

**The Significance of Regionalism as an Element of  
China's Security and Foreign Policy:  
The Case of the Tumen River Area  
Development Project (TRADP)**

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## ABSTRACT

Since the end of Cold War, processes of regionalisation have developed in a world experiencing globalisation. The Tumen River Area Development Project (TRADP) is an UNDP-initiated multilateral sub-regional scheme for economic cooperation that emerged in 1992 and was institutionalised by the establishment of the Tumen Secretariat in 1995. It is based on 'North-South' cooperation as well as a socialist-capitalist division of labour among six neighbouring countries (China, Russia, DPRK, ROK, Mongolia, and Japan), involving certain adjacent areas in the Tumen River region – which serves as a natural border for China, Russia, and North Korea. Arguing that the project has a significance that is more political than economic, the thesis will explore the significance of regionalism as an element of China's security and foreign policy. China was the project's most active supporter, from the late 1980s to the late 1990s. This thesis will argue that China developed the Tumen project not only as part of its own pursuit of domestic development, but also in order to take the initiative in regional economic development and to alter the distribution of power in Northeast Asia, in particular, the Korean Peninsula.

The thesis will also attempt to explain why China has found it so difficult to bring the project to fruition. The Chinese government did not provide proper infrastructure and give the project high priority in its national development policy. As a result, the project could not be attractive to the private sector, which was to be the major source of international investment. Further, the participating countries were concerned about Chinese motives and the economic and political-security implications of the project for the region. Thus, the project came to be regarded as a political ploy and was treated accordingly. This research hopes to make a contribution in two major ways. One is to understand the characteristics and trends of regionalism in East Asia; and the other is to delineate the scope and limits of China's seemingly more interdependent, cooperative, and multilateral foreign behaviour since the late 1980s.

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## Abbreviations

|                |   |
|----------------|---|
| <b>ADB</b>     | Asian Development Bank                              |
| <b>AFTA</b>    | ASEAN Free Trade Area                               |
| <b>ARF</b>     | ASEAN Regional Forum                                |
| <b>ASEAN</b>   | Association of Southeast Asian Nations              |
| <b>ASEM</b>    | Asia-Europe Meeting                                 |
| <b>APEC</b>    | Asia-Pacific Economic Cooperation                   |
| <b>CAEC</b>    | Central Asia Economic Circle                        |
| <b>CCP</b>     | Chinese Communist Party                             |
| <b>CDS</b>     | Coastal Development Strategy                        |
| <b>DPRK</b>    | Democratic People's Republic of Korea (North Korea) |
| <b>EAEC</b>    | East Asia Economic Caucus                           |
| <b>EC</b>      | European Community                                  |
| <b>EPZ</b>     | Export Processing Zone                              |
| <b>EU</b>      | European Union                                      |
| <b>FEZ</b>     | Free Economic Zone                                  |
| <b>FTA</b>     | Free Trade Area                                     |
| <b>FYP</b>     | Five-Year Plan                                      |
| <b>GMS</b>     | Greater Mekong Sub-regional Economic Zone           |
| <b>GSCEZ</b>   | Greater South China Economic Zone                   |
| <b>GVFEZ</b>   | Greater Vladivostok Free Economic Zone              |
| <b>HBECZ</b>   | Hunchun Border Economic Cooperation Zone            |
| <b>MOU</b>     | Memorandum of Understanding                         |
| <b>NAFTA</b>   | North America Free Trade Agreement                  |
| <b>NEARDA</b>  | Northeast Asia Regional Development Area            |
| <b>NEAEC</b>   | Northeast Asia Economic Circle                      |
| <b>NEAEF</b>   | Northeast Asia Economic Forum                       |
| <b>NEEC</b>    | Northeast Economic Circle                           |
| <b>NEEZ</b>    | Northeast Economic Zone                             |
| <b>NETs</b>    | Natural Economic Territories                        |
| <b>NIEs</b>    | Newly Industrialised Economies                      |
| <b>NPC</b>     | National People's Congress                          |
| <b>PMC</b>     | Programme Management Committee                      |
| <b>PMO</b>     | Programme Management Office                         |
| <b>PRC</b>     | People's Republic of China                          |
| <b>ROK</b>     | Republic of Korea (South Korea)                     |
| <b>RSFEZ</b>   | Rajin-Sonbong Free Economic Zone                    |
| <b>SEEC</b>    | Southeast Economic Circle                           |
| <b>SEZs</b>    | Sub-regional Economic Zones                         |
| <b>SIJORI</b>  | Singapore-Johore-Riau Growth Triangle               |
| <b>SLOC</b>    | Sea Lanes of Communication                          |
| <b>SOEs</b>    | State-owned enterprises                             |
| <b>SPC</b>     | State Planning Committee                            |
| <b>SREZ(s)</b> | Sub-regional Economic Zones                         |
| <b>SU</b>      | Soviet Union  |



|               |  |
|---------------|--|
| <b>TRADCO</b> | Tumen River Area Development Corporation           |
| <b>TRADP</b>  | Tumen River Area Development Project               |
| <b>TREDA</b>  | Tumen River Economic Development Area              |
| <b>TREZ</b>   | Tumen River Economic Zone                          |
| <b>TSR</b>    | Trans-Siberian Rail                                |
| <b>UNDP</b>   | United Nations Development Programme               |
| <b>UNIDO</b>  | United Nations Industrial Development Organisation |
| <b>US</b>     | United States                                      |

## **Acknowledgements**

In 1990 I read an article about the possible development of the Tumen River Area in a local Korean newspaper in Seoul. I was amazed by the plans for such an ambitious multi-national project in the vast region of Manchuria. I promised myself that I would study the project one day. 12 years later, through my PhD course, I have realized that the Tumen River Area Development Project (TRADP) is not just an economic project between neighbouring countries: many non-economic calculations lie behind the project. I have tried to analyse the project in the context of regionalism and foreign policy. It should be seen as one of the many regional movements in globalisation and a multi-function tool of China's foreign policy. From my supervisor, Professor Michael Yahuda, I have learnt that there are many approaches that can be used to analyse one object. I would like to express my deepest respect not only for his decisive and constructive supervision of this thesis, but also for his encouragement and sense of humour throughout my PhD years. He continues to be my model for intellectual excellence and scholarly inspiration.

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## **Chapter One. Introduction**

### **Introduction**

The Tumen River region, which opens out to the East Sea (or the Sea of Japan), straddles the borderlands of the People's Republic of China (PRC), the Russian Federation, and the Democratic People's Republic of Korea (DPRK). Arguably, the conflicts of this much troubled region have been occasioned by the confluence of broader international trends affecting the great powers with and local and regional developments. These at the time of the 19<sup>th</sup> and 20<sup>th</sup> centuries involved the competition between China, Russia, Japan, and the United States for control of Northeast Asia. Several wars have been fought over the region including those between China and Japan (1894-5), Japan and Russia (1905), China and Japan (1931) and first war of the Cold War, China/North Korea against the US/South Korea (1950-53). Indeed tension inherent over the last years has yet to be resolved. Moreover, past tense relations between the former Soviet Union and China have contributed to the area's insecurity. To this must be added continued suspicion by Chinese and Koreans towards Japan and the persistent failure of Russia and Japan to settle their differences. This has resulted in a proliferation of weapons of mass destruction in the area, with cross-border relationships defined primarily by the conflicting political and strategic factors.

The end of the Cold War, not surprisingly, was instrumental in bringing about further change. It brought about new patterns of regionalisation and globalisation and pushed the countries in Northeast Asia to ease regional tensions and consider regional cooperation. Political polarity and economic interdependence led the regional countries to open their closed borders, regardless of differences in the political systems and ideologies. The key institutional expression of this was the Tumen River Area Development Project (TRADP) promoted by the United Nations Development Programme (UNDP). It aimed to bring together the six neighbouring countries (China, Russia, DPRK, ROK, Mongolia, and Japan) which hold territory and interests in the Tumen River region. The aim of the

project was to enable this area to develop into a centre for transit trade or bonded processing area in the Northeast Asian sub-region. Promoters of the project such as Cho and Valencia claimed that opportunities would be created for the neighbouring countries to build new relationships with each other in the fields of trade, investment and technology transfer by taking advantage of the division of labour between them. Substantial gains were envisioned for all concerned. Such economic activity would lead to regional development and improvement in the standard of living of the relevant populations. It was hoped that in the long run, cooperation would lead to better mutual understanding, as a result of the working of institutional arrangements, involving linkages between divergent legal and political systems (Cho & Valencia, 1992: 14).

At the beginning of 1990s, the TRADP was seen as a great opportunity for promoting the regional economic development of the neighboring countries. In October 1992, the UNDP inaugurated the TRADP, with a view to establishing the Tumen River area as a regional centre for international trade and industrialisation. The Northeast Asian regional countries embarked on the Tumen project with optimistic ambition, but they ultimately failed to create the common joint development scheme. The nature of the multilateral project, originally based on the assumed feasibility of an international division of labour, changed to one that tried to come to terms with the fact that the relevant parties approached the project in a competitive way that arose from divergences in their respective national interests. The objective then became one of trying to find ways of coordinating the various unilateral, bilateral and multilateral relationships. Overall, the response from the private sector, which was ultimately responsible for the bulk of investment, was cool, and the future of the project no longer looks as bright as it did in the early 1990s. Enthusiasm for the TRADP has waned considerably.

*Bringing in the two themes of the thesis*

At present the TRADP is generally regarded as a 'failure'. It has not lived up to original expectations and there appears to be a belief that the project no longer has a realistic prospect of becoming an example of successful multinational economic cooperation. If this is the case, then what need is there to study the TRADP at all? A major argument of this thesis is that there is always something we can learn, even from 'failure', and that there are many interesting aspects of the presumed failure that have yet to be examined. Beyond analysing the dimensions of its failure, there are two additional aspects of the TRADP that will be considered.

The first theme focuses on the experiences of the TRADP, as an example of regionalism. In the period since the end of the Cold War the process of regionalisation has accompanied the intensification of globalisation. Some scholars have been concerned with the wider political aspects of globalisation, and consider in particular how the nation state is the focal point for globalisation (Hirst & Thompson, 1996). Regionalisation in this context is regarded as more than a pattern of increased interactions, especially of the economic kind, within states and across state boundaries. Most of the analysis in this thesis is concerned with how regional cooperation may apply in the Asia-Pacific region in general and East Asia in particular. There has been an increasing interest in East Asian political and economic development in this period of globalisation in which complex of globalising and localising tendencies interact with each other. What are the characteristics and pattern of the development of regionalism in East Asia? Can the Western type of institutionalised regionalism apply to East Asia? How significant are the roles of the market and the state in creating regionalism in East Asia? And how easily does cooperation occur in the region? This study explores the potential of one of the most economically dynamic regions in the world which its development will arguably have a major impact on the future direction and substance of regionalisation. This research will further contribute to the current regionalist debate on 'the difficulty of making firm generalisation about the relationship between regionalism and international order' (Fawcett & Hurrell, 1995: 324).

The second aspect centres on China's foreign policy in which regional issues have acquired a growing significance. Extending beyond the economic aspects of cooperation between adjacent countries, regionalism offers additional dimensions for the study of foreign policy (Weatherbee, 1995). Regionalism contains major political and security implications beyond transnational economic interaction. This thesis involves studying the international security order of the post-Cold War period, focusing on regionalism, the political and security dilemmas of and within states, and the states' foreign policy. In case of China, the issue is not just whether Chinese regionalism is an attempt to take advantage of general trends in the global economy, but whether it serves particular political and foreign policy interests. The Chinese government has deliberately promoted regionalism since 1979 when Deng Xiaoping first selected a policy of economic development that placed priority on the coastal regions. That programme further encouraged the border areas of the country to cultivate economic relations with adjacent neighbouring countries. How has China managed border relations through sub-regional economic cooperation? As China develops economically, has its foreign policy become more interdependent? What strategic foreign policy objectives has China aimed for? And has economic development brought real changes to foreign policy? Answers to the questions about regionalism as an instrument of China's foreign policy therefore helps understanding the scope and limits of China's seemingly more interdependent, cooperative, and multilateral foreign behaviour since the late 1980s.

Thus the TRADP will be a useful case study in examining two related issues: First, the nature of regionalism in the Asian context: as the only multinational economic cooperation project in Northeast Asia, the analysis of the TRADP can provide a model for examining the characteristics, potential and limits of regionalism in East Asia. Second, the significance of regionalism as a component of China's security and foreign policy: the study will argue that this particular regional project emanated from Chinese preoccupation with regional development within China and as linked with adjoining parts of neighbouring countries. Studying regionalism is also useful to understand the nature of the Chinese foreign policy of interdependence. It reveals the complexity of the political relations between China and its neighbouring countries. It illustrates the fragility of

economic interdependence in the context of the cautious and suspicious inter-state relationships in Northeast Asia, where political, economic and military rivalry and historical hostility are still dominant. This thesis places the study of regionalism within the disciplines of both IR and China area studies. It aims to combine the insights of China area studies which emphasise the alleged uniqueness of China's characteristics and experiences with IR scholarship that focuses on the more general view of China as a member of the international community that has not been excluded from external influence. It therefore hopes to contribute to the academic exchange between IR on the one hand, and the area studies of Northeast Asia and China, on the other.

To examine the TRADP in the context of the themes, this introductory chapter examines the theory of 'relative gains versus absolute gains'. This theoretical setting of the concern of states in contemplating cooperation can explain the success or failure of regionalisms in various parts of the world, and then highlight the implications of relative gains for China and illustrates the applications to the study of China's foreign policy. Finally, it will outline the research design, and summarise the contents of this thesis.

## **I. Regionalism in international relations**

### **1. The concern for regionalism in cooperation between states: Theoretical setting**

The major focus of this thesis is to analyse why China has shown a more cooperative attitude since the open door policy in 1978 and, more concretely, how the country has manipulated such a cooperative policy of regional cooperation for its purpose. Of course, this thesis does not attempt to test international relations (IR) theories. However, in examining the obstacles facing China's regionalism policy of interdependence with neighbouring countries, this thesis joins in some of the debates, that scholars in international relations have long tried to understand; why and when can cooperation develop? Why does regional cooperation fail to emerge in most cases? And what accounts for its success in the other cases? (Oye, 1986; Ugur, 1997; Jervis, 1999). This



section reviews the broader theoretical point regarding the nature and role of states in cooperation with one another, before explaining why most regional activities have been unsuccessful. Within the context this thesis goes to clarify the nature of China's cooperation foreign policy by underlining the general scope and possibilities of states' foreign policies.

### 1.1 Relative versus absolute gains

Theoretical analysis of regionalism in international political economy generally begins with the state as a key level of explanation (Gamble & Payne, 1996). Differences about the bases of cooperation stem from the question as to whether states are concerned primarily about relative or absolute gains. The basic point can be found in the following passage from Waltz:

When faced with the possibility of cooperating for mutual gain, states that feel insecure must ask how the gain will be divided. They are compelled to ask not 'Will both of us gain?' but 'Who will gain more?' (Waltz, 1979: 105; also quoted in Baldwin, 1993: 5-6)

This important factor of perceived gains is interpreted differently according to the theoretical problem; with neoliberals stressing absolute and neorealists relative gains (Baldwin, 1993: 5). From the neoliberal camp, Snidal does not accept that the issue of relative gains is always an inhibiting factor to cooperation. States are always able to make up for any relative disadvantage by other means. Through further cooperation and agreement, with compensation or structural reforms, states may arrive at a balance that is acceptable to the initially disadvantaged partner (APSR, 1993: 730-1).

From the neorealist camp, Grieco challenges Snidal's absolute gains assumptions. He reminds us that in a game where present friends can become enemies, concern about relative gains will always be in the background. Unequal gains in such cooperation will always be a fact (Grieco, 1988, p. 499, in Matthews, 1996: 119). And Gilpin suggests that some partners in international cooperation have gained far more than others. The significance of relative gains may be greater than that of absolute gains (Gilpin, 1992:

52). This is especially the case in security rather than economic matters, since economic rivalry does not present a direct threat to national sovereignty. Of course, a country with a strong economy may turn such economic strengths into military capabilities (Matthews, 1996: 115).

Explaining cooperation requires a more careful approach than is allowed for by the pure argument about relative gains versus absolute gains. Matthews distinguishes scenarios when relative or absolute gains are more or less significant in the players' objectives. Under some conditions, gains, however small, will accumulate and earlier rounds will influence the later rounds significantly to establish market or security dominance. In these cases relative outcomes are of great importance. In circumstances, where gains will not accumulate, then clearly absolute gains will have more prominence. Both neorealists and neoliberals have come to agree that it is important to identify when conditions will lead to relative gains as they may hinder successful outcomes of cooperation (Matthews, 1996: 112, 116-7)

## 1.2 Why cooperation does not arise in most cases

In practice cooperation between states is not easy. Cooperation at governmental level occurs only when players adapt 'their behaviour to the actual or anticipated preferences of others, through a process of policy coordination' (Keohane, 1984: 51). There are at least two additional sources of a state's concerns about cooperation: uncertainties about the other partners, and fears with regard to relative gains. In Grieco's view, the prime motivation of states is a deep-seated fear of being dominated by other states and the need for security. Milner refers to Grieco as arguing that this leads states to aim to be as self-reliant as possible. It also means that in changes in international power relations states will be concerned to maintain their relative power positions, and that any cooperative relationships that negatively affect these positions will be viewed unfavourably (Milner, 1992: 482-3).

Such defensive state positioning<sup>1</sup> is considered by realists to be an unfortunate reflection of the uncertainty in international relations. States are naturally concerned about one another's future intentions and how cooperation might influence the future balance of power and capabilities (Grieco, 1993a: 128). One could foresee cooperation leading to increase influence, thus forcing disadvantaged partners 'to accept progressively less favourable terms' not only in the original cooperation agreement but 'in arrangements in other domains as well'. This can restrict the independent action of the disadvantaged partners (Grieco, 1993b: 315). In cases where this threat is perceived as more likely, there is of course more sensitivity to relative gains, tending towards the adoption of this defensive positioning (Matthews, 1996: 119).

Participating countries may decide to act as individuals rather than collectively or cooperatively when they are wary of their partner making even relative gains, or when the future is uncertain and thus involves risk. In seeking to reduce the gains available to others, there are various alternatives to cooperation: withdrawal, unilateral behaviour, and inactivity. Unilateral action may be taken, and simple inactivity is an alternative to cooperation. These may not aim to affect others' gains, but still will be uncooperative if they do not bring down the negative impact of the acting party's policies (Milner, 1992: 468). If a state has concerns that a partner has real prospects of making relative gains and if this is seen as a threat, that state may well withdraw its cooperation or rein in its cooperative actions, even though it may have stood to make large absolute gains (Grieco, 1993a: 128).

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<sup>1</sup> Snidal briefly clarifies Grieco's definition as '[T]he possibility of some states' seeking relative gains leads all states to forego co-operative opportunities out of fear that others will take advantage of them' (Snidal, 1993: 201).

### 1.3 When cooperation is possible in specific cases

International cooperation is possible, although it is hard to achieve. Bearing in mind the central motivation of states will clarify the range of possibility of cooperation. My argument is that cooperation is unlikely in cases where countries are seeking to minimise partner countries' relative gains, or where future outcomes are too uncertain. In such a case they will prefer to act unilaterally or may be inactive. However, cooperative action may be won even in such a case, if long-term strategic considerations are taken into account. Reluctant cooperation can arise when states fear that being left behind will weaken them, even though rivals may gain as a result.

Relative gains will allow one state to have the upper hand over another under certain conditions. Even though the actual gain may be small, a relative gain may be very important. This is especially so where 'winning or losing ground' may influence who wins the next round of negotiations or positioning, and thus in the long term determine which country is able to establish the superior position in market or security domains (Matthews, 1996: 128). Relative gains can be in the area of economics, security or politics, and not all states may be so concerned about them. If the government of a state is focuses on its economic interests, the relative gains of the state lie in economic terms. Cooperation in that case would not present so many problems. If regime stability is what governments value above all, then the relative gains will be couched in political terms. Under such conditions, a state might refuse cooperation despite potential economic gains. If there are no threats to political stability, then even if there were no economic gains to be had, a state may cooperate in a project, albeit reluctantly.

Even if the government of a state judges that there are no possible political, economic, or security gains in cooperation, it may not withdraw from the cooperation opportunity so long as there is some degree of uncertainty about the future. Provided that cooperation does not entail large sacrifices of a sensitive or threatening nature, the state might not withdraw from cooperation, calculating that it would be a way to keep a foot in the door and to keep its options open, or possibly to counterbalance other players whose relative power was seen to be growing.

#### 1.4 The number of actors

How important is the number of actors in achieving successful regional cooperation? The range of different views on the influence of the number of actors indicates the difficulties in understanding the issue. *'Relative gains considerations are shown to matter only for issues involving small numbers of states. The impact of relative gains drops off quickly with more than two states and is virtually irrelevant for issues involving a large number of actors. In addition, the transition to cooperation is not appreciably more difficult under relative gains than under absolute gains'* (original emphasis) (Snidal, 1991: 388). In total contrast, Oye explains why cooperation becomes more difficult as the number of actors increases. As the number and heterogeneity of players increases, 'transactions and information costs rise'. '[T]he likelihood of autonomous defection' increases while simultaneously becoming harder to detect and to control. As the gains and costs become obscured, 'prospects for mutual cooperation may decline' (Oye, 1986: 18-9).

For Walter (1995: 83), however, the number of actors is not a factor which necessarily determines the effectiveness of regional institutions. Neorealist and neoliberal arguments are used at both global and regional levels. It is true that the size of a body in terms of numbers of participants can make institution building complicated. Nevertheless, against this, these processes are supported by the move towards multilateral thinking, working in coalition, and by the fact that in very large multilateral bodies it is often only a small group of major players (such as the US, the European Community (EC)/European Union (EU) and Japan within the General Agreement of Tariffs and Trade (GATT)) who call the shots. Milner claims 'the relationship between the number of actors and [effective] cooperation may be quite complex' (Milner, 1992: 474). Still, it seems axiomatic that the greater the number of the actors, the more complex the form of cooperation and the lower the chances of success. However, there is no optimal number of players. Actors may cooperate for the reasons discussed previously, the most important being the political will of the governments.

