problems and to develop specific cooperative projects and agreements. At that point, this conference series will assume historic significance.

All are aware of the vast potential of the region. With a different history, e.g., as one country, Northeast Asia could have rivaled the European Community as an economic power. What is missing are adequate technology and the most basic infrastructure—transportation and ports, communication facilities of all kinds, financial services, reliable energy supplies, and stable institutions. Northeast China, North Korea, the Russian Far East, and Mongolia are thus in a sense a "Last Frontier." They badly need capital, especially physical capital, and modern technology. Japan and South Korea have both but lack natural resources—minerals, energy, agricultural products, timber, fish—and cheap labor which the others have. Thus synergy is possible.

Sino-Soviet border trade, economic cooperation around the Yellow Sea rim, the beginning of trade across the Sea of Japan, and economic complementarity are the foundation for establishing a "Northeast Asia Economic Circle." Soviet resource-based industry, Japanese and South Korean heavy and technology-intensive industries, Chinese and North Korean light industry and agriculture all complement one another. Further, there is at present a gap in economic development between the eastern and western coasts of the Korean peninsula; between the eastern and western coasts of Japan; between the European and Asian parts of Russia, and between the southeastern and northeastern coastal areas of China. A Northeast Asia Economic Circle could redress this imbalance within countries. Thus, political relaxation, potential trade complementarity, existing and potential transportation linkages, and historical relations all make Northeast Asian economic cooperation a viable possibility.

The proposed Tumen River scheme is one example of how these complementarities can be harnessed for the benefit of all. But it is only part of a larger framework. The list of possibilities is long—industrial complimentation, joint ventures, labor markets, communication, transportation, environment, energy, fisheries, minerals, and regional financial cooperation via banks. The next conference in Vladivostok will explore these possibilities in more detail. The longest journey begins with the first few steps. The first step was taken in Changchun I and II and continued in Pyongyang. The next step is the Vladivostok

Conference. Eventually the series will reach Japan and South Korea, and to build a strong foundation for a prosperous, peaceful Northeast Asia.