### 1.5 The importance of political decision

What makes states decide whether or not to cooperate in a regional project? As discussed, relative gains influence a state's decision. However, as Milner argues, international anarchy does not necessarily make the dichotomous question of 'relative or absolute gains dominate the motivations of states' (Milner, 1992: 496). Domestic politics, a factor in goal setting 'a state's position, the nature of its political system, bureaucracy, the influence of special interests, and public opinion', may be of great influence in determining strategic positioning of states at international level (Ibid.: 493). As Oye notes, some domestic interest groups may benefit from regional agreements, and this will be a further spur towards liberalisation as a regional or multilateral level (Oye, 1992, in Walter, 1995: 82). More particular factors may add influence from the personal orientation of leaders or privileged elites, the pressure of powerful lobbies, to the hard-to-define influence of national character (Jervis, 1988: 324-29). In the realm of foreign trade, Grieco points out the strong factor of domestic political institutions (Grieco, 1990, p. 24, in Milner, 1992: 490).

Self-interested strategic motives must be read into any cooperative as well as individual actions of states. As this self interest differs according to differing domestic characteristics, states' international goals will also differ (Milner, 1991: 81). States will also have an eye on the benefits of cooperation taken by other states, and will use this as a measure of the strategic benefit to themselves. Therefore, within an international system, cooperation may or may not be attainable because of domestic conditions.

## 2. The political economy of regionalism: Empirical setting

Theorising about the economic, political and security significance of regionalism has largely been based on particular sets of institutions including the European Union (EU) within Europe, and the North America Free Trade Area (NAFTA), the Asia Pacific Economic Cooperation (APEC) and the Association of Southeast Asian Nations (ASEAN) within the Asia Pacific. With the end of the Cold War such regional arrangements can be seen as leading to increased regional economic and political

integration. While they may all be framed within a common globalist perspective, each regionalism has 'distinctive features' (Aarts, 1999: 911) in terms of the degree of institutionalisation and speed of progress. If considered in the framework of relative gains, such differences may be explained by the changes 'taking place in the relative strengths and capabilities of partners in the different regions', and how those changes affect the attitude of nations towards regionalism (Grieco, 1997: 176).

For regionalism to be successful, its distinctive features should be considered from two perspectives: i) whether a leading country (or countries) within a region is willing to provide a common good, and/or less powerful states are willing to accept the leader(s); and ii) whether rivalry between major powers can be accommodated in the region. This section will show that the EU succeeded because rivalry between major powers such as Germany and France was accommodated, while NAFTA could succeed because the less powerful countries such as Mexico and Canada accepted the US as the unquestionable leader. However, most regionalisms in other parts of the world have not been successful. Central American states sought unilateral actions to maximise their national interests, thus sowing distrust. Political and historical rivalry were crucial in the cases of South Asia and Middle East. Meanwhile, despite economic dynamics, along with many political, economic and historical reasons, the rivalry between Japan and China is the fundamental obstruction to the success of regionalism in the Asia-Pacific in general and East Asia in particular.

## 2.1 Successful cases of regionalism

### *Europe*

Regionalism is generally considered to be more firmly established in Western Europe, the EC being the focal point for extensive economic cooperation. The European Coal and Steel Community (ECSC) was set up in 1951 between France, Germany, Italy, Belgium, the Netherlands, and Luxembourg. This became, in 1957, the European Economic Community (EEC). Integration has been expedited by a series of legislations, such as the implementation of the Single European Act in 1986, and the Maastricht Treaty 1991

which created the EU. Other countries joined successively: Britain, Denmark, and Ireland joined in 1973, Greece in 1981, Spain and Portugal in 1986, Austria, Finland, and Sweden in 1995. There are plans to extend its scope to the countries of Eastern and Central Europe. The European countries have sought not only economic integration, but also cooperation on social issues, defence and foreign policy (Ibid.: 168).

There are various reasons for the success of European regionalism. The first is its relative homogeneity, both historical and cultural. Another was the commonly perceived threat of the Soviet Union and the member nations' interest in centring US leadership in the security sphere. Yet another powerful reason was the congruence of the interests of the major European powers. A single regional hegemon did not exist in Europe, rather the regional leadership has been 'divided relatively evenly between Germany, France, and Britain' (Gamble & Payne, 1996: 257). Initially France opposed the creation of the Federal Republic of Germany, but later chose the path of integration as a way of checking the growing power of Germany within the structure of a higher authority. The ECSC were devised not only to secure France's economic interests, such as equal distribution of the supplies of coal and steel with Germany, but also to prevent the possible recurrence of war between France and Germany (George, 1996: 22). Western Germany in turn believed the ECSC could help breakdown the suspicions of other European countries towards the new state, as well as encouraging economic development. Britain later joined the EEC partly to counter the growing French leadership, which aimed to develop the EEC into a third global power alongside the US and the Soviet Union (Ibid.: 24).

### *North America*

In Europe regionalism thrived on a balance of power between the equals France and Germany, and on the recognition that the US was dominant at global level. North American regionalism, by contrast, was much less balanced. The US is the undisputed hegemon, as demonstrated in the negotiation of NAFTA. The partner countries were in a dependent relationship (Haggard, 1997: 21). Over 70% of Mexico's trade was with the US before the establishment of NAFTA. Economic factors were paramount, with Mexico suffering an economic crisis. Liberalisation of regional trade on whatever terms imposed



by the US was considered by Mexico to be beneficial, especially as a way to encourage foreign investment (Grugel, 1996: 142-3, 147). Canada also had little option but to join, with 22% of US trade (US\$79 billion) directed there in 1989 (Payne, 1996: 102). It did not want to risk losing out to Mexico (Gamble & Payne, 1996: 255).

## 2.2 Unsuccessful cases

### *Central and South Americas*

Unlike the successful implementation of the EU and NAFTA, regional efforts in other parts of the world have been unsuccessful. Regionalism in Central America is one such failure. Regional initiatives were first stimulated by the US's Enterprise for American Initiative (EAI) in 1990 and the subsequent NAFTA agreement between the US, Mexico, and Canada (Grugel, 1996: 132). The *Mercosur* (The South American Common Market) was created by Brazil, Argentina, Paraguay and Uruguay in 1991. It was an attempt to upgrade the economic cooperation between Argentina and Brazil into a common market union. Despite a great deal of institutionalisation, South American regionalism has not achieved much substantially (Bull, 1999). Other attempts at regionalism took place in Central America. In 1993 the Central American Integration System (SICA) was established between Guatemala, El Salvador, Honduras, and Nicaragua. However, with a history of regional instability, national interests have dominated the outcomes. More often the member countries have operated bilaterally with third parties, for example, in the Costa Rica-Mexico treaty of 1995 followed by independent negotiations with Mexico by El Salvador, Honduras and Guatemala (Ibid.: 961). This has naturally undermined regional efforts.

### *South Asia*

The failure of South Asian Association for Regional Cooperation (SAARC) has been well described in a recent issue of *The Economist* (2002). Despite more than five years of cooperation between the SAARC's seven members (India, Pakistan, Sri Lanka, Bangladesh, Nepal, Bhutan and Maldives) in a preferential trading arrangement, in 2001/01 exports from India to the SAARC stood at only 4% of its total export, and the

figure for Pakistan was 3%. A more ambitious proposal for a trade agreement based on a common market for the region is unlikely to take off. Part of the reason is because the member countries are in favour of bilateral trade rather than remaining within a regional grouping but, more crucially, the stand-off between Pakistan and India has created a security crisis which has affected wider regional trade, and member countries.

### *Middle East and North Africa*

Although there has been talk of regional integration in the Middle East and North Africa, this has been more of symbolic value than having wide tangible benefits. The Arab Maghreb Union (UMA) consisting of Algeria, Morocco, Tunisia, Libya and Mauritania, created in 1989, had potential to harness complementarities for growth. However, 60-75% of trade of the UMA remains extra-mural with Europe rather than intra-mural. On a political level there is little cooperation between widely differing ideologies. In 1989 Egypt, Jordan, Iraq and North Yemen formed the Arab Cooperation Council (ACC), but it turned out to be a strategic ploy between the members. The ACC broke down after the Gulf crisis of 1990, and cooperation across the Middle East has remained plagued by violence and political instability (Aarts, 1999: 912-3)

### 2.3 Asia-Pacific: Test case at trial

In contrast to the large extent of institutionalisation in Europe and Americas, the process of regionalism in the Asia-Pacific is insignificant, notwithstanding the economic growth and development achieved with the region. There have been various levels of regionalism. At an Asia-Pacific level there is APEC and ASEAN Regional Forum (ARF). Lower down come ASEAN, ASEAN Free Trade Area (AFTA), and the East Asia Economic Group (EAEG)/East Asia Economic Caucus (EAEC). Finally there are several sub-regional economic zones (SREZs).

ASEAN has had some success, introducing preferential trading amongst members. However, these possibilities have not been fully realised. In 1992 AFTA was set up with a 15-year plan for trade liberalisation, but again real progress has been limited (Grieco, 1997: 167). The 23 countries of the ARF, set up in 1994, work together on political and

security matters, but with the minimum of institutional formality. Malaysia led the way in putting forward the more institutionalised EAEG/EAEC, but received little initial support across the region (Ibid.: 170). Since 1989, APEC has brought together representatives from the US, Canada, Mexico, Chile, Japan, Australia, New Zealand, China, Taiwan, Hong Kong, and the ASEAN countries. In 1994 the target was agreed of liberalising trade and investment by 2010 between those countries that were economically developed, and by 2020 for less developed countries (Ibid.: 168), and following year it was agreed that the target was not binding. However, it would be safe to comment that the APEC is 'largely engaged for the most part solely in the gathering and exchange of information' (Ibid.: 169). The value of APEC was more in the forum itself, which provides a process for confidence building, although it has a considerable amount of institutionalisation. All of these organisations offer little more than opportunities for dialogues.

Apart from APEC, ASEAN, and AFTA cooperation at macro-level, it is notable that a new cooperation model has emerged in East Asia. This is the Sub-regional Economic Zones (SREZ), involving links between segments of neighbouring states. There are nine SREZs in East Asia (Chia, 1993: 4-9). In Southeast Asia, the Singapore-Johore-Riau (SIJORI) connects Singapore and the provinces of Malaysia and Indonesia. The Baht Economic Zone includes Thailand and the contiguous border areas of southwest China (Yunnan province), Myanmar, Laos, Cambodia and Vietnam. The Northern Growth Triangle (NGT) proposed by Malaysia, comprises the neighbouring areas of 11 provinces in Western Indonesia, northern Malaysia, and southern Thailand. The Eastern Growth Triangle (EGT) straddles four ASEAN countries, namely Brunei, Sulawesi in eastern Indonesia, Mindanao in southern Philippines, and Sabah and Sarawak in eastern Malaysia. The Greater Mekong Sub-regional Development Project embraces Myanmar, China, Laos, Vietnam, Cambodia, and Thailand. In Northeast Asia, the Greater South China Economic Zone (GSCEZ) combines China's Guangdong province, Taiwan, and Hong Kong. The Sea of Japan (East Sea) Economic Zone includes the Russian Far East, the three northeast provinces of China, the Korean Peninsula, and Japan's sixteen coastal prefectures on the East Sea. The Yellow Sea Economic Zone links China, Japan and South Korea. The TRADP involves the Russian Far East, China, South and North

Koreas, Mongolia, and Japan. SREZs were seen as a great opportunity to promote mutual regional economic development. However, most of the above projects have failed to deliver, and only two SREZs - SIJORI and GSCEZ - can be considered successful in the region. Even those two appear to have developed independently of the end of the Cold War and the continuing trend towards globalisation.

Thus it is apparent that there has been a failure to establish strong regional institutions in the Asia-Pacific. This can be attributed to three factors (See also Chapter Two). First, whereas Western Europe felt threatened by the Soviet Union, Asia did not suffer in the same way from a single sustained external threat. Security was not guaranteed through pooled arrangements but largely through bilateral agreements with the US. Second, the concept of Asia includes not only a huge diversity of cultures, histories and interests, but also a wide disparities of economic development and a range of models from market economies such as Japan and the four Newly Industrialised Economies (NIEs) and ASEAN countries, through market socialism such as China and Vietnam, to the central command economy of North Korea. The area has experienced some rapid growth in investment and trade quite apart from developments in regionalism, and most countries are individually strongly dependent on US markets (Haggard, 1997: 45-6). These features both militate against the development of coordinated regional policy making. Third, as a result of historical rivalry and conflicting political ideologies, the countries in the region have been suspicious of each other. Franco-Germany rivalry was brought into accommodating framework, but Sino-Japanese relations, for example, cannot be said to have fully thawed. With no single regional hegemon, major players are still trying to extract economic and political advantages (Ibid.: 46-7; Bergsten, 2000).

### **3. A contribution to the study of international relations**

Against this background, what does the case study of TRADP add to IR? It has four key findings to contribute to the comparative study on the world's regionalisms. First of all, analysis of the TRADP as a SREZ within the framework of IR theory will shed further light on the characteristics and pattern of development of regionalism in East Asia. Such

an analysis can benefit from looking at similar emerging structures in other world regions (See also Katzenstein & Shiraishi, 1997; Katzenstein, 1996). Keeping in mind that while various regionalist processes may be comparable, they are also very different. Before 1990 the EU presented a working model of formal economic integration, among a geographically proximate group of states which were already in a stable and clear security framework (Wallace, 1995: 226). It differed markedly from the mode of cooperation in East Asia. European regionalism, formal and exclusive, stands in contrast to the informal and open structures of Asian regionalism. Asian regionalism possesses two qualities that are significantly different from the EU model: First, it is not rule-making nor highly institutionalised; and second, multilateral cooperation in Asia aims at cooperation based on and implemented through an informal consensus. In this respect, the TRADP can provide an interesting example. The Tumen project is nowhere like the formal economic integration of the EU and NAFTA. Nor is it similar to the ASEAN's Free Trade Area plan (3fn, Zhu, 1996: 97). Instead, it resembles to what Robert Scalapino has called the 'Natural Economic Territories' (NETs).<sup>2</sup> This involves links between segments of neighbouring states. Such SREZs emerged on the basis of geographical, historical and cultural proximity between regions within neighbouring countries, offering comparative advantages, and thus gains from trade, to each other. In contrast to Western institutionalism, SREZs are 'pragmatic' rather than principled forms of cooperation. They do not necessitate binding inter-state agreements, and can operate across very different economic and political conditions (Zhao, Suisheng, 1998: 111). For political reasons, formal institutions are avoided, and the whole state is not necessarily involved. The striking differences between the two modes of cooperation mean a comparative analysis can help us identify elements of Asian and non-Asian distinctiveness. In this sense, looking at an example outside the EU-type formal integration will enrich conventional integration theories.

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<sup>2</sup> 'A... trend in the economic area, but one with strong political and strategic connotations, is the emergence of what I have termed 'natural economic territories' (NETs). These NETs are sometimes the product of governmental policies, in some cases, the results of private initiatives; in many cases, a combination of these factors. Whatever their stimuli, they cut across political lines, raising a host of intriguing new issues....' (Scalapino, 1991: 4). The use of the concept 'NETs' here is limited to cross-border cooperation. The emphasis on the role of market force is dropped to allow for government intervention.

In comparison to Europe, Asian regionalism does not have strong institutional traditions. It seems that the preferred approach of East Asian governments has been 'non-binding policy instruments' and 'intensive consultation process' (Yoshimatsu, 2000: 16). The value of APEC is more in the forum itself, which provides a process for confidence building, although it has a considerable amount of institutionalisation. Other Asia-Pacific organisations also offer little more than opportunities for dialogues. Many other sub-regional cooperation projects have also taken a similar approach, but only two regional projects have been transformed into institutionalised regionalism through inter-governmental agreements. One of these institutionalised regionalisms is the Singapore-Johore-Riau Growth Triangle (SIJORI). Although it has been successful in developing regional cooperation, it was in fact institutionalised more strongly only in 1994, after more than a decade of cooperation. In contrast to the non-institutional character of regionalism in East Asia and to the institutionalisation of SIJORI, the TRADP from the outset sought to promote its regionalism on a formal institutional basis. The Tumen River Area Development Coordinating Council was set up by China, Russia, and North Korea in 1995. At the same time these countries plus Mongolia and South Korea established the Tumen River Area Development Consulting Council. They also issued formal guidelines to manage environmental issues. The two UNDP-led bodies set up to assist the governments in the project have brought about the formal framework (Zhao, Suisheng, 1998: 111-2). The inclusion of North Korea means that 'the TRADP is the only development programme through which almost all countries in Northeast Asia have made a commitment to effect cooperation at the governmental level' (Rim, 1998: 181). Thus there is a certain amount of structure to the TRADP. The second contribution will measure the likelihood of success of institutionalised regionalism in East Asia.

The third considers the feasibility of 'North-South' cooperation. Due to the Cold War polarity, regional economic cooperation that included one or the other of the two superpowers was seen as an alignment with that power (Morrison, 1998: 6). That necessarily limited the scope for such cooperation and entailed domestic pressure against this in many Asian countries. Towards the end of the Cold War, however, many more possibilities emerged for the development of multilateral economic relations between

developed and developing countries, and for more openness to association with countries from a different political spectrum. There are nine SREZs in East Asia, including SIJORI and the GSCEZ, which were formed in the early 1980s. There are five SREZs in Southeast Asia and four in Northeast Asia. While most participants in Southeast Asia are minor players, those in Northeast Asia include the major regional powers. In the case of TRADP, China and Russia are carrying out reforms to establish a freer market economy aimed at economic development that is at the same time linked to the world economy. South Korea and Japan have long benefited from capitalism and its attendant, the free market. North Korea remains ideologically committed to the command economy and self-reliance (Takao, 1995: 50). This research attempts to investigate the complex issue of regional cooperation across divergent political and security as well as economic levels.

Last but not the least, comes the assessment of the relative significance of the market and the state in creating regionalism. It has been suggested that with globalisation blurring national borders, the nation-state faces a challenge to find a new place in relationships within its immediate and wider region (Christoffersen, 2001: 2). Most regional cooperative projects, except SIJORI and GSCEZ, have been less than successful. This is because most projects have not provided economic incentives to the private sector, whose role is essential to the ultimate success of such zones. In addition, the relevant governments failed to provide significant political commitment. The findings in the cases of SIJORI and GSCEZ demonstrate the significance of political commitment as a facilitating factor (Tongzon, 1998; Thambipillai, 1991). Extreme demonstrations of self-interest, as where states seek to dominate a region may damage cooperative regional bodies. The relative benefits achieved through regionalism remain important and states will use their political and economic muscle to secure gains from cooperative ventures. States thus play a central role in the success of regionalism. The TRADP is no exception to this 'rule'. This suggests that political commitment is an imperative for regionalism to succeed, and that would seem to be driven by the interests of states. The main actors in Northeast Asia are still nation-states, which act out of self-interest.

## II. Regionalism in China's foreign policy

### 1. Recent research on the TRADP

Regionalism cannot be simply seen as a pure economic activity, and a cautious approach should move into the realm of political and security. This study aims to contribute not only to the literature on East Asian regionalism, but also to that on the role of regionalism in the China's foreign policy. The significant role of regionalism in China's foreign policy in the period of more interdependent globalisation demands scholarly attention. Before going on to provide the brief description of objectives and obstacles of China's TRADP policy, this section first supplements the literature on the TRADP.

#### 1.1 Chinese scholarship

Many analyses by Chinese scholars in the 1980s favoured the promotion of economic development on a regional basis. As Christoffersen has noted, the 'formula of economic complementarity was repeated in every conference paper at every meeting on Northeast Asian economic cooperation since 1985' (Christoffersen, 1996b, p. 271; also quoted in Blanchard, 2000: 272).<sup>3</sup> In general, the main argument was that the TRADP would let China could access Russian, North Korean and Mongolian natural resources and infrastructure and attract Japanese and South Korean capital and technology.

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<sup>3</sup> Many other articles concerning regional cooperation were published in the journals of the region. See (Chen, Qida, 1991; Wang, Yuexiang, 1992; Toru, 1992; Yakubovsky, 1992).



Chinese scholars have explained the TRADP largely in terms of economics and geography. Ding Shicheng (1994) provides insights into technical and industrial development ideas for the Tumen project. Chui Longhe (1994) claims that the project exemplifies the need for regionalisation as a corollary of globalisation. Many scholars in Li Shaogeng's edition (1992) pay attention to the Yanbian Prefecture where the TRADP locates, and the economic development strategy with regard to Northeast Asian trade cooperation. Most articles in the local journals have focused on industrial development and the investment environment of Northeast China.<sup>4</sup>

However, we can also add some non-economic dimensions to previous economics-centred explanations of why Beijing has supported the TRADP. One of the main assumptions of this research is that all government-sponsored economic activities are pursued, at least partly if not entirely, for political reasons. As Stuart Harris has contested, 'Economics can enter the security discourse from various directions.... In maintaining security in this sense, economic factors are always involved but economic factors seldom exist or exert their influence in isolation' (Harris, 1995: 34).

The motives of the Chinese government too are political. Clearly, a purely economic account of Beijing's involvement can explain only part of the project. The TRADP 'offered relatively small economic gains', in relation to 'the Chinese economy as a whole or to larger economic initiatives such as the Pudong or Three Gorges developments' (Clayton, 1996, quoted in Blanchard, 2000: 272). The total amount of foreign investment brought into the TRADP was minor. From 1990 to 1995, it only added up to US\$230 million, barely 0.5% of the total foreign investment that China took in 1999 (Ibid.). Therefore, we must recognise the meaningful role of political considerations in China's involvement in the project.

Nonetheless, Chinese scholars have rarely referred explicitly to the political dimension of the project. Cao Liqun (1995) expanded upon the domestic and international political

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<sup>4</sup>Journals such as *Dongbei Shida Xuebao* (Journal of Northeast Normal University), *Dongbeiyu Yanjiu* (Northeast Asia Studies), and *Dongbeiyu Luntan* (Northeast Asia Forum), all edited by Northeast Normal University (Changchun), which has spent most effort studying the project.

dimensions, but the explanation remained superficial. Chen and Yuan (1996) openly discussed the sensitive issue of navigation to the East Sea (Chapter II in particular), but avoided discussion of any possible military use of the channel or any account of security related issues. Most Chinese discussions were still confined to studying the issues and problems of economic cooperation in the region.

In sum, Chinese scholarship has engaged with the socio-economic views of the development in the Tumen River area. Many still remain at the level of official declaratory principles, but a few have put forward views regarding the political and security effects of the project. Clearly there are problems and challenges of various kinds that arise from the Chinese obsession with secrecy regarding security and foreign affairs and from the lack of straightforwardness in the way they present their views.

## 1.2 Non-Chinese scholarship

Western experts studying the TRADP as an element of China's security and foreign policy have encountered major difficulties because of limited access to the reliable sources, i.e., interim documents of administrative departments. Despite the paucity of reliable sources, some articles have provided interesting analyses relevant to the TRADP at various levels in a timely manner.

In the early years, non-Chinese scholars also began to assess the economic value of the project and to suggest its future course. On the project itself, Kim Icksoo (1995) reviews the key features of TRADP and the differing positions of concerned countries. Marton, McGee and Paterson (1995) provide an understanding of the Tumen project in the context of Northeast Asian economic cooperation. Furthermore, some literature deals with the provincial and national levels of the project. Cotton (1996) investigates the current status and development strategy of Jilin Province, on the Chinese side of the TRADP. Christoffersen (1996a; 1996b) analyses the role of regional cooperation in inter-provincial relations (Jilin and Heilongjiang Provinces) and in China's national strategy. Another scholar has outlined the politically complicated dimension of the project. Rozman (1997; 1998a; 1998b) assesses why Northeast Asian regionalism has failed, by

explaining different national and local considerations of the countries involved in the regional cooperation.

However, this scholarship has not addressed the question why Beijing has been so supportive of the TRADP. Up to now, Blanchard (2000) has provided a more comprehensive analysis of China's international political interest in the TRADP. He argues that the project cannot be explained without grasping three political considerations. First, the project could be a multi-functioned means to balance against the economic and political threat of Japan; second, it could serve to counter the political threat generated by Western protectionism and bloc formation; and finally it could help to ensure peace and stability on the strategic Korean Peninsula. Yet, his work did not pay a great deal of attention to the interests and policies of the other participating countries.<sup>5</sup> In addition, he gave little consideration to the importance of Beijing's domestic consideration of trying to achieve a more balanced pattern of development between the regions.

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<sup>5</sup> Blanchard also recognises that 'It is important to note that my work also ignores the interests and policies of Russia, North Korea, South Korea, and Japan. This is defensible from a methodological standpoint because it allows for an intensive study of one country's involvement in the TRADP that would not be possible if one attempted to study the interests of all or multiple TRADP countries' (16fn, Blanchard, 2000: 274).

Despite the high quality of the works, the above mentioned articles have tended to focus only on single aspect of the TRADP issue. Each of these papers has analysed aspects of either political, economic, diplomatic, or security issues of the project itself, at one of the domestic, inter-state, or international levels alone. Although this thesis does not attempt to provide a wide-ranging account of all the issues and problems concerning the project, it will attempt to provide a comprehensive analysis of the TRADP, which includes as many aspects as possible at various levels, both empirical and theoretical. This thesis will focus more on Beijing's interests, because at present, national interest rather than local interest remains at the core of China's approach to the TRADP. The project may not necessarily be the highest political priority for Beijing and it may not always be viewed as a useful way to satisfy its political goals but, as Blanchard notes, focusing on the local level inevitably means that insufficient attention is given to the interests of the central government in Beijing (Blanchard, 2000: 274).

## **2. Defining China's TRADP strategic objectives**

Economics-centred analysis alone cannot explain the extent of Beijing's involvement. First, attention should be drawn to the domestic political aspect. The interest in the economic development of regions was heavily influence by political considerations. Following the adoption of the open-door policy, China has experienced growing disparities between the coast and the interior and it has faced widespread complaints and discontent from the interior regions (Yang, Dali, 1997). Thus, the Chinese government was forced to seek a more balanced pattern of regional development and, as part of that process, it created the Special Economic Zone (SEZ) in the Tumen River area in Jilin Province. The Tumen project could be seen as a product of the Beijing government's attempts to readjust a prevailing coast-interior gap and to dissolve the discontent from the region. Furthermore, China was concerned about the Korean minority in the region and had to mitigate the latter's obvious resentment and dissatisfaction by whatever means it could. This explains why the central leadership declared the development in Hunchun as the key project for the region.

Second, access to the East Sea would not only restore Chinese historical and legal claims but it would also establish maritime and military interests in the Sea, as recognised in the Chinese official or unofficial writings (Chen & Yuan, 1996; Chiao, 1994). The vision for the TRADP is of an international trade and transport mega-complex for export-processing in the Tumen River area. This plan put forward by the UNDP calls for a 'cross-border free trade zone near the mouth of the river' (*Financial Times*, 27 May 1992). To exit from or gain entry to China from the East Sea one may go through the Tumen River. The navigation to the Sea through the Tumen River has been China's long-cherished desire since losing the maritime territory in 1860, and the opportunity given by the TRADP would make it possible to reclaim China's ambition to access the East Sea. Once China gains the right it may also freely use the Sea in various ways. China does not want to lose this opportunity, which has resulted from the rapid changes in the Northeast Asian political atmosphere since the late 1980s.

Third, the TRADP has played an important role in China's policy towards the Korean Peninsula. China is well aware that the unification of Korea is inevitable in the long run. At issue is the form and context in which China might accept the unification of the Peninsula. In the shorter term, it is in China's interest to prolong the division of Korea, so as to defer a possible crisis arising from too rapid a unification that could follow from the collapse of the North. In order to avoid that, China has provided North Korea with political and economic support and has encouraged it to adopt economic reform. In this strategic context, the Tumen project would be one way of stabilising the dire economic situation in North Korea by introducing some market elements into the North Korean system (Cotton, 1995: 206-7). Maintaining stability in the Korean Peninsula served the interests of China, in the midst of its own economic modernisation. China wants to teach North Korea 'how to fish' rather than 'to eat fish' as the Korean proverb goes. In addition to the contribution the Tumen development could make to its economic interests through cooperation with North Korea, by establishing economic relationships with North Korea, China might be able to preserve an economic buffer should Korea become reunited. That is despite losing its political buffer on the Korean Peninsula after the reunification of the Koreans. The centrality of the Korean Peninsula is connected to any scheme of regional cooperation (Ibid.).

Finally, the initial impetus to the growing regional focus of China's foreign policy may be regarded as a product of the marginalisation of China in world politics (Yahuda, 1992: 32). Beijing certainly has aspirations to be a decisive power, even though it claims not to be a hegemonic power in the Asia-Pacific region. What China needs is to build a power base in Asia for its future global power status.<sup>6</sup> More importantly, in the early 1990s it was thought this could help to advance China's efforts to avoid international isolation and to maintain diplomatic leverage imposed after the Tiananmen crisis (Hu, Weixing, 1996: 45; also cited in Blanchard, 2000: 284). China clearly recognised that its capabilities were too limited to compete successfully with Japan, let alone with the US. That is why it adopted the 'Segmental Omni-dimensional Cooperative Strategy', which attempted to break the region into manageable sub-regions (See Chapter Six). Accordingly, the TRADP could provide Beijing with a potential means to counter Japanese centred proposals for economic cooperation in Northeast Asia. Not only did the project deny Japan a leading or central political and economic role, but it elevated China to a leading role in Northeast Asian economic cooperation that did not include the US, which China saw as its rival in establishing regional leadership.

### **3. Assessing obstacles to China's TRADP policy**

China's initial aims in pursuing the TRADP policy have encountered multiple challenges. The reasons for the current difficulties facing China can be examined from several perspectives. Firstly, the project is constrained by many economic problems in and/or around the project itself. These weaknesses were originally ignored, whether intentionally or unintentionally, by participating countries. Economically speaking, questions still remain: how much of the project is actually viable? And how attractive is it for the private sector, which ultimately must provide heavy investment? The probable answers to these questions are quite pessimistic. Basically, the geological and natural environment of the project is harsh (Li, Kiseok et al., 1994: 56), and the infrastructure of the region is too poor to provide

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<sup>6</sup> In 1987, Huan Xiang, Premier Zhao Ziyang's leading foreign policy advisor, argued that Beijing must have 'the mentality of being a world power' and 'should not be satisfied with being a second-class power or regional power', quoted in (Hu, Weixing, 1995b: 63).

support for the project. The legacy of socialism remains strong in Mongolia and in China's two riparian neighbouring countries (North Korea and Russia). Northeast China lags behind the rest of the country, despite its considerable economic reform (Kim, Icksoo, 1995a: 93). Except for South Korea and Japan, the other members of the TRADP do not effectively understand trade mechanisms and incentive structures, as well as other important economic mechanisms. Due to the large number of participants, distributional issues among countries have become an obstacle (Marton et al., 1995: 13). Who the real players in the project are is still unclear: the representatives of China and Russia are local governments; while the two Koreas and Mongolia participate in the name of central government. Accordingly, mutual coordination is not an easy task. The three legs within the triangle (China, Russia, DPRK) are not uniformly developed, and achievements that have been made up to now are the result of bilateral rather than multilateral negotiations (Ding, Dou, 1996). The UNDP has also been blamed for its lack of co-ordination skills and its incapacity to raise sufficient funds to continue the project as a mediator (Davies, 2000: 44-5). Not surprisingly, the private sector, which is the only possible investor that can provide the huge financial support necessary to continue the project, remains pessimistic about the project.

Second, the upgrading of the Hunchun project, as the Chinese leg of the TRADP, to one of ten national development projects was made by the central government without making rational economic calculations. In fact, its decision was largely influenced by non-economic considerations. Beijing permitted Jilin Province to undertake the Hunchun project, in an attempt to address the constant resentment of the aforementioned Korean minority. At this stage, the Chinese part of the TRADP was limited to the TREZ (Tumen River Economic Zone), the smaller triangle. However, the Jilin-centred Tumen formulation encountered jealousy and adverse reactions from the Heilongjiang and Liaoning provinces. The latter provinces used every opportunity to bargain with the central government to pursue their own provincial interests. They were able to transform the geographical scope of the TREZ (the smaller triangle) toward the Northeast Asia Economic Development Area (NEARDA), the larger triangle, which they preferred, rather than having benefits concentrated in one small area (Christoffersen, 1996b). The TRADP does not in terms of economic efficiency rank high in the order of Beijing's plans for national development, even though it is listed as one

of the ten national-level development projects. The Tumen formulation could be said to mirror the process of political change in China, which produced important changes in the nature of both centre-province and inter-provincial relations after 1978 (Rozman, 1998a: 10-11 & 1998b: 12-4). The project served as a double compromise between the aims of the centre and the provinces, and between the provinces themselves. It was based on domestic political consideration, and not on economic rationality.

Third, there is a big difference in the extent of the current commitment by member countries to the TRADP. As the project has low priority even in China, the strongest backer, the interest of other countries is also not high. North Korea is interested in the economic gains of the project but is hesitant about a full-scale 'opening' to the outside, because it is afraid of a possible threat to the regime. Russia was reluctant to join and at present lacks the political commitment and the financial resources to participate actively. It also has problems in coordinating policies between central and regional governments, but simply wants to take advantage of whatever aspects of the project should meet its own interests. South Korea believes the project enables the expansion of its markets and inter-Korean dialogue but it thinks that the project will not be able to fully meet its potential without cooperation with Japan because of the limited economic capacity of South Korea. So its policy is to 'wait and see'. Mongolia is enthusiastic about the project, but it is the weakest member of the TRADP group and its leverage is minimal. Japan is currently just a TRADP observer and also maintains a 'wait and see' attitude towards the project. Its hesitation is related to a lack of assurances that it would be a prime beneficiary of the project. In sum, all countries concerned are very sensitive to possible relative gains and an uncertain future, so they choose unilateral actions, inactivity, or reluctant cooperation. Their approaches are identified, in colloquial terms, as 'one foot is inside, while the other is outside'.

Finally, as politics is always at the heart of all multi-country economic projects, the TRADP should not be seen only as a pure multilateral economic project, but rather should also be seen as reflecting the major players' (China, Russia, Japan, and the US) different approaches to the regional distribution of power. The strategy of China has been to divide the wider region into units that could be more easily influenced by China that is still not strong



enough to be considered the dominant regional power (Christoffersen, 1996a: 1081). This has led China to take the initiative in encouraging Northeast Asian economic cooperation in the region. Meanwhile, due to its weakened position, Russian thinking is concerned with balancing the regional effects of the project. Hence, Russia has co-operated with each aspect on a case-by-case basis. Japan sees the rise of China as potentially threatening its national interests, and the Sino-Russian strategic partnership remains a main concern. Japan has tightened its security ties with the US and plays a significant role in the ASEAN Regional Forum (ARF) that acts as a certain constraint on Chinese behaviour. China and the two Koreas suspect that Japan aims to build a new Greater East Asia Co-prosperity scheme in the longer term. The US's main concern about the region is to maintain the current balance of power. Currently, it attempts to check China's political and economic ambition and ease Chinese pressure in the region. Therefore the mutual competition and checks have acted as a brake to restrain the future development of the project.

#### **4. A contribution to the study of Chinese foreign policy**

The study of TRADP has four findings to contribute to the field of Chinese foreign policy. The first finding shows how China has used international organizations to its own end in its foreign policy. Starting from the 1980s, China has taken steps to be included in the international community. Rather than passively accept the benefits granted by international institutions, it has taken a more participative role in multilateral international organisations. The TRADP should be regarded primarily as a Chinese rather than a UNDP initiative. China could be characterised as the most active supporter of all the national participating governments (Blanchard, 2000: 271). Indeed, the TRADP is a Chinese designated project that was reinvented to become a UNDP sponsored international project.<sup>7</sup> China proposed and designed the concept of the TRADP as early as 1985, a long time before the UNDP adopted the TRADP as one of its top agendas in Northeast Asia in 1992. While other Tumen member countries have been hesitant in

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<sup>7</sup> At the beginning of the 1980s, Chinese scholars considered issues surrounding regional cooperation in Northeast Asia and the development in the Tumen River area. They looked at ways to reopen navigation to the East Sea through the Tumen River and explored a strategic concept of development in Tumen River (Chen & Yuan, 1996: Preface, p. 4).

offering to participate in the project, China has actively taken the initiative. Beijing energetically supported efforts to develop infrastructure in the Chinese part of the Tumen development area. In addition, it pushed North Korea and Russia to implement policies that would advance the cause of the TRADP. Furthermore, it hosted a number of international conferences and investment fairs oriented around the TRADP. The research undertaken for this thesis can make a contribution towards understanding China's policies towards multinational economic cooperation projects and international organisations.

Second, this research enables us to gain insight into the characteristics of and differences between the Special Economic Zones (SEZs) in China, and the role of the zones in the context of Chinese foreign policy. Since China started with the concept of SEZs in 1978, there have been variations in policy towards various SEZs. External Chinese communities who had already achieved advanced economic levels of development and who were also closely integrated in the international economy were seen as key in the development of the SEZs in various parts of China. The TRADP, however, is more of an international project involving cooperation at the state level. Southern and Eastern China has strong links with Chinese in Hong Kong and Taiwan, which has facilitated capital inflow. The northeastern provinces, nevertheless, 'have far fewer connections with those Chinese living abroad', and consequently lower capital inflows. However, the Northeast is closer geographically to Japan and Korea than any other regions of China. Also, there are Korean residents within Northeast with ethnic ties to South and North Korea. Koreans in these places are not as economically active as the overseas Chinese, but they do provide added support (ECFA, 1993: 9-10). In this regard, the research hopes to provide an understanding of Chinese foreign policy with reference to the ethnic-based SEZ.

Third, the research then considers the relationship between central and local governments and the balance between political and economic factors.<sup>8</sup> In many studies the provinces are seen as the real driving force rather than Beijing.<sup>9</sup> Relatedly, arguments have been propounded by Breslin that research should focus on local government initiatives as the key factor of China's integration into the global economy as well as Northeast Asian regionalisms; and by Burn that Northeast Asian regional projects such as the TRADP would not have possible without sub-national political units' initiatives (Breslin, 2000 & Burns, 1994, both cited in Christoffersen, 2001: 3). However, it will be argued here, on the basis of the Jilin Provincial case study, that foreign policy is generated in Beijing rather than in the provinces. Jilin Province had worked on the project alongside Beijing, but the main player would seem to be the central government which pursues broader interests. Whereas the province has been motivated mainly by economic interests accruing from multilateral economic development, the project has been incorporated within Beijing's political considerations at domestic and international levels. On the surface Chinese leaders have accepted the principles of multilateralism, but Chinese actions have not matched the rhetoric of multilateralism. With a change of circumstances, it is not difficult to imagine China turning its back on such new ideas, since China is primarily committed to preserving national sovereignty and party legitimacy (Wang, Hongying, 2000: 484-5). This research hopes to shed more light on the decisive role of central government in the regional dimensions of China's foreign policy.

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<sup>8</sup> Such issues are well observed by Christoffersen. See her work (2001: 2-4); Another scholar observed the relationship between the centre and provinces in the post-Mao period through the analysis of the financial and political dimensions, see (Ferdinand, 1987).

<sup>9</sup> Cheung's edition (1998) is well researched and has noticed the critical role of provincial leadership in economic development strategies in the post-Mao period.

Finally, the TRADP experience sheds more light on China's outwardly cooperative foreign policy. Compared with the foreign policy pursued during the Mao period (1949-1976), Deng and post-Deng foreign policy has become 'more complex, more involved, more multilateral, more functional, more institutionalised..., more interest-oriented, more self-serving, and more adaptive' (Kim, Samuel, 1989: 25-6). Scholars and experts in the fields of international relations and Chinese foreign and security policies have much debated the aims and practice of China's security and foreign policy (See Denny, 1998; Goodman & Segal, 1997; Robinson & Shambaugh, 1994; Samuel S. Kim, 1984; 1989; 1991; 1994; 1998). As China develops economically, has its foreign policy become more cooperative and interdependent?<sup>10</sup> Has economic development brought real changes to foreign policy? This has become a salient question in the post-Cold War era and reflects the significantly increased status of China in the international political economy. There has not been much discussion of this issue in the literature on China's foreign policy (See Segal, 1994). The function of projects such as the TRADP in China's national strategy has been little studied, despite the significance of the issue to the IR scholarship. In this regard, this research into the TRADP issue hopes to provide a case to study of the role and limits of regionalism in China's concrete security and foreign policy in the era of globalisation. Once it is recognised that the TRADP can be seen as a *crystallisation* of efforts to respond to the rapid changes in and out of China, there are few better examples than the case study of the TRADP in order to comprehend the motivations, aims and strategic diplomacy of Chinese foreign policy.

## 5. Methodology

This research is based on source materials dating mainly from the 1990s when the project was actively discussed and it is based on various materials, which have provided important and revealing information. The main materials include books, edited volumes, monographs, periodicals, newspapers, newsmagazines, and internet websites written in English, Chinese, and Korean.

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<sup>10</sup> Similar questions were asked by (Wang, Hongying, 2000).

In regard to the TRADP itself, primary materials provide invaluable information in terms of scope and depth. Examples are the periodicals, documents, monographs, and other printed materials, published by Jilin Province, Yanbian government, and Hunchun government as well as by Northeast Normal University, Jilin University, and Yanbian University. The authors of articles in these publications are usually officials and scholars who took a part in the project directly or indirectly, so that the articles provide an insightful peek into aspects of their work.

Apart from documentary materials, interviews were conducted in the field with numerous officials, researchers, and scholars mainly in China. The methodology used in conducting the various interviews was qualitative (rather quantitative) and the approach on each occasion was similar. But the particularities of the questions varied in accordance with the interests and the responsibilities of the interviewee. They largely focused on the origin and development process of the TRADP, the Chinese policies at various administrative levels, and academic research activities. I made a trip to Hunchun, Tumen, Yanbian (the prefectural capital of the Yanbian Korean Autonomous Prefecture), Changchun (the provincial capital of Jilin Province), and Beijing in August 1997. Interviews were conducted with officials from bureaus spanning Hunchun, Yanbian, and Jilin administrations, as well as with members of universities and independent researchers in the semi-governmental research institutes. These have been important, because the interviews enabled me to clarify information contained in documentary materials.

On the whole the officials I contacted, mostly at the middle level of the hierarchy in a government department, were very helpful. Nevertheless, it was difficult to get information on subjects such as central-provincial bargaining, and the link between China and the UNDP. Thus 'Chapter Five: The Perspective of Jilin Province' is descriptive rather than analytical. It was also difficult to get information and views on the sensitive topic of China's navigation through the Tumen River, due to its security implications for China and other neighbouring countries, notably North Korea, Japan, and Russia.

To fill the gaps, I paid for two trips to Korea and Japan for interviews with those directly or indirectly who knew of the issue in the UNDP, academic and semi-governmental institutes; tried to find relevant materials in Chinese documents, and speculated on certain aspects of the issue from the main documents written in Korea and Japan. Many original documents and conference proceedings papers were provided by numerous institutes at various stages: the UNDP Tumen Secretariat in Beijing, and the UNDP Seoul Office; National Unification Ministry of Republic of Korea (ROK), Sejong Institute, and Korea Export-Import Bank (all in Seoul); Japan External Trade Organisation (JETRO) and Sasakawa Peace Foundation (both in Tokyo), Economic Research Institute for Northeast Asia (ERINA), Niigata, Japan; and East-West Centre, Hawaii, USA.

## **6. Structure of the thesis**

Since the thesis is concerned with regionalism in Northeast Asia, it was thought that it was important first to set the analysis within the framework of regional studies within IR as a whole and more particularly within East Asia. Accordingly, after this introductory chapter there is a review of the IR literature on regionalism which followed in Chapter Two with an account of regionalism in East Asia. This will show that it does not follow the general pattern laid out in the more theoretical literature on the salient which on whole takes the European experience in the norm. Chapter Three then provides an account at the institutional character of the TRADP as this has been little studied in the literature and it is important that its chief characteristics should be understood before a more critical analysis of its evaluation and the role of China can be developed.

Since the initiative for promoting the TRADP came largely from China, the next three chapters explain how it came to figure in Chinese policies. Chapter Four will examine Chinese thinking about regionalism. The chapter will provide some explanations about the concept of Sub-regional Economic Zones (SREZs) and the factors that have promoted sub-regionalism as a principal factor in China's strategy of development. It will then explain China's use of regional cooperation as a major diplomatic means to cultivate good relations with neighbouring countries and to promote economic interdependence

between its border regions and adjacent countries. Since the Chinese approach incorporated both the concerns of the local province and the national centre, Chapter Five will investigate the perspective of Jilin province, which gave the project top priority. In particular, this chapter will analyse the role and status of the Hunchun project as the province's core development strategy. It will also provide an empirical description and analysis of the role of various administrative levels in the origin of the TRADP. The central government's strategy towards the TRADP will be analysed in Chapter Six. This chapter will argue that political purposes are almost always involved in economic activities. China's TRADP policies are intended to contribute to the achievement of its political objectives in Northeast Asia as well as to its own pursuit of domestic development.

Chapters Seven and Eight will explain why the TRADP has not been successful and will analyse some of the obstacles presently blocking further progress. Chapter Seven will compare the differing positions of the countries concerned and analyse economic constraints to the project. Chapter Eight will evaluate the very real challenges facing China in the areas of politics and security at the international level.

Finally, Chapter Nine, the concluding chapter, will assess the value of the TRADP, looking from the dual aspect of this thesis: i) Explaining what went wrong from a Chinese perspective; and ii) Explaining the TRADP and its problems in Asian context of regionalism. It will then argue that the TRADP cannot be successful without political commitment by the relevant governments and free market incentives. China is at the core of the TRADP, and hence has a pivotal role in determining the outcome of the TRADP.

## **Chapter Two. Regionalism: Theoretical Dimension**

### **Introduction**

Since the end of the Cold War, regionalisation processes have arisen in a world experiencing globalisation. In East Asia, the Sub-regional Economic Zones (SREZs), involving links between segments of neighbouring states, were seen as a great opportunity for promoting mutual and regional economic development. However, most projects have failed to perform, and only two SREZs - the Singapore-Johore-Riau Growth Triangle (SIJORI) and Greater South China Economic Zone (GSCEZ) - can be considered successful in the region; even these two SREZs developed without close relations to the end of the Cold War and the continuing trend towards globalisation. The objective of Chapter Two seeks to find the reasons why such seemingly plausible projects have not been successful. What kinds of regionalism succeed or fail? And what are the key factors that could make sub-regionalism in East Asia work? This chapter argues that the political commitment of governments is more crucial as a facilitating factor for regionalism, although the importance of the private sector cannot be denied.

Following this introduction, Part I will seek to understand the nature, significance and limits of regionalism in the context of international relations (IR) theory. Part II will identify the emerging trends of SREZs in East Asia since the late 1980s. To do so will help us to understand the political economic status of the TRADP on three levels: the domestic, the regional, and the international.

### **I. Regionalism in theory**

The starting point in this analysis is the argument that East Asia has its own model of regionalism which is different from Western European and North American regionalism.



The case of the EU and NAFTA are not relevant to the situation in the Asia-Pacific region and hence should not be applied as appropriate models. This part thus begins with a review of different concepts, modalities, categories, and objectives of sub-regionalism, the experience of which will be influenced strongly by historical, cultural and political factors.

## 1. Concepts of regionalism

The term regionalism is ambiguous and its definitions have so far been inconclusive,<sup>1</sup> but Hurrell effectively breaks the notion of 'regionalism' down into three different categories:<sup>2</sup>

### *Regionalisation*

Regionalisation refers to the growth of societal integration within a region and to the often undirected processes of social and economic interaction. This is... described as informal integration... [or] as 'soft regionalism'. The term lays particular weight on autonomous economic processes which lead to higher levels of economic interdependence within a given geographical area than between that area and the rest of the world. Although seldom unaffected by state policies, the most important driving force for economic regionalisation come from markets, from private trade and investment flows, and from the policies and decisions of companies. The growth of intra-firm trade, the increasing numbers of international mergers and acquisitions, and the emergence of an increasingly dense network of strategic alliances between firms are of particular importance.... '[T]hese flows are creating inexorable momentum towards the further integration of economies within and across regions'. Such regionalisation processes have become a

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<sup>1</sup> Nye defines regions in international politics as 'a limited number of states linked by a geographical relationship and by a degree of mutual interdependence, differentiated according to the level and scope of exchange, formal organisations, and political interdependence' (Nye, 1968, p. vii, in Butler, 1997: 410). Alagappa (1995: 362) describes it as '*cooperation among governments or non-government organisations in three or more geographically proximity and interdependent countries for the pursuit of mutual gain in one or more issue-areas*' (Original emphasis). For Hurrell (1995b: 333), it is necessary to impose notions of geography, particularly contiguity and proximity, on the concept of regionalism in order to define it as distinct from other forms of 'less than global' cooperation and to avoid the term becoming so wide to be meaningless.

<sup>2</sup> Initially, Hurrell broke up the notion into five categories: 1) regionalisation, 2) regional interstate cooperation, 3) regional awareness and identity, 4) state-promoted regional integration, 5) regional cohesion. However, I have reduced them to three. This is because, his fourth category - state-promoted regional integration - is quite similar to the second (regional inter-state cooperation) due to the same emphasis on government initiative. The fifth category - regional cohesion - is also excluded, because it can be seen as the result of *matured* regionalism.

particularly important feature of Asia-Pacific regionalism, driven by complex, market-based imperatives of international specialisation and organised around transnational... firms and regional business networks.

#### *Regional interstate cooperation*

A great deal of regionalist activity involves the negotiation and construction of interstate or intergovernmental agreements or regimes. Such cooperation can be formal or informal and high levels of institutionalisation are no guarantee of either effectiveness or political importance.... Such co-operative arrangements can serve a wide variety of purposes. On the one hand, they can serve as a means of responding to external challenges and of co-ordinating regional positions in international institutions or negotiating forums. On the other, they can be developed to secure welfare gains, to promote common values, or to solve common problems, especially problems arising from increased levels of regional interdependence. In the security field, for example, such cooperation can range from the stabilisation of a regional balance of power, to the institutionalisation of confidence-building measures, to the negotiation of a region-wide security regime. Unlike some brands of regional integration, such co-operative arrangements are very clearly statist, designed to protect and enhance the role of the state and the power of ... government....

#### *Regional awareness and identity*

...All regions... can be understood in terms of... 'cognitive regions'.... Regional awareness, the shared perception of belonging to a particular community can rest on internal factors, often defined in terms of common culture, history, or religious traditions. It may also be understood in terms of a security threat (Europe's self-image defined as against the Soviet Union...); or an external cultural challenge (...'Europe' was defined in opposition to the non-European and, especially, Islamic world...)... [It is] framed by historically deep-rooted arguments about the definition of the region and the values and purposes that it represents.... (Hurrell, 1995: 39-42).

Hurrell's first category, regionalisation, is non-official and non-political 'soft regionalism', while political intentions are involved in the second category. A key difference here is whether or not the region is formed through negotiations or agreements of official institutions. The third category, a psychological or a constructivist approach, focuses on the formation of identity. Identity can be produced by political or economic integration, or it can enforce them. To understand the nature of regionalism all three of these categories should be considered. These three elements of regionalism may be combined in various ways to define several types of regionalism.

## 2. Theoretical approaches to regionalism

In response to the EU's closer integration and to globalising processes, regionalism is now a major issue in IR scholarship (Fawcett & Hurrell, 1995; Garnaut & Drysdale, 1994; The special issue of *Third World Quarterly*, Vol. 20, No. 5, 1999). New theories have been developed to explain its rise. The four main approaches are: Neorealism, Neoliberal institutionalism, Neofunctionalism, and Constructivism.

### 2.1 Approaches of the four theories

The key arguments of the four major theories are well observed in Hurrell's articles. According to him, the neorealist believes that recent developments in regionalism and economic cooperation are guided by the wider international political structures and within that the major states. Cooperation also takes the form of alliances which are driven by two or more states' global objectives and strategies, and regional economic cooperation can be seen to be similarly motivated. This school of thought sees the geopolitical conditions in Europe as being central to moves to economic cooperation (Hurrell, 1995: 47). They argue that while regional cooperation and integration is indeed possible, it is more often the response to the existence of a regional hegemon, or results from a longer period of converging interests. And whether or not it is economic or political, it is a strategic response to ongoing threats or challenges (Ibid.: 53). In the neorealist view there is also the important factor of states wishing to extend their international trade, a neo-mercantilist approach. Mercantile power is a form of strategic weapon in the economic order. In the 1980s the US economic position was weakening relative to Europe and Japan, and this brought about an interest in mercantile strategy as an issue (Ibid.: 22). Not only the major players, but smaller states in Europe saw cooperation as a means to increase their bargaining power and to restrict entry into a controlled market (Ibid.: 49).

Liberal IR theory has found a lot of scope within moves to regionalism since 1945 to develop its ideas further. For neoliberal institutionalists regionalism is seen as a new level

of entity above and also below the previously accepted notion of the state, with new players and social constructs (Fawcett & Hurrell, 1995b: 324). Regionalism is considered to be a new process that may help us to interpret 'nation' and 'national interest' in different ways. The setting up of institutions is part of a response to solve real problems collectively. And acting collectively, willingly submitting to higher authority, has great potential mutual benefits in reducing tensions (Keohane, 1984: 84). Economic integration is also seen as mutually beneficial. It heightens the stakes nations have in each other and therefore works to diffuse conflicts, and also creates a framework where conflicts may be resolved, where new ways of viewing each other and oneself can arise and new institutions can be developed. Neoliberal institutionalists agree that a shared geography, history and culture are important factors (Hurrell & Fawcett, 1995b: 313).

Neo-functionalist approaches have also been keenly applied to analyses of European regionalism. These see the starting point as the need to solve common problems of a non-contentious nature such as technical matters or matters of limited scope. The ECSC is a response to a particular defined problem. The institutions which are set in motion gather momentum, grow, and become self-sustaining and spill over into other forms of cooperation, culminating in political integration (Ibid.: 59).

Finally, a constructivist looks at regionalism from a social psychological perspective, dealing with the matters of identity and belonging. The key factor which will sustain regionalism is a sense of community. The trust necessary to build this arises from shared cognitive elements, shared knowledge, culture, values and social norms. Material economic benefits are not the only catalyst. It is therefore important to examine the subjective aspect of identity to understand regional developments (Ibid: 65).

## 2.2 Critiques of these four theories

Clearly it is possible to criticise each theory. Hurrell provides a balancing perspective on each. The weakness of the neorealist view is that it does not see the differences between regionalism and strategic alliances (Hurrell, 1995: 53). The autonomy and sustained impact of various international institutions is not accorded enough weight, whether it be

in the changes European institutions have brought about in the political climate (Ibid.: 73), or simply the fact that ASEAN continues to exist after the end of the Cold War.

Neoliberal institutionalists have too much confidence in the institutions themselves. These can only operate effectively where intra-regional tensions between states are controlled or calmed to the extent that they do not destroy regional confidence. Institutions thus have a job to do, but more in sustaining rather than creating intra-regional cooperation (Hurrell & Fawcett, 1995b: 317).

While Neo-functionalism has influenced 'both the theory and the practice of European regionalism', it focuses on institutions and does not address 'the factors behind the emergence of regionalist schemes'. It therefore also has difficulties dealing with the kinds of regionalism that involve low level institutional contact (Hurrell, 1995: 61).

Finally, Constructivists neglect the realities that history, geography, and shared culture and relationships have not prevented civil wars. Identities are in fact rather fluid and may change rapidly. Not only that, but the understanding of the whole by social groups within it may differ radically from others within the same region (Ibid.: 66).

### **3. East Asian regionalism**

Nevertheless, the different theoretical approaches can offer complementary views of regionalism. Each one gives another insight into the nature of change in the global economy through the different workings of globalisation and regionalisation. All of the approaches tend to take as working models highly institutionalised forms of regionalisation, such as has been seen in the EU in particular and, to a lesser extent, NAFTA. The European case is the most advanced example of regionalism and of extensive integration over the last 40 years and it has also been a stimulus for regional efforts elsewhere (Axline, 1988: 3; Yamazawa, 1998: 163). European integration has raised questions of erosion of existing, and the rise of new sovereignties. The move towards political integration is sometimes regarded almost as 'a higher state of political

organisation to which humankind is carried on the ultimately irresistible tide of historical progress' (Milward, 2000: 12). But in fact this issue does not arise outside the European context. Hettne for example argues 'Europe represents the most advanced regional arrangement the world has seen, and it will consequently serve as our paradigm for the new regionalism' (Hettne & Inotai, 1994, p. 12, in 28fn, Marchand et al., 1999: 903). Both neorealists and neoliberals also agree that the success or otherwise of the EU is an important test case (Baldwin, 1993: 5).

### 3.1 Why EU-type regionalism does not exist in East Asia

The EU has a strong institutional foundation integral to economic cooperation; East Asia has nothing comparable. Many scholars have provided explanations of why it is difficult to provide such regionalisms in the region. They tend to refer to the diversity of East Asia as the prime reason (Si, Chu, 1991). There are at least three incompatible political systems evident among the member states of APEC: A communist, an authoritarian capitalist and a democratic capitalist system. In addition, East Asia has a wide spectrum of different levels of economic development. Japan has a GDP per capita thirty times greater than China's. In addition there is extensive cultural, religious and social-ethnic heterogeneity (Peng, 2000: 178-9).

Second, the wider the diversity in a region in political, economic and other terms, the higher the transaction costs of building formal regional institutions, and the resulting institutions may not be the best means of overcoming the informal trade barriers that exist across a region. For this informal cooperation is a better vehicle (Ibid.). The combination of Japan and the Newly Industrialised Economies (NIEs) was successful in penetrating western markets and this has spurred an interest in multilateral trading systems (Foot, 1995: 234-5).

Third, some scholars seek the answer from the external security circumstances. While East Asia has seen within itself ideological polarities (the two Koreas, the two Vietnams, and China/Taiwan), it has never had a single comprehensive security threat such as was perceived in Western Europe and NATO (North Atlantic Treaty Organisation) from the

Soviet Union. East Asia has implemented security mechanisms that are based on bilateral rather than multilateral treaties (Ibid.: 238-40; See also Mansfield & Milner, 1999: 618; Katzenstein, 1996: 141-2).

Finally, the Asia-Pacific region had few multilateral institutions during the early post-war period. Effective economic regionalism was absent, particularly during the Cold War era. Even now it may be contended that Asia-Pacific organisations offer little more than opportunities for dialogues, although some institution-building efforts have been made in the region.<sup>3</sup> For example, the geographically extensive APEC is wider than a regional body, and should be termed '*trans*-regional'. It is closer to the model of the Asia-Europe Meeting (ASEM) and the TransAtlantic Economic Partnership (TEP) than the EU or NAFTA, even though it is more institutionalised than the former. The value of APEC is more in the forum itself, which provides a process for confidence-building, than in the potential results (Ravenhill, 2000: 329, 331). The same is true of other examples of regional organisations. ASEAN has not undergone the same kind of economic integration, nor encouraged the growth of an internal market as has been seen in the EU. Neither of those activities have been a goal of ASEAN, which has developed rather a political and economic subgroup that does not discriminate against outsider nations (Butler, 1997: 416).<sup>4</sup> The EAEC (East Asia Economic Caucus) has also not made much progress.<sup>5</sup> In this, as Katzenstein contends, the regional efforts to create stronger ties – in particular APEC, AFTA, and EAEC/East Asia Economic Group (EAEG) – have shaky futures (Katzenstein, 1997: 22).

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<sup>3</sup> 'Unofficial regional institutions were formed before such as, the business related Pacific Basin Economic Council (PBEC) in 1967; the academic Pacific Trade and Development Conference (PAFTAD) founded in 1969; and the Pacific Economic Cooperation Conference (PECC, now Council) in 1980' (28fn, Yoshimatsu, 2000: 16). In 1989 APEC was set up in an Australian initiative. APEC has been the main forum for economic dialogue among the member countries, holding ministerial meetings, high-level official meetings, and working groups. Its object is to liberalise trade and investment (Ibid.: 17)

<sup>4</sup> Unlike the EU, ASEAN has not achieved 'substantial integration of economic activity and growth of intra-regional trade and investment.... Intra-ASEAN trade only grew from 3.2% of total trade in 1980 to 4% in 1990, with much of this trade not governed by preferential trade rules' (Panagariya, 1994, pp. 16-7, cited in Butler, 1997: 416).

<sup>5</sup> The EAEC has also faced significant opposition from North America and Australia, which are excluded from the membership. Moreover, some member countries such as Japan have taken a cautious attitude towards the idea (Urata, 1998: 34).

### 3.2 East Asian regionalism

The method of institutionalisation chosen and its depth is a function of different kinds of regional groupings. The way to look at it is that there are deep-seated differences in patterns of regional governance and the extent of institutionalisation is a manifestation, and not an explanation, of these differences. There is no common understanding of the form or types, which are defined as a process through which regional patterns of relations are established and institutionalised (Bajo, 1999: 927-8). Thus the wider political and economic questions and contexts will have different regional dynamics and these in turn will produce totally different concepts of regionalism (Beeson & Jayasuriya, 1998: 312).

Compared to Europe, Asian regionalism does not have strong institutions. Attempts to establish formal rule-making and rule-binding regional institutions in Asia have generally failed, but one should not use European 'success' as a yardstick to measure Asian 'failure'. This focus on the institutions reflects a view of regionalism that is heavily influenced by the EU model, which is often implicitly seen as the height of regional institutional integration. The European model is not the only form of regionalism, although some scholars, such as Hettne, have argued that the EU model is superior to these developed outside Europe. In the EU model, integration occurs on more than an economic level. As Milward argues, the emergence and development of the EU was made possible due to the particular historical circumstances in post-war western Europe (Milward, 2000: 10). It was not only the positive factors of shared history and culture that brought European integration forward, but also the shared suffering of the war, the threat posed by Soviet military power and concern about American hegemony (Wallace, 1995: 201).

It is difficult to use theories of regionalism based on Western and particular European experience to understand the situation of Asian regionalism. A broader view should take account of regional efforts in various parts of the world, regardless of form. It is better to acknowledge that regional integration can be very different in nature, depth and scope, in different world regions. 'East Asia's development will necessarily reflect current political and economic structures' (Ibid.). The emphasis in Asian regionalism has been on



informal consultation rather than institutional structure and formally agreed and adopted rules. In the Asian model of cooperation, according to Yoshimatsu, basic principles are agreed upon in the guiding rules and the details required for practice arrived at through informal and incremental consultation. It works by consensus, thus Asian states have a veto power over collective actions. One benefit of this informality is that there is more room for manoeuvre for each participating country. The flexibility allows for changes of policy and bargaining positions taken by each player (Yoshimatsu, 2000: 23). For East Asia some forms of functional cooperation may be the ultimate evolution of regionalism, and it can be better described as 'cooperation', rather than 'integration'.

What then is the difference between integration and cooperation? First of all, two scholars raised the need for defining integration. Wallace distinguishes integration between the formal and the informal. The former is identified by 'deliberate actions by authoritative policy-makers to create and adjust rules, to establish common institutions and to work with and through those institutions'. The latter is characterised by 'intense patterns of interaction that follow the dynamics of markets, technology, communications networks and social exchange without the intervention of public authorities' (Wallace, 1990, p. 54, in Laffan, 1992: 3-4). Peng notes the importance, for formal integration, of 'regional integrative organisations' and 'comprehensive legal agreements'. They are comprehensive in that a large part of the international exchange between agreeing states, such as free trade areas and custom unions are covered. For informal integration, no such agreements are required. Although economic factors and the private sector play a leading role, this is not to say that background government support is not important (Peng, 2000: 177-8).

In addition to this, other scholars such as Laffan also claim that regional cooperation should be differentiated from integration, by saying that while similarities exist, as both involve some kind of collective action by states, the intensity of relations between the participating state and the level of organisation is higher in the case of regionalism as integration (Laffan, 1992: 3). Hass contends that integration creates political communities (Hass, 1971, p. 6, in *Ibid.*). In the integration process, the nation-state, which stands to

lose some aspects of sovereignty, must be the main actor. On the other hand, cooperation works within clearly defined limits and leaves the powers of member states unaffected. National sovereignty is not brought into question and no independent centre of power and authority is created (Ibid.).<sup>6</sup>

In this regard, what Scalapino identifies 'Natural Economic Territories' (NETs) are other examples of such a kind of Asian cooperation model. NETs are 'entities that cross political boundaries, often encompassing only portions of the state, but with their *raison d'être* resting upon the combination of natural resources, manpower, technology, and capital that can be pooled to maximum advantage' (Scalapino, 1992: 22, also quoted in Lew, Seok-Jin, 1995: 18). This concept can be developed to postulate a soft regionalism. Thus regionalism can remain a wide notion embracing both that of the EU with its political superstructures, and its operation at state level, and also the soft regionalism that is based simply around the economic flow across political boundaries (Scalapino, 1992: 8, in Ibid.: 19).

## II. Regionalism in East Asia

Part II attempts to identify the emerging trends of SREZs since the late 1980s in East Asia. It outlines the concepts, modalities, categories, and objectives of sub-regional economic zones (SREZs) as a new East Asian model and raises the question as to why only the Singapore-Johore-Riau Growth Triangle (SIJORI) and the Greater South China Economic Zone (GSCEZ) have been successful. The discussion also analyses - comparatively - the key success factors in the SIJORI and GSCEZ projects. Finally, the concluding section discusses the lessons that may be applied to the Tumen River Area Development Project (TRADP).

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<sup>6</sup> According to Lew, regional cooperation will be loosely defined as 'informal and uninstitutionalised arrangements among particular regions of the concerned countries, not confined to the central government, but extended to local government and private capital, concerning making the transaction of capital, goods and technology across the national boundaries easier and freer' (Lew, Seok-Jin, 1995: 20-1).

## 1. Defining Sub-regional Economic Zones (SREZs)

### 1.1 Concepts

Towards the end of the 1980s, different versions of a new type of regional economic cooperation started to appear rapidly in various parts of East Asia. SREZs have been given various names: transnational economic zones, growth triangles, transnational export processing zones, natural economic territories, and extended metropolitan regions (Chia, 1993: 1).<sup>7</sup> Two Asian academics have provided the definitions of SREZs:

[SREZ] is a special case of the more general concept of economic cooperation... [It] involves economic cooperation based on encouraging specific and limited linkages of complementary economic activities across borders. It is a pragmatic response to the practical problems of formal economic integration among nations that require fundamental changes in national institutional and administrative arrangements as with NAFTA, the EC or AFTA... [It] needs not involve entire countries, but simply adjacent areas within countries that have complementary capabilities and resources (Abonyi, 1996: 4-5).

...These sub-regional economic integration processes cut across political boundaries and political and economic systems, and occur with or without government initiative, and with or without formal institutions and structures... The driving force is the private sector. [But] the facilitators are governments, who remove the political barriers to the movement of goods, services and factors of production, provide the physical infrastructure, and offer various investment incentives. As such, the SREZ is more than the border trade that is commonly found along the borders of nation states (Chia, 1993: 1-3).

### 1.2 Modalities

Chia visualised the strengths of the SREZ concept by comparing it with a national export processing zone (EPZ) and a regional free trade area (FTA). An EPZ 'is a specially designated area in a country to promote export manufacturing and foreign investment. It receives special treatment in the form of fiscal incentives and infrastructural support.... Indonesia, Malaysia and Taiwan have established successful EPZs' (Ibid.: 3). A FTA [composes] more formal institutionalised arrangements, and 'focuses on sharing the

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<sup>7</sup> The term 'growth triangles' gradually emerged as a popularly acceptable term, but not all 'triangles' are triangular, but rectangular, or hexagon, etc. Therefore, SREZs are used as a unifying concept.

enlarged regional market and discriminates against non-members'. NAFTA and AFTA are examples. By contrast, the SREZ is *trans*-national export processing zone, with distinct advantages over the *national*-bound EPZs. Compared to FTA, the SREZ can avoid political and economic risks as 'it localises the effects of trade and investment opening to the outside world' (Ibid.). In this context, the SREZ is consistent with the scope of 'open regionalism' defined by Garnaut: such a type of regionalism does not discriminate against outsiders, and is different from 'discriminatory regionalism' (Garnaut, 1996).<sup>8</sup> Overall, SREZs not only provide 'a way of addressing their national priorities and concerns in the context of intense global competition' (Tongzon, 1998: 88), but also increase bargaining power for relations with the major global players (Mistry, 1999: 125-6; Walter, 1995: 95).

### 1.3 SREZs in East Asia

There are nine SREZs in East Asia, two (SIJORI and GSCEZ) currently operational and seven others under discussion (China, 1993: 4-9). Apart from the TRADP, they are:

#### *Singapore-Johore-Riau (SIJORI)*

The name SIJORI is taken from the initial two letters of the names of the three participants: Singapore, the southern Malaysian state of Johore, and the Riau Islands of Indonesia (initially involving only Batam Island, but then extended to the whole Riau archipelago). The SIJORI was inaugurated in 1990. After a period of recession in 1985, the Singapore government encouraged manufacturing to relocate to Johore and in December 1989 the Deputy Prime Minister Goh Chok Tong formally opened the so-called 'Growth Triangle'. The resulting combination of skilled labour, developed communications and financial infrastructure from Singapore, and lower property and labour costs in Johore and Riau have been mutually beneficial (Bridges, 1997: 63-4).

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<sup>8</sup> Walter's 'Benign Regionalism' sounds similar to 'Open Regionalism'. He defines it 'as regional arrangements which, in the process of the voluntary swapping of mutual preferences between the group's members, do not at the same time increase barriers to economic exchange with the outside world. The basic point is that the intent is not consciously to reduce the welfare of outsiders (or indeed insiders)' (Walter, 1995: 78).

### *Greater South China Economic Zone (GSCEZ)*

This Greater South China Economic Zone (GSCEZ) reaches across Guangdong and Fujian into Hong Kong, Macao and Taiwan, and has been successful in increasing cross border trade. The volume of trade and investment of Hong Kong and Taiwan with China is now greater than that of the rest of their trading partners. The GSCEZ was set in motion in 1979. It began with four SEZs to encourage foreign investment in China, established in Shenzhen, Zhuhai, and Shantou (Guangdong province), and Xiamen (Fujian). The concept spread through the 1980s to other parts of the Pearl River Delta (Ibid.: 58-60; Chia, 1993: 6).

### *Northern Growth Triangle (NGT)*

The Northern Growth Triangle (NGT) covers 11 provinces in Western Indonesia (Northern Sumatra and Aceh), northern Malaysia (Penang, Kedah, Perlis and Perak), and southern Thailand (Songkhla, Satun, Yala, Narthiwat and Pattani). The NGT was initiated by Malaysia and seeks to find synergy between an industrialised Northern Peninsula Malaysia with a strong service sector, and the more agricultural-based southern Thailand and Northern Sumatra (Chia, 1993: 4-5). Thailand and Indonesia have population pressures in Bangkok and Java, and need to find development solutions. The NGT seeks help from the Asian Development Bank (ADB) to draw up a programme and explore possibilities (Salleh, 1993: 63).

### *East Growth Triangle (EGT)*

The East Growth Triangle (EGT) was established to address the less developed areas of Indonesia, the Philippines and Malaysia, namely Brunei, Sulawesi in eastern Indonesia, Mindanao in southern Philippines, and Sabah and Sarawak in eastern Malaysia. Brunei is also included in the EGT and as a rich country is a potential source of capital. There are potentials for development in the areas of marine resources, energy, transportation and tourism (Chia, 1993: 5).

### *Baht Economic Zone*

The name Baht Economic Zone reflects the wide use of the Thai baht as a transaction currency.<sup>9</sup> The Thai baht is relatively strong in the border areas encompassing Vietnam, Cambodia, Laos, Myanmar and Yunnan Province of China. The Thai private sector has been encouraged to forge economic links across the region to develop industries in minerals, forestry and fishery. The Thai government is promoting commerce and capital flows between this area and the outside world, something particularly important to landlocked Laos (Ibid.).

### *Mekong River Basin Project*

The history of cooperation in this region goes back to 1957 when Thailand, Vietnam, Cambodia and Laos started to address together the development of the lower Mekong Basin by attracting outside capital and funding. Myanmar and Yunnan Province of China joined later. All these areas were underdeveloped with poor infrastructure, lack of capital, and poor productivity. The Mekong Basin is a natural economic territory, and possible areas of collaboration, with coordination led by the ADB, are hydroelectric power, irrigation, flood control, drainage, improving navigation improvement and environmental management (Ibid.: 5-6).

### *Yellow Sea and Sea of Japan Rims*

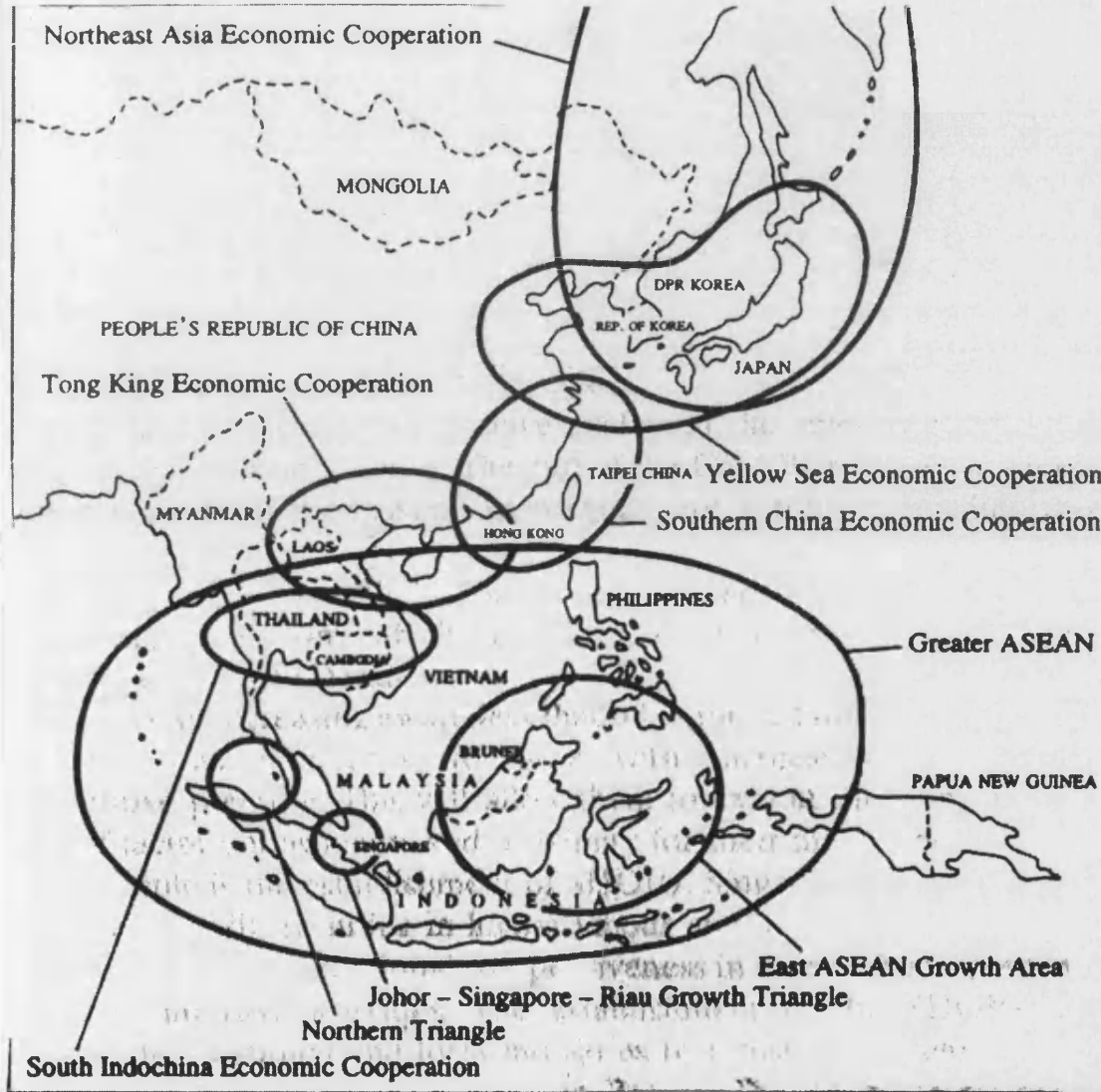
Japanese sub-regional economic cooperation on the Yellow Sea and Sea of Japan Rims is rather different in that there is a strong market and corporate drive. As China opened its coastal regions, Japanese and South Korean investments moved in. There are some cultural and historical links between the Rims encompassing Northwest China (Bohai, Shandong and Liaoning), Southwest Japan and the Koreas, and the Russian Far East. These ties give support to the exploration of industrial complementarities (Ibid.: 9).

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<sup>9</sup> Since the financial crisis of 1997 the Chinese yuan has replaced the Baht in the border areas immediately adjacent to China.

**Figure 2-1: Sub-regional Economic Zones (SREZs) in East Asia**

Source: (Tongzon, 1998: 85)



**Table 2-1. Economic cooperation groupings in East Asia**

| Name of economic grouping                      | Date formed | Basis                   | Number of countries | Component countries/areas                                   |
|--|-------------|-------------------------|---------------------|---|
| Greater South China Economic Zone (GSCEZ)      | -           | private sector activity | 3                   | Coastal South China, Hong Kong, Taiwan                      |
| Yellow Sea Rim Economic Zone                   | -           | "                       | 3                   | Northern China, Japan, ROK                                  |
| Sea of Japan Rim Economic Zone                 | -           | "                       | 5                   | Japan, East Russia, Northeast China, DPRK, ROK              |
| Tumen River Delta Area                         | -           | concept phase           | 5                   | East Russia, Northeast China, Mongolia, DPRK, ROK           |
| Singapore-Johore-Riau Growth Triangle (SIJORI) | 1989        | private sector activity | 3                   | Singapore, Johore (Malaysia), Riau (Indonesia)              |
| Northern Growth Triangle (NGT)                 | -           | concept phase           | 3                   | West Indonesia, North Malaysia, South Thailand              |
| Baht Economic Zone                             | -           | private sector activity | 5                   | Yunnan (China), Vietnam, Laos, Cambodia, Northeast Thailand |
| East Growth Triangle (EGT)                     | -           | concept phase           | 4                   | Brunei, Philippine, Indonesia, Malaysia                     |
| Mekong River Project                           | 1957        | -                       | 6                   | Yunnan (China), Thailand, Vietnam, Cambodia, Laos, Myanmar  |

Source: based on (Chia, 1993: 2)



**Table 2-2: Basic indications for the GSCEZ and SIJORI**

|                                  | GSCEZ     |        |            |        |        | SIJORI    |        |            |        |
|----------------------------------|-----------|--------|------------|--------|--------|-----------|--------|------------|--------|
|                                  | Hong Kong | Taiwan | Guang-dong | Fujian | Total  | Singapore | Johore | Batam      | Total  |
| Area (sq. km)                    | 1,075     | 36,000 | 18,000     | 12,000 | 67,075 | 639       | 18,914 | N.A.       | 19,553 |
| Population                       | 5.7       | 20.4   | 62.8       | 30.0   | 118.9  | 2.8       | 2.2    | 0.1        | 5.1    |
| Per capita GNP                   | 13,200    | 3,070  | 535        | 350    | N.A.   | 12,890    | 3,594  | 500        | N.A.   |
| Total GDP (US\$ billion)         | 59.7      | 180.3  | 33.6       | 10.5   | 284.1  | 34.6      | 4.3    | US\$ 0.045 | 38.9   |
| GDP growth rate (1991)           | 3.9       | 7.3    | 17.3       | 15.4   | N.A.   | 6.7       | 9.0    | N.A.       | N.A.   |
| Unskilled labour Cost (US\$ p/m) | 708       | N.A.   | 103        | N.A.   | N.A.   | 350       | 150    | 90         | N.A.   |
| Land cost (US\$/sq m/month)      | 24.7      | N.A.   | 1.9        | N.A.   | N.A.   | 4.25      | 4.08   | 2.3        | N.A.   |

Source: (Thant, 1996: 249)

#### 1.4 Categories

Chia distinguishes SREZs conceptually into the following categories, which in practice may overlap (Ibid.: 3-4):

##### *A metropolitan spillover into the hinterland*

...The core enjoys better infrastructure, and economies of scale and agglomeration. However, economic success leads to growing land and labour constraints, so that development spills over into the periphery.... This category of SREZs corresponds to the concepts of Extended Metropolitan Region and National Economic Territories. Examples are the Singapore development spillover into Johore and Riau and the Hong Kong and Taiwan development spillover into South China.

##### *Geographically proximate areas with common interests*

Historically, geographical proximity, ethnic and cultural affinity, and geographical interests have led to active economic exchange between border areas of neighbouring countries... [However, the] end of the Cold War and the transition of socialist command economies towards open market economies have led to a revival of border exchanges.... This type of SREZ is typified by Baht economic zone, Yellow Sea Rim and Japan Sea Rim economic zones.

##### *Joint development of natural resources and infrastructure*

Low income countries need to develop their infrastructure as a precondition for... the attraction of private capital, but face severe financial constraints. Sub-regional cooperation can reduce the financial burden by joint approaches to external funding agencies and improve the efficiency of projects by exploiting the economies of scale and agglomeration.... This type of SREZ is typified by the Mekong River project in Southeast Asia and the Tumen River project in Northeast Asia. (Neither of which have been successful so far.)

#### 1.5 Classification by initiatives

Although the forms of the zone may vary, these economic zones can be classified according to whether they are government-led, private sector-led, or UNDP-led, and local government-led. Unlike SIJORI, where the economic integration process was government-led, the economic integration of the GSCEZ has been private sector-led development. The third category describes the Tumen River project in Northeast Asia. Furthermore, it can be redefined as 'international organisation-led' if the Greater Mekong

concept develops with the ADB taking a leading role (Yeung, 1995, in Bridges, 1997: 57-8).

## **2. Objectives of the SREZ**

Regional (or sub-regional) competitive advantage within the global economy is seen to foster national competitive advantage (Abonyi, 1996: 4-5). However, it would be wrong to see SREZs as driven only by economics. What were the objectives that led to the emergence of this kind of sub-regionalism? We need to provide a wide ranging critique of the sometimes simplistic notions of regionalism to take account of new and concrete developments that are occurring. Regionalism may appear economic in its stated goals, but underlying factors and motivations may reveal political and security concerns, and these need to be taken into account when assessing the dynamics of the economic interactions.

### **2.1 Performance legitimacy**

The introduction of SREZs may help a regime under pressure to increase its legitimacy and thus secure some measure of domestic stability and order (Acharya, 1996: 31). *The Economist* magazine (25 September 1993: 3, cited in Ibid.) noted that there are good political reasons for governments to support SREZs because it 'sounds like [Southeast Asian governments] are doing something for development in politically troubled regions'. In theory at least, welfare and development of standards of living are inherent in SREZs, as is providing national security through regional cooperation. This would contribute to what has been called 'performance legitimacy'. Domestic political legitimacy will be enhanced where the state is seen as concerned for its people's well-being and wider security, both of which remain important in Southeast Asia (Ibid.).

### **2.2 Bargaining power**

Most of these countries need regional engagement and mutual assistance to improve economic survival prospects. Increasing global competition is forcing states to seek more bilateral and sub-regional cooperation. Such regional groupings also provide increased

bargaining power for relations with the major global players (Mistry, 1999: 125-6; Walter, 1995: 95).

### 2.3 Reducing the likelihood of conflict

Regional economic cooperation can help lay foundations for improved order and stability within a region (Fawcett & Hurrell, 1995b: 310). Such interdependence does not, of course, do away with conflicts completely, but the economic costs of entering into conflict are increased and thus the 'likelihood of conflict' is reduced (Bridges, 1997: 70-1).<sup>10</sup> Economic development requires outside investment from multinationals. Given the difficulties in attracting such investment, states are less likely to risk capital flight through moves that undermine stability.

### 2.4 Harmony with the higher regional level

The ASEAN SREZs are also part of the wider ASEAN vision to bring about better pooling of resources and market sharing. The 1992 'Singapore Declaration' of the Third ASEAN Summit set out intentions to realise economic and political cooperation at increasing levels 'to move towards a higher plane of political and economic cooperation' (Weatherbee, 1995: 427). Tongzon contends that SREZs can work to help cooperation across the ASEAN region and to complement the higher level cooperation processes in the following ways:

[SREZs] can be perceived as building blocs for economic cooperation in the region. They are complementary, rather than alternatives for the regionwide economic cooperation. [They] can serve the role of 'reality tests' for selected dimensions or assumptions of AFTA. They can be instrumental in moving them from national comparative advantage to regional competitive advantage.... [They] could also be a means by which the region's economic dynamism could be spread to the lagging parts of the region.... [B]y playing down political and security issues, [SREZs] can provide a venue through which the member states can focus on similarities such as mutual economic gains (Tongzon, 1998: 91-2).

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<sup>10</sup> Bridges also argues that the key to reducing the likelihood of conflict is the increased cost to the parties involved. Singapore's security has been improved by 'functional interdependence' with its neighbours. In Taiwan, there is a particular advantage in a case where formal diplomatic relations are fraught with difficulty. The SREZ allows an informal involvement which promotes stability (Bridges, 1997: 70-1).

It thus can be concluded that SREZs have shown positive effects, which have acted as an incentive to greater political commitment to regional cooperation.

### **3. Problems and issues**

Notwithstanding these positive evaluations, the SREZs have nevertheless experienced great difficulties. The various parts of the SREZ are at different stages of economic development and have varying natural and human resources. The SREZ as a transnational phenomenon gives rise to political and security problems at various levels, in addition to being constrained itself by its own economic problems. Seven of the nine SREZs have not yet gone beyond the discussion stage, and even the two projects in operation (SIJORI and GSCEZ) have experienced and continue to face many setbacks.

#### **3.1 Financial constraint**

Country-specific projects have been the traditional destination for investment. Mechanisms need to be developed for the financing of trans-border projects, and these mechanisms need to be workable for a range of international financial institutions (Abonyi, 1996: 11). The present international system will need a more developed approach to deal with SREZs, especially the problems of high credit cost and large collateral and reserve requirements (Thant, 1996: 253-4).

#### **3.2 Lack of coordination**

Lack of coordination can be another problem. For example, as Chia explains, some local governments in southern coastal China have been successful in securing infrastructure funding. However, this has been achieved on their own and may have been at the expense of efficient allocation of resources with resulting excess capacity in some areas (Chia, 1993: 26).

#### **3.3 Distributional issues**

There are widening gaps in income and economic development between the areas that have specially designed economic zones and those that do not. This can create serious

domestic problems. Note, though, that these are problems generated by a host state, rather than by regionalism per se. However, because SREZs directly benefit only a defined and limited area, they may become a 'politically sensitive' issue (Acharya, 1996: 33).<sup>11</sup> The growing wealth and level of development and standard of living in the provinces of Guangdong and Fujian compared to the relatively poor northern and inland provinces is a case in point (Chia, 1993: 26). The economic growth in the SIJORI area also raises distributional issues. There has been pressure for the inclusion of other islands in Riau, while Batam used to be considered as a minor irritant to Indonesia's economy. Local people both inside and outside the region are concerned that they are not seeing the benefits generated from such initiatives (Ahmmed, 1993: 111).

#### 3.4 Inter-provincial rivalry

As central investment in a SREZ means diverting funds from other provinces or projects, this means there is great potential for inter-provincial jealousies (Chia, 1993: 25-6). In Indonesia, where there is a perception that the economic benefits to the Riau Islands have not spread to the mainland part of the same province or to the rest of Indonesia, inter-provincial rivalry is high. The main problem seems to lie in excessive competition between individual islands in the Riau province (particularly between Batam as the industrially focused island and Bintan as a tourist resort island). Clearly other parts of Indonesia are also concerned that the lion's share of the central development budget is being spent on one island (Bridges, 1997: 65-6).<sup>12</sup>

#### 3.5 Central-provincial tensions

A SREZ, involving as it does, parts of rather than the whole of these countries, affects the way central government and provincial government relate (Thambipillai, 1998: 263). The same tensions can arise where there are two or more SREZs in a state, and where some

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<sup>11</sup> Adding to this concern, SREZs need to be carefully handled from the point of view of domestic social stability. Significant migration of parts of the labour force with economic expansion leads to housing shortages, pressure on social services, and increasing wage differentials. In these lie the seeds of political unrest. In Indonesia reference has been made by the military to threats to the social order arising out of Batam, part of SIJORI (*Straits Times*, June 20, 1991, cited in Acharya, 1996: 34).

<sup>12</sup> Whetherbee (1995: 429) says that the Indonesian proposal to develop an industrial centre on 'Madura to rival Batam', while perhaps not a challenge to the geographic edge of Batam can be seen as a response to complaints of unbalanced regional industrial growth in the country.

are perceived to have preferential status. The risk of political resentment and bad feeling against central government is high (Bridges, 1997: 72). The SREZ can become a channel for drawing the periphery area away from the national core towards a foreign support. Ultimately this could undermine central authority and national cohesion, with the province demanding greater provincial autonomy in policy formulation and implementation and in the collection and use of tax revenues (Chia, 1993: 25).

### 3.6 Allotment among countries

Then there are allocation issues between countries – for example between Indonesia and Singapore in the SIJORI. Singapore covers only 3% of SIJORI geographically, 50% in terms of population, but takes 90% of its income. President Suharto of Indonesia declared at the start of the project that it would need to be seen to be of benefit to all participating countries or it would fall down politically (*New Straits Times*, September 27, 1990, in Acharya, 1996: 35). In Malaysia, *Semangat '46*, the political opposition, explicitly raised the issue that the SREZ could turn Johore into the 'backyard' of Singapore (*Straits Times*, October 20, 1990, in *Ibid.*: 34). Cooperative relationship can still be fraught with tension, as demonstrated by the angry Malaysian response to Lee Kuan Yew's comments that Johore was 'crime-ridden' (*The Economist*, 1997).

### 3.7 Differential sovereignty levels: unclear major players

Again SIJORI illustrates further complications. While Singapore is a sovereign state, Johore is only a province. Johore is strongly interested in the relationship and decision making processes with Singapore, but since the SREZ has been formalised at national level, its powers are subject to the federal government in Kuala Lumpur. Riau is not an exception, and is ruled by the central government in Jakarta (Bridges, 1997: 65). And the Northern Growth Triangle (NGT) is significantly more complicated, involving three central governments, four states in Northern Peninsula Malaysia, 14 Provinces in Southern Thailand and two Provinces in Northern Sumatra, not to mention the private sector (Salleh, 1993: 66).

### 3.8 Different development preference of each country

The various participants will thus be differently committed to a SREZ project. The result is potentially disruptive. It is commonly perceived, for example, that Singapore is the strongest supporter of SIJORI, which is only natural as it is also believed that Singapore will be the major beneficiary (Thant, 1996: 250). Other cases of SREZs are not very different. Malaysia supports the NGT concept in preference to SIJORI. In Thailand the GMS seems to rank higher than the NGT in importance (Liwgasemsan, 1993: 73). Indonesia has more commitment to SIJORI than the NGT, which is seen as an initiative by the Philippines government (Bridges, 1997: 67, 72).

### 3.9 Incomplete triangle

SIJORI has indeed been successful. However, it is an unbalanced triangular relationship which may impede maximum effectiveness. The bilateral partnerships in the triangle are not equally strong and there are two main legs: Singapore-Johore and Singapore-Riau (*Straits Times*, October 3, 1991, in Acharya, 1996: 35). Even these have different bases, the Singapore-Johore leg is a more market led development, whereas the state has much more involvement in Singapore-Riau leg. And Riau-Johore ties are practically non-existent. These two areas both lack their own capital, so they suffer the same predicament and share few complementarities (Thant, 1996: 250; Ganesan, 1993: 6-7; Vatikiotis, 1993a).

### 3.10 Political sensitivity

Since the concept of NGT was proposed in 1993, Malaysia has been its strong backer, however, Thailand and Indonesia have not been enthusiastic. There have been security concerns in Thailand about its southern provinces, threatened by the rise of Muslim separatists there. It is concerned that one effect of the NGT would be an increased identification by southern Thai provinces with Muslim Malaysia. Indonesia has doubts too. It feels that a better approach might be to join Sumatra to an expanded SIJORI. Penang, which has a relatively high average income and also an important Chinese element, has the potential to become a destabilising factor if ethnic tension increases (Bridges, 1997: 67-8). Countries participating in the Greater Mekong project are also



cautious. The northern areas of Burma could experience racial tensions if Chinese commercial interests were to become too strong; Laos is economically weak and fears the influence of foreign, especially Thai and Chinese, businesses (Ibid.: 68).

### 3.11 Discouragement of economic cooperation at a regional level

Every ASEAN country is in some way involved in one or more SREZs (Abonyi, 1996: 22). The danger is that rather than promoting regionalism the commercial success of SREZs could actually discourage closer regional economic cooperation. If SREZs are seen as framing easily achievable targets, this may encourage parties to divert energies into these rather than, for example, into the more ambitious but slow-moving AFTA programme (Bridges, 1997: 72). SREZs and their like may also detract from the wider regionalism of the ASEAN type by alienating neighbours which are not involved in the smaller group. The growing links between Singapore, Indonesia and Malaysia have the potential to disaffect other ASEAN members, and indeed the agendas of the two cooperative bodies may to some extent be at odds (Acharya, 1996: 35-6).

## 4. Why are SIJORI and GSCEZ successful when others have failed?

As discussed above, most SREZs have suffered difficulties due to various political, economic, and security issues at domestic and international levels. Seven of nine SREZs are still in the planning stage. Clearly then, not all attempts at regional cooperation have been successful. Only two, SIJORI and the GSCEZ, can be said to have taken off. Despite grappling with constraints, they can be considered significant and dynamic economic centres in East Asia. Why did they succeed when others failed?

### 4.1 A comparison of SIJORI and the GSCEZ

SIJORI involves the sub-regions of three rather than two countries as is the case for the GSCEZ (Lee, Tsao Yuan, 1993: 20). Hong Kong, as a leg of the GSCEZ, has become part of a single national actor, China, and Taiwan can in economic terms be included with China. The GSCEZ thus becomes an example of 'trans-state interdependencies' (Weatherbee, 1995: 422). It is therefore of limited use as a model for exploring broader

policy implications of sub-regionalism for national actors (Abonyi, 1996: 19-20). SIJORI, by contrast, being truly multinational, multiethnic and multicultural, qualifies as a true SREZ (Weatherbee, 1995: 423).

Both SIJORI and GSCEZ have central government involvement. Singapore and Indonesia have high level commitments to SIJORI, with 'approvals by heads of state, bilateral treaties, a coordinating committee at ministerial level, and involvement of Singapore state-enterprises' (Ibid.). In direct contrast, the GSCEZ developed without any such major formal treaty. The open door was created by unilateral Chinese political commitment, which lead to investments flowing in from Hong Kong and Taiwan in the light of a reduction of political uncertainties and risk (Thant, 1996: 248-250).

#### 4.2 Political commitment--the key success factor of SREZs

Valuable lessons for other emerging SREZs in the region can obviously be drawn from SIJORI and GSCEZ. The ongoing success of these SREZs depends on overcoming the kinds of obstacles and limitations discussed in relation to SIJORI and the GSCEZ in order to reach economic complementarities, a suitable infrastructure base, state capacity, political commitment, including a leading player to drive the process, as well as private sector support (Tongzon, 1998: 95). Of these targets, the really crucial factors are a positive political will which will work to win over any domestic doubts and the creation of a conducive climate for cooperation based on non-hostile relations (Thambipillai, 1991: 310), as exemplified by the GSCEZ.

Even though the initiative of the private sector is increasingly important, the government still plays a key role in creating the framework for investment.<sup>13</sup> Only governments can devise and implement institutional frameworks required to anchor and sustain sub-regional cooperation. This includes 'specific legal, regulatory and policy frameworks,

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<sup>13</sup> Toh Mun Heng and Linda Low have argued in their discussion of SREZs within the ASEAN that 'The government factor is... important for political will and commitment to make the economics of any growth triangle work... [T]he government enters any [SREZ] is as the prime mover or the catalyst. It can cut through the economic, social and political issues and layers most effectively and play this prime mover role better than the private sector. However, governments need to be guided by the private sector and market forces rather than pure bureaucratic considerations which may be parochial and self-serving for the government in office' (Heng & Low, 1993: 230).

and transborder agreements relating to areas such as customs, immigration, repatriation of capital, foreign exchange transactions, fiscal incentives, investment guarantees and so on' (Abonyi, 1996: 6-7). Strong political commitment at the highest level and the willingness to adjust national policies so as to effectively participate in the SREZs constitute the key factor to success. Only government policies can encourage the essential participation of the private sector, which is the ultimate target of economic linkages.<sup>14</sup> It is up to the government to create a climate of political confidence for potential investors in the region (Tongzon, 1998: 94). The government is the only body that can provide such a framework and will do so only if there is consistency with its other political and security objectives (Acharya, 1996: 28-9). The SREZs could not have been possible without such political commitment.

## **5. The number of actors**

Some scholars claim that effective cooperation is easier if there are fewer players. Thus in East Asia, the fewer the participating governments, the higher the probability that these projects will succeed. The potential for conflicts of interest and disagreements over policies will be increased with a greater number of participants, and this will tend to block development (Weatherbee, 1995: 425; Thambipillai, 1991: 311). Conflicts of interest exist within the hexagon of Thailand, Laos, Cambodia, Vietnam, Myanmar, and China in the GMS. If one compares them to the number of players in SIJORI one might be led to think that an optimum number of partners should be fewer rather than greater (Ibid.: 426). The Chief Minister of Johore once described SIJORI as a 'mini-ASEAN' that was 'more manageable' (Ibid.: 427).

However, this would be an oversimplification. For example, the NGT involves only three states, while still hovering at discussion level. Not surprisingly, there are problems of coordination and in identifying major areas of cooperation (Tongzon, 1998: 93). Instead, this thesis takes a position that the projects can succeed if the governments have strong

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<sup>14</sup> In GSCEZ, the key was Beijing's commitment to economic reform. But the private sector took the lead from the start.

political will to guarantee international cooperation, even where the number of actors is large. Although ASEAN is the exact example, it has been regarded as the most successful one within the ten membership countries. And here the individual leaders play a important role: if the leaders of the country feel that the project is no longer useful, the country's stance will be uncooperative. The most important thing is whether or not the governments concerned have the political will to guarantee economic cooperation.

## **6. Implications for the TRADP**

The purpose of this chapter has been to provide a basis in theory for understanding the significance of the TRADP, as one of the regional projects in East Asia and as one of many regional projects in the world. Since the late 1980s, regionalism has become one of the most important subjects in the debates about the nature of the post-Cold War international order. The multidimensional significance of regionalism largely resulted from developments in the EC/EU and NAFTA. To some extent countries in East Asia have had to catch up with the mainstream of the international political economy. The sub-regional economic zones (SREZs), which do not necessarily involve whole states, emerged as a new model in East Asia. This was due to the political, economic, security and historical features of East Asia. Even if the outward form of regionalism is economic in nature, the factors that underpin economic regionalism are often far from solely economic, and SREZs as transnational phenomena in East Asia give rise to political and security problems.

Obviously, this appears to be the case with the TRADP, the most complex of the proposed SREZs. Unlike the EU and NAFTA, most East Asian regional projects have failed to perform. The TRADP, in this regard, is no exception. Only two projects (SIJORI and the GSCEZ) have succeeded so far. The reason why the TRADP has followed in the footsteps of other failed East Asian projects, rather than these two, can be found in a sharp difference in the level of involvement of government will in involvement, although the importance of the private sector cannot be denied. It is hereby argued that the political will of the governments is a fundamental prerequisite to realising the SREZs. The enhancement of interstate cooperation requires such will. Without political commitment, any kind of economic project, however promising, will fail to perform adequately. This argument, which runs throughout this chapter, is a significant lesson to the TRADP in particular.

Although the TRADP, to some extent, has become a well-known example of regional cooperation in Northeast Asia, the future of the project is not as bright as formerly expected. Initially academic and business circles in the region were very excited, but now their appraisal is cool. Their disappointment is understandable, given that the TRADP was seen as somehow different, not likely to follow the path of other East Asian regional projects. The failure to consider similar problems between the TRADP and the many other unsuccessful regional projects was a big mistake made by the proponents of the TRADP.

## **Chapter Three. The TRADP**

### **Introduction**

What is the Tumen River Area Development Project (TRADP) and whom does it involve? What kinds of visions and goals does it have and how has it evolved? Before analysing the various aspects of China's TRADP policy in the following chapters, it is first necessary to provide a background description of the TRADP. This chapter will cover the elements of the Tumen project, including the scope, economic potential and goals as outlined in the publications of the United Nations Development Programme (UNDP) and other materials.

#### **1. A profile of the TRADP<sup>1</sup>**

##### **1.1 Geography of the Tumen River**

The Tumen River is centrally located in Northeast Asia flowing into the East Sea (Sea of Japan) and forms the natural boundary of three riparian countries: China, North Korea and Russia. The 516 km long Tumen originates at the eastern side of the Changbai Mountains on the border between China and North Korea, flows east along the Sino-Korean border, passes along the Korean-Russian border near its mouth, and ends its journey in the East Sea. The Chinese border does not reach the Sea and it is located 15 km upstream. The total drainage area of the Tumen River amounts to 33,168 km<sup>2</sup>; 22,861 km<sup>2</sup> or 69.3% lies on the Chinese side, and 10,307 km<sup>2</sup> or 30.3% on the North Korean. The Russian side has only 100 km<sup>2</sup> or 0.3% (Ding, Shicheng, 1997: 1-2 & 1994: 72-87).

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<sup>1</sup> Because the TRADP is an ongoing project, this section describes the profile of the project, in the present tense, although many of objectives stated have not lived up to expectations and became part of history.

## 1.2 Regional scope of the TRADP

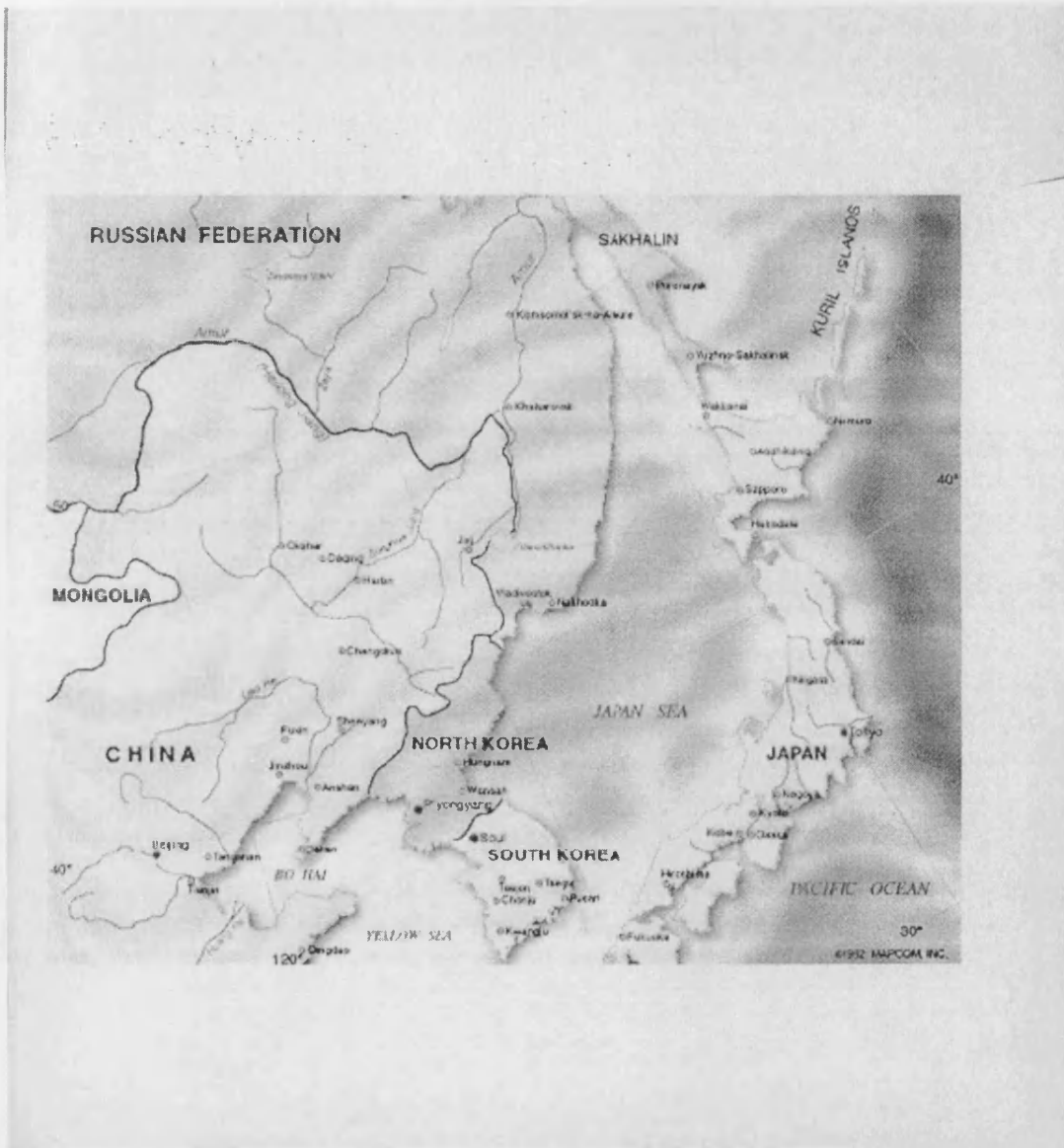
The TRADP comprises of three sub-projects. The Tumen River Economic Zone (TREZ) is the smallest of those, comprising 1,000 sq. km within a small delta area including the Rajin-Sonbong Free Economic and Trade Zone of North Korea, the Hunchun Border Economic Zone of China, and Posyet (and Zarubino) of Russia. The Tumen River Economic Development Area (TREDA) is medium sized: about 10,000 sq. km, taking in Chongjin in North Korea, Yanji (and Longjing, Tumen) in China's Jilin Province, and Vladivostok (and Nakhodka and Vostochny<sup>2</sup>) in Russia. The Northeast Asia Regional Development Area (NEARDA) is the largest of the three: 370,000 sq. km of river valley and inland. It covers the whole of the Korean Peninsula, Mongolia, the three Northeast provinces of China (Heilongjiang, Jilin and Liaoning) and the nine provinces of Russia's Far Eastern part (Primorsky Krai, Khabarovskiy Krai, Aurskaya Oblast, Sakha Republic, Kamchatskaya Oblast, Yevreiskaya, Koryakskiy Autonomous Okrug, Magadanskaya Oblast and Sakhalinskaya Oblast) (See Figure 3-2).

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<sup>2</sup> The Russian side of the TREDA was extended to Nakhodka and Vostochny after the fourth Programme Management Committee (PMC) meeting in 1994.

**Figure 3-1. Northeast Asia**

Source: (<http://ace.acadiau.ca/history/nearcwor/nearcmap.htm>)





**Figure 3-2. Tumen River and Tumen River Delta Area with Large/Small Development Zones.**

Source: (*The TRADP Third Working Paper*, 1993: 31)



### 1.3 Vision and goals

The vision of the TRADP is for a multi-billion dollar trade and transport complex with infrastructure designated for export processing in the Tumen River area. Central to this is a new port city with 1 million residents. Proposed by the UNDP, this plan calls for a 'cross-border free trade zone near the mouth of the river' (*Financial Times*, 27 May 1992). The initial financial commitment is estimated to be about US\$30 billion,<sup>3</sup> to be spread over the next two decades (Ibid., 8 July 1992; *Chosun Ilbo*, 9 June 1994).<sup>4</sup> The Tumen River area is marketed by project backers as a new trade artery: a kind of sub-Siberian Hong Kong, or sometimes similar to the St. Lawrence Seaway on the US-Canadian border, to the Danube in Central Europe, or even Rotterdam. The TRADP would 'open up to the world economy a relatively new area and create new trade *entrepots*, while demonstrating a new model of development for a post-Cold War period'.<sup>5</sup>

According to the forecasts in Table 3-1, the TRADP would help the GNP of all countries in this region to reach 2.7-3.2 times the 1990 levels by 2010, and 4.5-6.4 times by 2020. The increase per head of GNP ranges from at least 1.33 times the 1992 value for the case of Mongolia to 8.73 times for China (*Chosun Ilbo*, 9 June 1994). The real average annual GDP per capita of the population in this region is expected to rise by a factor of more than 5.0, from approximately US\$1,200 in 1990 to some US\$6,500 in 2020, in constant 1990 dollars (*TRADP Infrastructure Plan*, 1995: i). In addition, trade between the TRADP countries should achieve a growth of 2.2-2.4 times (US\$316 billion) by 2000 and 5.7-6.9 times by 2010 (US\$891.8 billion) at the 1990 price (*Chosun Ilbo*, 9 June 1994; Kim, Icksoo, 1994a: 238).

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<sup>3</sup> The estimate was expected to include an allocation for the construction of a new city of US\$13 billion, for the improvement of infrastructure, US\$11 billion, and for education and development of human resources, US\$6 billion (IFANS, 1993: 4). For example, according to the Transportation Sector of the 'Master Plan', prepared during the Programme Management Committee (PMC) II meeting in Beijing in October, 1992, US\$11 billion for the improvement of infrastructure would be spread over three stages: Stage I until 2000 - US\$3.3 billion; Stage II until 2010 - US\$7.2 billion; Stage III until 2020 - US\$10.8 billion. For more detail, see 'The Transportation Sector' of (*The Third Working Group Meeting Paper*, 1993: 23-133).

<sup>4</sup> On the other hand, one of the originators of this scheme, Ding Shisui, former chairman of the Jilin provincial science and technology commission, predicted it would need US\$35 billion over the next three to five decades; Ding Shicheng, deputy secretary-general of Jilin Province and a long-time advocate of the project, estimated that US\$100 billion would be called for over the next 30 years, 'The Tumen River Programme promises economic growth' (*Asahi News Service*, 23 February 1996).

<sup>5</sup> William Clark, Jr., assistant secretary of state for East Asia and Pacific Affairs (1992-93), in address to the Mid-America Committee, December 1992, quoted in (Kouriatchev, 1993: 1).

**Table 3-1. Per head of GNP (Moderate/Low Growth Projections) (US\$, 1990's price)**

|              | 1990  | 2000  | 2010  | 2020  | 2010/1990 | 2020/1990 |
|--------------|-------|-------|-------|-------|-----------|-----------|
| N. Korea     | 1033  | 1158  | 1859  | 2715  | 1.80      | 2.63      |
| S. Korea     | 5990  | 9857  | 16464 | 25011 | 2.75      | 4.17      |
| N.E. China   | 370   | 705   | 1326  | 2315  | 3.58      | 6.26      |
| Heilongjiang | 396   | 596   | 887   | 1188  | 2.24      | 3.00      |
| Jilin        | 338   | 489   | 721   | 957   | 2.13      | 2.80      |
| Liaoning     | 512   | 990   | 1729  | 2776  | 3.38      | 5.42      |
| I. Mongolia  | 276   | 401   | 585   | 776   | 2.12      | 2.80      |
| Mongolia     | 781   | 549   | 791   | 1036  | 1.01      | 1.33      |
| Russia F.E.  | 2000  | 1596  | 2692  | 5475  | 1.35      | 2.73      |
| Japan        | 25453 | 37648 | 55153 | 65212 | 2.17      | 2.56      |

Source: *The Evaluation of Sectors for participating in TRADP*, KIEP, 1994.

According to *The TRADP Third Working Group Paper* (1993: 187), the TREZ shall provide facilities for intensive co-operative development of infrastructure and industry by the three neighbouring countries, China, DPRK, and Russia. The TREDAs would function as a co-operative trade and market area, with joint use of infrastructure, transportation and communication. The NEARDA would provide raw materials, traffic services and labour. This last area would be regulated by the national governments.

The project is expected 'to improve the concentration of industry, level of employment and standard of living for people in this region and to create additional business activity in other regions beyond the borders of the defined zone' (*Infrastructure Sector Plan of TRADP*: 1995: i). According to *the TRADP Strategy and Concept Paper* (1992: 5), which is proposed at the Beijing Working Group meeting in April 1992:

The primary goal of the TRADP is for the Tumen River area to become a leading world class transit/transport hub and processing/manufacturing centre over the coming decades, with tourism, shipping and finance capabilities, so as to realise the area's potential. Decisions on how to fulfil this long-term goal will be taken by governments on the basis of the pre-feasibility study to be conducted taking into account: (1) the evolving economic, social and legal systems of the participating countries; (2) the principles of sustainable development, environmental soundness and sensitivity to the needs of the people, and (3) efficiency and cost-effectiveness. The secondary goal of the TRADP for the short-term goal is to assist in assessing the needs and opportunities for co-operative measures on a less comprehensive scale to

encourage trade and investment in the region, e.g., the simplification and harmonisation of local customs regulations.

#### 1.4 Economic complementarities

They are positive dimensions that make the TRADP seem attractive. The TRADP promises to bring together a synergetic and logical combination of advantages - Japanese and South Korean capital and industrial technology together with Chinese, North Korean, Russian and Mongolian labour, land and raw materials.<sup>6</sup>

##### *Natural resources*

The TRADP possesses a variety of economic resources, including minerals, energy, water, farmland, and forests. The Sakha Republic of Russia and Sakhalin Islands have oil reserves estimated at 1,200 million tons each, and the Sakhalin continental shelf is thought to hold five billion tons of oil. The deposit of natural gas of the two areas is 340 million m<sup>3</sup> (Asakura, 1996; See also Paik, K., 1997). Northeast China is an important oil producer: over half of the total oil deposits of China are thought to be located in the area, and oil shale amounts to 21.14 billion tons. Coal is concentrated in Russia, China, Mongolia and North Korea. In the Russian Far East, hard coal deposits in the prospected areas are 20 billion tons. Northeast China has coal deposits of 66.91 billion tons. Mongolia has 16.5 billion tons, and North Korea has 9 billion, of which 70% is anthracite. The lower reaches of Tumen River are famed for their brown coal. Hunchun's deposit is 1.3 billion tons and 3 billion tons are found on the North Korean side. There are various metal and non-metal deposits in Northeast Asia, and finally there are forests, prairies, land and fresh water resources (Yuan, Shuren, et al., 1995: 186; See also Dorian et al., 1993). There is a shortage of resources in South Korea and Japan, but this is where the strength of the complementary resources of China, Mongolia and North Korea come into play.

##### *Population and labour force*

There is an imbalance in the distribution of the labour force. Although Northeast Asia has a large population, some areas are extremely densely populated, whereas others have a sparse

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<sup>6</sup> For a general understanding on human and natural resources, see (*Study of the Commercial and Investment Banking Needs in the TREDA*, 1997: 20-28).

population: 462.6 persons/km<sup>2</sup> for South Korea and 325.6 for Japan, against 1.25 in the Russian Far East and 1.34 in Mongolia. In addition, the skills and experience of the labour force also differ widely. South Korea and Japan have very skilled human capital with higher levels of technology and productivity, but both countries have high labour costs, and even experienced labour shortages. In Russia's coastal border, there are 1.1 million workers, but at least, 600,000 more may be needed by the end of the century. In contrast, Northeast China and North Korea have a surplus of good quality labour, up to an estimated 30% (11.7 million) in Northeast China (Yuan, Shuren, et al., 1995: 187-8).

#### *Capital and technology*

Of the countries in the scheme, Japan and South Korea have the largest capital resources of those within the project. Even though economic changes and restructuring, South Korea is still a major investor, and Japan is still one of the world's foremost foreign investors. The Northeast Asian countries including China and Russia have made big strides forward in the area of science and technology. Combined with Japanese capital and technology, there are avenues for fruitful cooperation (*Trade and Investment Complementarities in Northeast Asia*, 1996: 98).

#### *Geographical location*

Yuan and others argue that together with mutually beneficial complementarities mentioned above, geographical closeness and direct connection between transportation systems would result in relatively lower transportation costs (Yuan, Shuren, et al., 1995: 190). The region straddles part of the shortest routes between Western Europe and Asia-Pacific. The Suez Canal, Indian and Pacific Ocean route is three times as long and four times as expensive. The Trans-Siberian (TSR) and Baikal-Amur Railways crossing Europe-Asia end in the Far East. There is plenty of scope for expansion of international land and sea or sea and air routes. This makes the area viable as a processing zone for export (Anosova, 1992; Wu, Naitao, 1990). The region is also highly accessible to its partners. China, Russia, and North Korea share a common border in the Tumen region. South Korea and Japan are not far off, and Mongolia is included in the Tumen area, because through it Mongolia can access the East Sea. The Tumen river area, emerging in

the heart of the East Sea, connects all the countries and regions involved and defines Northeast Asia.

In this regard, the Tumen River is both at the centre of Northeast Asian economic activity, and at the edge of the economies of China, North Korea and Russia. It would be very difficult for the Tumen region of each country to separately attract the outside investment needed to overcome economic underdevelopment. As a pool of complementarity resources with potential benefits to Japan and South Korea and other countries further afield, the area has much better prospects for development (Chen, Cai, 1995: 269).

The development of the Tumen River would be beneficial to the whole region as well as improving GNP across borders. With improved sea trading routes, China and Russia would have new access to Japan and South Korea. If North Korea can be gently helped to develop its economy, this may result in some more openness to the global market place. Land-locked Mongolia would have improved export opportunities. In short, the Tumen is a pivot for vertical and horizontal division of economic activities in Northeast Asia (Ibid.: 266).

**Table 3-2. Mutually complementary conditions of Northeast Asian countries.**

| Country/ Region  | Strengths   | Weaknesses  |
|------------------|---|---|
| Japan            | Capital, advanced technology, sophisticated machinery and equipment; advanced industrial products and management experience   | Insufficient energy and industrial resources; shortages of livestock feed grains and some farm products; insufficient labour force  |
| South Korea      | Capital, advanced technology, machinery and equipment, and advanced industrial products   | Insufficient energy and industrial resources; insufficient livestock feed, insufficient labour  |
| North Korea      | Mineral resources, metal ores, simple processed products, marine produce, some industrial products; abundant labour force   | Shortages of capital, insufficient farm products and secondary light industrial products; outdated machinery and equipment and technology; poor management; a socialist economy             |
| Northeast China  | Advantageous agricultural conditions, farm products; some textile industry products, oil, coal, building materials, and Chinese herbal medicine; surplus labour force | Shortages of capital, advanced machinery and equipment, technology, and management experience; too many SOEs; insufficiencies in some mineral resources and infrastructure                  |
| Russian Far East | Forests, non-ferrous metal ores, oil, gas, coal, some heavy machinery and chemical industrial products  | Shortages of farm products and light industrial products, insufficient labour and capital; fear of Chinese migration; outdated industrial machinery and equipment and management technology |
| Mongolia         | Abundant livestock products, minerals and ores, in particular fluorite  | No convenient, direct transport to other Northeast Asian countries; shortages of capital, technology, machinery and equipment, farm products, and light industrial products                 |

Source: Chen Cai, Yuan Shuren, Wang Li, Ding Sibao, 'Regional Cooperation in Development of Northeast Asia and Tumen River Delta Area' (in Chinese), material distributed at 2nd Northeast Asia Economic and Technical Development Conference, Changchun, 1991, cited in (Imai, K., 1993).

## 2. The view of the United Nations Development Programme (UNDP)

The UNDP initiated discussions in 1991, which led the five Northeast countries to cooperate in the TRADP. Regional economic cooperation, it was argued, would create a positive climate for trade and investment and enable a more efficient joint-development and use of human, capital and natural resources. More importantly, for the UNDP, this would contribute to peace and development in the region by providing an opportunity for dialogue and cooperation between the participating countries. After an initial US\$3.5 million injection to the project budget, the UNDP committed another US\$3.2 million over the 1997-99 period.<sup>7</sup>

In the absence of other pre-existing regional cooperation institutions, the UNDP was perhaps the only international institution to have the authority to assist neighbouring countries in joint development efforts. As set out by the UNDP itself, the goal of assistance was:

...(a) to investigate the feasibility on economic, financial, technical and institutional grounds for increased inter-country cooperation in the Tumen River area in terms of trade, transit, and transportation arrangements, and other areas of economic benefit to all parties both for the short and longer term; (b) to present study findings and proposals to an appropriate forum constituted by the governments; (c) to assist governments to identify appropriate institutional and other mechanisms which could be implemented through longer-term cooperation; and (d) to suggest to governments immediate actions for cooperation in the area of trade, transit, and joint use or operation of infrastructure facilities... (*The First Working Group Paper*, 1992: 9).

The UNDP took the view that as a result of poor credit ratings and their inefficient economic systems, any independent plans by the three riparian countries to set up their own economic zones was unlikely to be successful. It considered the establishment of a united sole decision-making institution, able to make quick decisions, as the only solution. The UNDP idea drew much from on the experience of the co-operative development models of SIJORI

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<sup>7</sup> In addition to funds from South Korea and the Tumen member countries, financing came from Scandinavian countries and UN agencies. Funding of US\$4.96 million had been provided by the Global Environment Facility (GEF) to develop a Strategic Action Programme (SAP) (Husband, 1998).



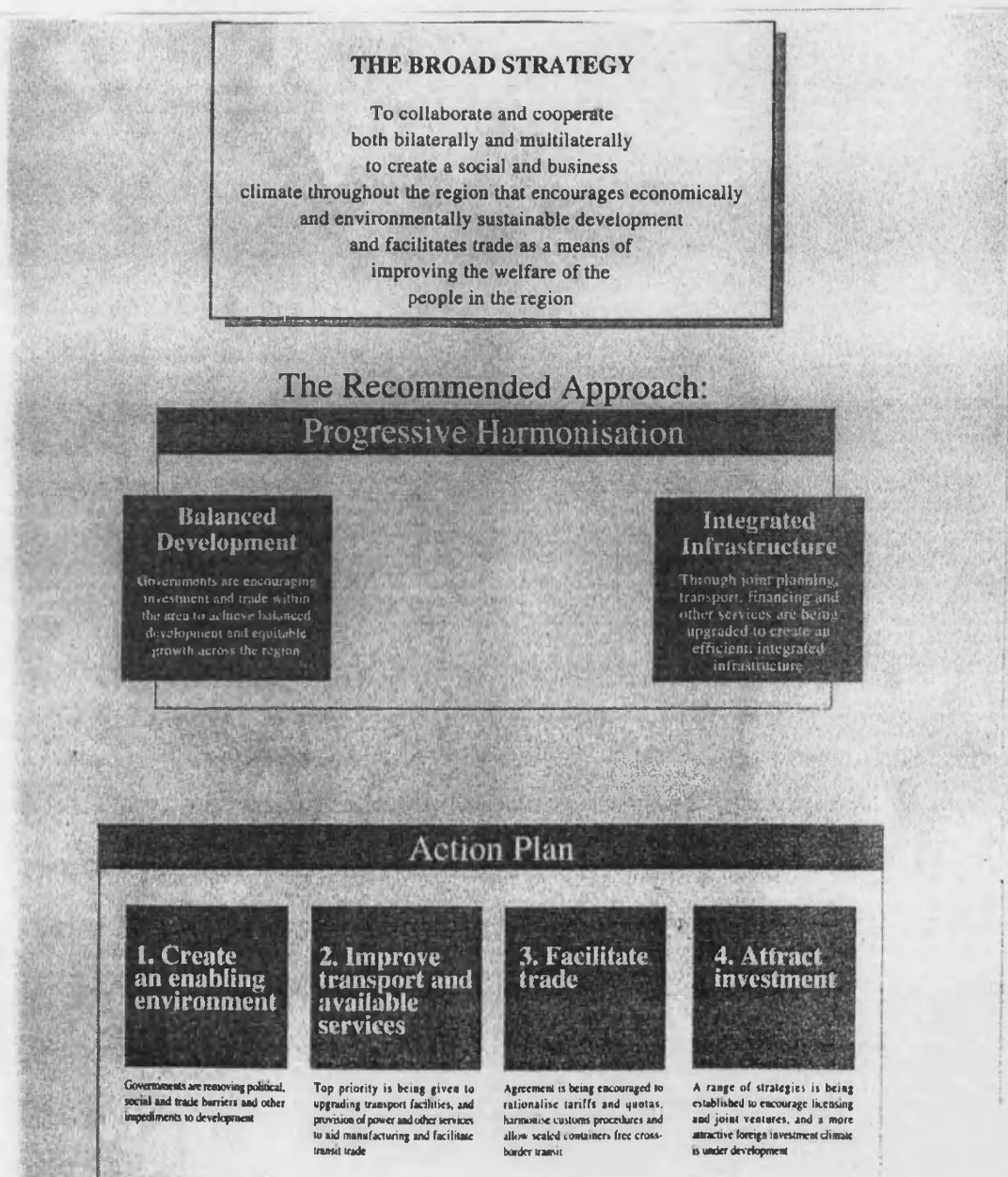
and the bilateral regime between Hong Kong and Shenzhen, based on leased lands. Unlike these models, however, which developed over time, the UNDP believed that a well focused strategy could promote the TRADP in a shorter time frame (Kim, Haksoo, 1993: 15-6).

In 1995, 'The agreement on the Establishment of the Tumen River Economic Development Zone and the Northeast Asia Development Consultative Commission' was the 'outcome of three years of quiet diplomacy' by the UNDP. The UNDP facilitated the negotiations, which enabled five countries to work in close consultation in the economic, social, political, and international spheres (*Beijing Review*, 1995). Agreement was reached in principle on the following matters:

- Existence of complementarity
- Desirability of cooperation based on common interests
- Need for appropriate institutional arrangements, defined by international agreements
- Integration of local initiatives
- Continuation of UNDP involvement
- Geographical extent of Programme includes the Tumen River Economic Development Area and Northeast Asia
- Progressive harmonisation amongst zones
- Need for infrastructural improvements
- Maximisation of opportunities for investment
- Emphasis on environmentally sound and sustainable projects
- Focus on priority sectors (*TRADP Profile*, 1995).

**Figure 3-3. The recommend approach**

Source: (*Gateway to Northeast Asia – A New Investment and Trade Frontier*, 1995: 4).



### 3. TRADP membership and organisations<sup>8</sup>

As is now clear, the TRADP was co-ordinated and supported by the UNDP for the five countries that were signatories to the October 1992 TRADP agreement: South Korea, North Korea, China, Russia and Mongolia. In addition, Japan, Finland, Australia, the Asian Development Bank (ADB), the World Bank, the United Nations Industrial Development Organisation (UNIDO) and the United Nations Conference on Trade and Development (UNCTAD) have observer status.

On 6 December 1995, the five TRADP member countries signed an agreement to establish an institutional framework consisting of two intergovernmental bodies (Tumen Consultative Commission and Tumen Coordination Committee), national teams from the five member countries, and the Tumen Secretariat. The chart below shows the structure of the TRADP.

#### *Tumen Consultative Commission*

The project is directed by the 'Consultative Commission for the Development of the Tumen River Economic Development Area and Northeast Asia'. The Commission is made up of representatives at vice ministerial level from all five member countries. The Commission meets once a year to assess progress and provide future direction activities. The chairmanship of the Commission rotates on an annual basis among the member countries.

#### *Tumen Coordination Committee*

China, North Korea, and Russia are the three riparian countries that have a vice ministerial level seat on the 'Tumen River Area Development Coordination Committee'. This body seeks to coordinate a number of aspects, including trade and investment initiatives, cross-border transport infrastructure and environmental aspects. There is an annually rotating chair.

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<sup>8</sup> This description is based on 'The TRADP Institutional Framework', the UNDP, is available at <http://www.tradp.org/textonly/framework/ifrwrk.htm>.

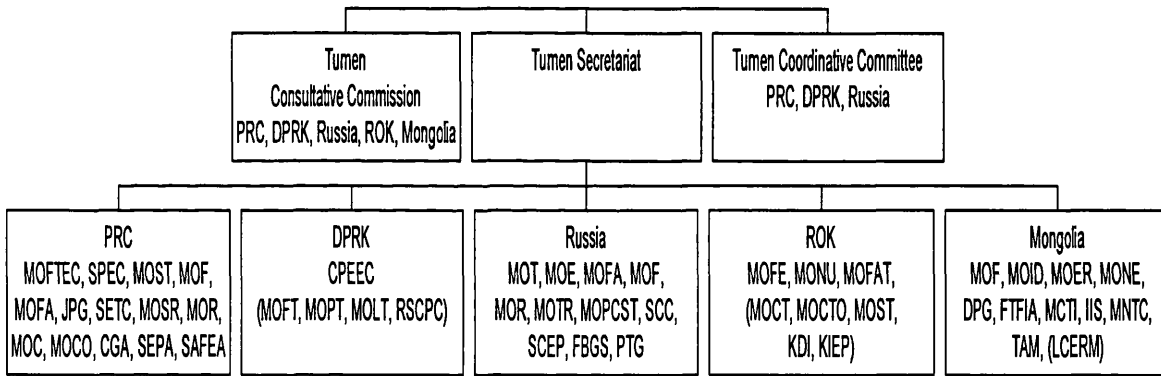
### *National Teams*

National Teams have been set up in each of the five member countries. These teams, which also have working groups, include representatives from both national and local governments, and have a liaising role between governments, local administration, the Tumen Secretariat and the UNDP.

### *Tumen Secretariat*

Management of the TRADP from the intergovernmental point of view is vested in the Tumen Secretariat, which supports the national teams and the formulation and implementation of the project.

# Figure 3-4. Tumen Organisation



## **PRC**

### *National Team*

Ministry of Foreign Trade and Economic Cooperation (MOFTEC)  
State Planning and Development Commission (SPC)  
Ministry of Science and Technology (MOST)  
Ministry of Finance (MOF)  
Ministry of Foreign Affairs (MOFA)  
Jilin Provincial Government (JPG)  
State Economic and Trade Commission (SETC)  
Ministry of Spatial Resources (MOSR)  
Ministry of Railways (MOR)  
Ministry of Communications (MOC)  
Ministry of Construction (MOCO)  
Customs General Administration (CGA)  
State Environment Protection Administration (SEPA)  
State Administration of Foreign Expert Affairs (SAFEA)

## **DPRK**

### *National Team*

The Korea Committee for Promotion of External Economic Cooperation (CPEEC), under the Ministry of Foreign Trade.

### *In close cooperation with*

Ministry of Foreign Trade (MOFT)  
Ministry of Post and Telecommunications (MOPT)  
Ministry of Land-Sea Transport (MOLT)  
The Rajin-Sonbong City People's Committee (RSCPC)

## **Mongolia**

### *National Team*

Ministry of Finance (MOF)  
Ministry of Infrastructure Development (MOID)  
Ministry of Justice (MOJ)  
Ministry of Agriculture and Industry (MOAI)  
Ministry of External Relations (MOER)  
Ministry of Nature and Environment  
Dornod Provincial Government (DPG)  
Foreign Trade and Foreign Investment Agency (FTFIA)  
Mongolian Chamber of Trade and Industry (MCTI)  
Institute of International Studies (IIS)  
Mongolian National Tourism Centre (MNTC)  
Tourism Association of Mongolia (TAM)

### *In close cooperation with*

The Local Commission of the Eastern Region of Mongolia (LCERM)

Representatives from Mongolia's three eastern provinces, including the Governor of Dornod Province, Vice Governors and Directors of the Planning Divisions of the three eastern provinces

## **ROK**

### *National Team*

Ministry of Finance and Economics (MOFE)

Ministry of Foreign Affairs and Trade (MONU)

Ministry of National Unification (MOFAT)

### *In close cooperation with*

Ministry of Construction and Transport (MOCT)

Ministry of Culture and Tourism (MOCTO)

Ministry of Science and Technology (MOST)

The Korea Development Institute (KDI)

The Korea Institute for International Economic Policy (KIEP)

## **Russian Federation**

### *National Team*

Ministry of Trade (MOT)

Ministry of Economy (MOE)

Ministry of Foreign Affairs (MOFA)

Ministry of Finance (MOF)

Ministry of Railways (MOR)

Ministry of Transport (MOTR)

Ministry of Physical Culture, Sport and Tourism (MOPCST)

State Customs Committee (SCC)

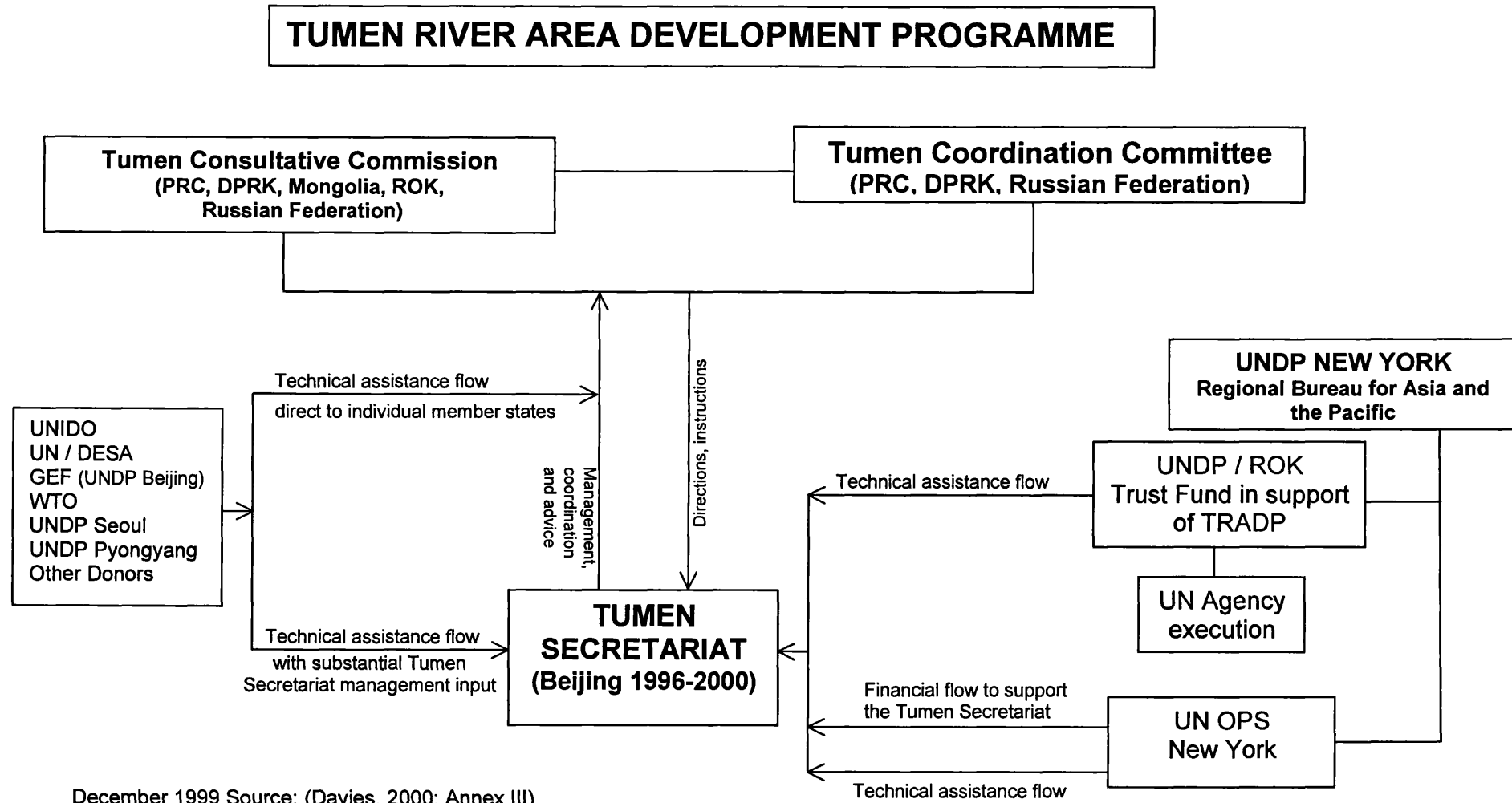
State Committee on Environmental Protection (SCEP)

Federal Border Guard Service (FBGS)

Primorsky Territory Government (PTG)

# Figure 3-5: TUMEN RIVER AREA DEVELOPMENT PROGRAMME INSTITUTIONAL AND FINANCIAL FRAMEWORK, 1996-2000

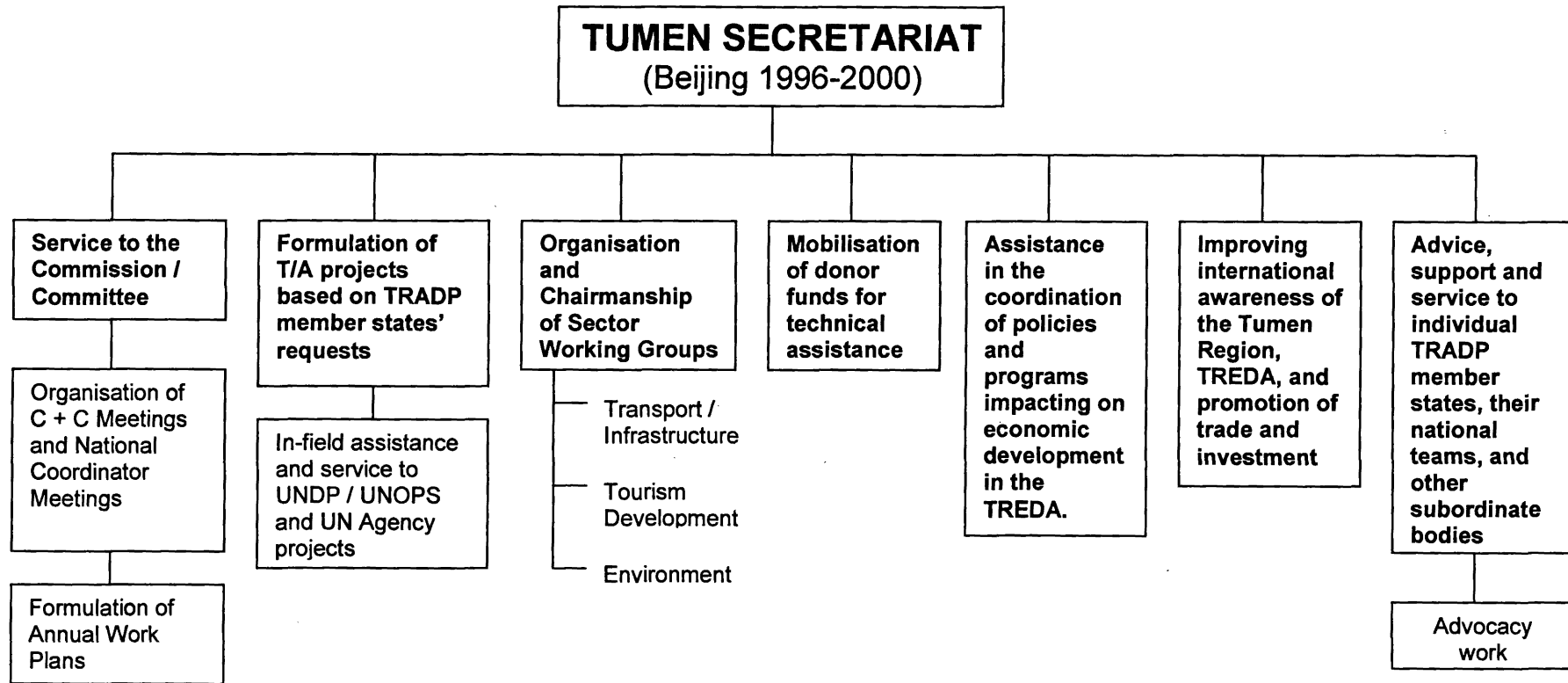
(Based on the Tumen Intergovernmental Agreements of December 6, 1995, U.N. New York )



December 1999 Source: (Davies, 2000: Annex III)



**Figure 3-6: TUMEN SECRETARIAT (BEIJING) : PRINCIPAL FUNCTIONS AND RESPONSIBILITIES, 1996-2000**



- Notes:**
- (i) "C+C" refers to the Tumen Consultative Commission and Tumen Coordination Committee
  - (ii) TREDA refers to the Tumen River Economic Development Area of the Yanbian Korean Autonomous Prefecture, China, the Rajin-Sonbong Economic and Trade Zone of the DPR Korea, and the southern part of Primorsky Territory, Russian Federation.

December 1999 Source: (Davies, 2000: Annex IV)

## **Conclusion**

The TRADP is a multinational economic project led by the UNDP, which is aimed at improving the living standard of the countries in the region. Its stated objective is to bring together a synergetic and logical combination of regional division of labour – Japanese and South Korean capital and industrial technology with Chinese, Russian, Mongolian and North Korean labour, land and raw materials. The project has been upgraded to vice-ministerial level, and has its own organisation (Secretariat sponsored by the participating countries and led by the UNDP). Nevertheless, the development of the project has been limited because of the diverging national interests of the member states and inconsistent guideline of the UNDP's plans. The economic, institutional, political and security analysis of the project will be explored in Chapters Seven and Eight respectively. The TRADP still remains at an early development stage, even though some progress has been achieved.

## **Chapter Four. Regionalism: The Chinese Dimension**

### **Introduction**

Regionalisation, together with globalisation, has become an important factor in the post-Cold War international order. As seen in Chapter Two, regionalisation has also become an important phenomenon in Asia among states that border each other. As a major political and economic player, China has participated in a number of regional cooperation projects in various parts of its territory. How does China conduct its national and local economic relations with neighbouring countries? How should its active participation in sub-regional economic cooperation be understood? Has economic interdependence brought real changes to its foreign policy? This chapter will seek to advance our understanding of the role of regionalism in the context of Chinese policy practice.

Part I will examine the trend of China's economic relations with foreign countries, which has led to an emphasis on the economic importance of the Asia-Pacific region in China's foreign economic strategy. This part will review recent developments in foreign trade and investment, and their impact on the country and its provincial areas. This part will also describe how the economic strategy of choosing foreign countries to be economic partners has brought about development in the provinces.

Part II will argue that China's steps towards economic interdependence should be seen as strategic behaviour to achieve its long-term goals. In order to probe the surface of the Chinese interdependence, this part will begin with a theoretical review to understand the characteristics and limits of China's seemingly interdependent and cooperative diplomacy. It then goes on to discuss how regionalism has developed as a pivot of China's good neighbourly diplomacy. Finally, this part will highlight the significance of the TRADP as a SREZ in China's foreign policy, comparing similarities and differences with two other sub-regional economic projects, the Greater South China Economic Zone (GSCEZ) and the Greater Mekong Sub-regional Economic Zone (GMS).

## **I. Regionalism in China's foreign economic relations**

This part looks at China's foreign economic relations from the late 1970s to the mid-1990s, to explain how the need for the TRADP arose. It will be argued that these economic circumstances highlighted the importance of the Asia-Pacific region in China's economic policy, and spurred the choice of neighbouring countries as immediate partners for provinces.

### **1. China's intra-regional economic relations**

Since China opened itself to more global trade in 1978 its GDP growth has been much above the global average. GDP per person has grown by almost 8% per year since 1980 and exports by more than 12% per year. GDP in the mid-1990s grew at nearly 14% although inflation also grew (Zhou, Yuan, 1995: 274). From 1978 to 1990 the share of exports in China's GNP exports went up from 4.8% to 20.8%. Total trade as a share of GNP grew steadily from 12.8% in 1980 to 35.96% in 1993. The total value of China's imports and exports reached US\$ 195.71 billion in 1993; trade with the Asia-Pacific region, at US\$ 110.2 billion, represented 66.52% of that (Ding, Jingping, 1995: 58). In 1997 China's foreign trade volume reached a total of US\$325.06 billion, increasing its world export ranking from 27<sup>th</sup> to 10<sup>th</sup>, highlighting the importance of the global economy to China (*Almanac of China's 1998/99*: 11).

Foreign investment has been crucial to the process of opening up China to the world. US\$68.1 billion of foreign capital was invested in China from 1979 to 1990, of which 35% was direct investment by private companies. This investment was much needed to fill China's investment-savings gap and provided a spur for the modernisation of management resources and technology. Even after the Tiananmen crisis in 1989, foreign investments have maintained their momentum, reaching US\$11.6 billion in 1991 (Kuribayashi, 1993: 50). In 1992, US\$58 billion of foreign investment was committed, although the actual investment amount was US\$11 billion. More than 80% of foreign

investment came from the Asia-Pacific region, specifically from Hong Kong and Taiwan (Wong, 1995: 625).

The growing integration of the Chinese economy, with its huge population and vast resource base, into the Asia-Pacific region will no doubt serve to further enhance the region's overall growth potential. It is in the context of the Asia-Pacific region that the full significance of China's recent economic upsurge can be properly gauged (Ibid.: 618). As a result, the Asia-Pacific region has been the most important area for China's economic strategy (Xue, Mouhong, 1991; *Beijing Review*, 1994a & 1994b; Gao, Shangguan, 1995; Nye, 1997-98). By making use of its comparative advantages, China hopes to build competitive pillar industries and large enterprise groups for actively conducting economic and technological exchanges with various countries and regions throughout the world, particularly those in the Asia-Pacific region (Mao, 1990). Several economies in the region have therefore been chosen as economic partners for China (See also Zhou & Ma: 1992).

### 1.1 Hong Kong

Since the beginning of China's open-door policy, Hong Kong has been its major trading partner and investor. In 1997 the total import and export trade volume between China and Hong Kong reached US\$50.77 billion, an increase of 24.6% over 1996, accounting for 15.61% of the total import and export volume of China in 1997 (*Almanac of China's* 1998/99: 415). Hong Kong is the chief source of foreign investment in China: contractual Hong Kong investment value was US\$18.22 billion and accounted for 35.7% of the total foreign investment in China in the same year. Actual direct investment from Hong Kong reached US\$20.63 billion (45.6% of total actual foreign investments in China in the same period); actual Hong Kong investment amounted to US\$119 billion (53.5% of actual foreign investment in the mainland in the same period) (Ibid.: 416). On the other hand, Hong Kong is now also a destination for capital flight from China, as China increasingly invests there (Wong, 1995: 630).

## 1.2 Taiwan

Despite political distance and an absence of direct trading links, trade and manufacturing links across the Taiwan Straits have grown since 1986. Hong Kong was the conduit for the bulk of this traffic, which increased at the high annual rate of 50% from US\$1.5 billion in 1987 to US\$8.7 billion in 1993 (Ibid.), and the total trade between the two was calculated at US\$ 24.45 billion in 1997 (*Almanac of China's 1998/99*: 405, 408, 410). Taiwan, like Hong Kong, has invested significant amounts – US\$14.5 billion by 1993 - and has similarly moved labour-intensive manufacturing to the mainland, making Taiwan, in 1993, the second largest investor (Ibid.; Simon, 1995: 39).

## 1.3 Japan

The Sino-Japanese bilateral relationship is the most important relationship in terms of finance and trade. Up to 1997, Japan had been China's largest trading partner for 5 successive years. Sino-Japanese trade in 1997 amounted to US\$60.81 billion, up 1.2% over 1996. Of this, China's export to Japan was US\$31.82 billion and its import from Japan was US\$28.99 billion. China enjoyed a trade surplus of US\$2.82 billion from its trade with Japan. Trade volume between China and Japan accounted for 18.7% of the total foreign trade of China. By the end of 1997, China approved the contractual amount of US\$29.79 billion and the actual amount of US\$18.51 billion, accounting for 5.38% and 5.73% of foreign direct investment in China respectively (*Almanac of China's 1998/99*: 418-9).

## 1.4 South Korea

China's diplomatic relationship with South Korea was formalised in August 1992, and is a significant addition to its growing linkages with the East Asian regional economy. By 1993 trade with South Korea had reached US\$13 billion (Wong, 1995: 630-1). South Korea became China's sixth largest trading partner and China Korea's third largest trading partner after Japan and the US (not including Hong Kong). Total Korean foreign investment in China reached US\$1.96 billion by February 1995 (Simon, 1995: 36).

## 1.5 ASEAN

The bilateral trade between China and the then seven ASEAN countries, namely Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, reached US\$24.36 billion, up 19.4% over 1996. Of this, China's exports came to US\$12.03 billion and its imports to US\$12.33 billion. Their trade volume in 1997 occupied 7.5% of China's total foreign trade volume and ranked fifth after Japan, Hong Kong, the US and the EU. Among the seven ASEAN countries, the trade volume between China and Singapore ranked the highest with a value of US\$8.78 billion, followed by Indonesia (US\$4.51 billion), Malaysia (US\$4.42 billion), Thailand (US\$3.52 billion), the Philippines (US\$1.67 billion), Vietnam (US\$1.44 billion) and Brunei (US\$30 billion). By the end of 1997, China had approved a contractual investment amount of US\$39.8 billion and the actual amount of US\$12.8 billion from the seven ASEAN countries. China also invested US\$870 million in the seven ASEAN countries (*Almanac of China's 1998/99*: 419-20).

## 1.6 The Commonwealth of Independent States (CIS)

The trade volume between China and countries in the Commonwealth of Independent States (CIS) in 1997 was US\$7.49 billion. Among all the countries in the CIS, Russia was the biggest trade partner of China, and ranked eighth among China's trade partners, while China was the fifth biggest trade partner of Russia. In 1997, the bilateral trade volume between China and Russia was US\$6.11 billion, accounting for 1.9% of China's total foreign trade volume. Russia was followed by Kazakhstan (US\$527 million), Ukraine (US\$435 million), Uzbekistan (US\$203 million) and Kirghizstan (US\$ 107 million) (*Ibid.*: 428).

## 2. Foreign economic relations of China's provinces

China's economy has become integrated with the East Asian economy, but countries in the region play varying and complementary roles in China's economic development (Ding, Jingping, 1995: 59). It is also important to recognise that China's economic integration is driven by the various regions within China. The correct choice of partners

for external economic cooperation by China's provinces will allow the comparative advantages of both sides to be used to the fullest. Hence Hong Kong is closely linked with Guangdong Province. Taiwan regards Fujian as an attractive region for investment. Similarly, Russia has done so in Inner Mongolia and Heilongjiang. Liaoning looks to Japan for trade ties, and South Korea has made some direct investments in Shandong and Jilin.

## 2.1 Guangdong Province

In 1997, the total import and export value of Guangdong Province reached US\$119.82 billion, up 19.55% over US\$100.22 billion in 1996. The total value of imports reached US\$47.16 billion, with a growth rate of 14.39% over US\$41.23 billion in 1996. Foreign investment came from 44 countries, including Hong Kong (US\$3.93 billion), Singapore (US\$247.40 million), Taiwan (US\$236.33 million), the US (US\$199.29 million), Thailand (US\$138.40 million), Japan (US\$136.91 million), the UK (US\$136.62 million), and Macao (US\$92.06 million) (Ibid.: 331-4).

**Table 4-1. Guangdong Province's major export and import markets**

| Major Export Markets |                              |                   | Major Import Markets |                              |                   |
|----------------------|------------------------------|-------------------|----------------------|------------------------------|-------------------|
| Country/Region       | Export Values (US\$ million) | % of Total Export | Country/Region       | Import Values (US\$ million) | % of Total Import |
| Hong Kong            | 61,612.41                    | 84.80             | Hong Kong            | 39,715.97                    | 84.21             |
| USA                  | 3,298.67                     | 4.54              | Japan                | 1,566.11                     | 3.32              |
| Japan                | 1,905.57                     | 2.62              | USA                  | 1,382.43                     | 2.93              |
| EU                   | 1,802.34                     | 2.48              | Taiwan               | 950.78                       | 2.02              |
| Singapore            | 547.26                       | 0.75              | EU                   | 902.10                       | 1.91              |
| Taiwan               | 448.10                       | 0.62              | ROK                  | 541.08                       | 1.15              |
| Macao                | 413.32                       | 0.57              | Singapore            | 397.96                       | 0.84              |
| ROK                  | 388.63                       | 0.54              | Iran                 | 344.92                       | 0.73              |
| Total                | 70,416.30                    | 96.92             | Total                | 45,801.35                    | 97.11             |

Source: (*Almanac of China's Foreign Economic Relations and Trade 1998/99*: 332-3).



## 2.2 Fujian Province

In 1997, the total trade volume of Fujian Province reached US\$19.46 billion, up 16.23% over US\$16.74 billion in 1996. The total value of exports was US\$11.58 billion accounting for 32.02% of the province's GDP and 6.34% of the country's total export value. The total value of imports was US\$7.87 billion. Foreign investment came from 43 countries including Hong Kong with a contracted foreign capital amount of US\$2.53 billion, Taiwan (US\$598 million), the US (US\$182 million), the Philippines (US\$81.13 million), Malaysia (US\$49.82 million), Macao (US\$23.29 million), the ROK (US\$10.59 million) (Ibid.: 288-9).

## 2.3 Shandong Province

In 1997, the total trade volume of Shandong Province reached US\$19.74 billion, up 10.7% over US\$17.84 billion in 1996. The total value of exports was US\$13.08 billion accounting for 16.3% of US\$80.2 billion of the province. The total value of imports reached US\$6.65 billion. Foreign investment came from 64 countries including Hong Kong (US\$1.07 billion), France (US\$470 million), the ROK (US\$320 million), and the US (US\$200 million) (Ibid.: 303-5).

**Table 4-2. Shandong Province's major export markets**

| Country/Region | Export Values (US\$ million) | % of Total Export |
|----------------|------------------------------|-------------------|
| ROK            | 3,438.37                     | 26.3              |
| Japan          | 3,426.30                     | 26.2              |
| USA            | 1,647.08                     | 12.6              |
| Hong Kong      | 1,533.42                     | 11.7              |
| Germany        | 307.87                       | 2.4               |
| Singapore      | 218.30                       | 1.7               |
| Taiwan         | 217.09                       | 1.7               |
| Russia         | 162.27                       | 1.2               |
| Malaysia       | 135.57                       | 1.0               |
| UK             | 127.27                       | 1.0               |
| Total          | 11,212.54                    | 85.8              |

Source: (*Almanac of China's Foreign Economic Relations and Trade 1998/99*: 304).

## 2.4 Liaoning Province

In 1997, the total trade volume of Liaoning Province reached US\$12.96 billion, up 15.2% over US\$11.25 billion in 1996. The total value of exports was US\$8.89 billion and accounted for 21% of the province's GDP. The total value of imports reached US\$4.067 billion. The actual invested amount of foreign capital of the province was US\$2.23 billion in the same period (Ibid.: 230-1, 234).

**Table 4-3. Liaoning Province's major export and import markets**

| Major Export Markets |                              |                   | Major Import Markets |                              |                   |
|----------------------|------------------------------|-------------------|----------------------|------------------------------|-------------------|
| Country/Region       | Export Values (US\$ million) | % of Total Export | Country/Region       | Import Values (US\$ million) | % of Total Import |
| Japan                | 3,636.63                     | 40.89             | Japan                | 1,348.64                     | 33.16             |
| ROK                  | 969.37                       | 10.90             | ROK                  | 408.64                       | 10.05             |
| USA                  | 920.48                       | 10.35             | Indonesia            | 386.75                       | 9.51              |
| Hong Kong            | 4.4.51                       | 4.55              | Hong Kong            | 268.73                       | 6.61              |
| Singapore            | 381.26                       | 4.28              | USA                  | 222.73                       | 5.48              |
| Germany              | 291.42                       | 3.28              | Singapore            | 166.05                       | 4.08              |
| DPRK                 | 279.89                       | 3.15              | Australia            | 129.59                       | 3.19              |
| Norway               | 235.89                       | 2.65              | Russia               | 52.96                        | 1.30              |
| Malaysia             | 147.92                       | 1.66              | Germany              | 51.37                        | 1.26              |
| Netherlands          | 142.88                       | 1.61              | Norway               | 44.38                        | 1.09              |
| Total                | 7,267.37                     | 81.71             | Total                | 3,079.84                     | 75.73             |

Source: (*Almanac of China's Foreign Economic Relations and Trade 1998/99: 231-2*).

## 2.5 Jilin Province

In 1997, the total trade volume of Jilin Province reached US\$2.52 billion, down 11% from US\$2.84 billion in 1996. The total value of exports was US\$1.60 billion and accounted for 9.20% of RMB145.04 billion yuan of the province's GDP. The total value of imports reached US\$921 million. Foreign investment came from 23 countries including Hong Kong (US\$208.86 million), accounting for 42.8% of the total amount of foreign capital investment in Jilin Province (Ibid.: 242-4).

**Table 4-4. Jilin Province's major export and import markets**

| Major Export Markets |                              |                   | Major Import Markets |                              |                   |
|----------------------|------------------------------|-------------------|----------------------|------------------------------|-------------------|
| Country/Region       | Export Values (US\$ million) | % of Total Export | Country/Region       | Import Values (US\$ million) | % of Total Import |
| Japan                | 416.57                       | 26                | Germany              | 318.80                       | 34.6              |
| ROK                  | 170.36                       | 10.6              | Japan                | 130.80                       | 14.2              |
| Hong Kong            | 144.87                       | 9.0               | Italy                | 80.39                        | 8.72              |
| USA                  | 116.21                       | 7.2               | USA                  | 57.48                        | 6.23              |
| Netherlands          | 83.83                        | 5.2               | ROK                  | 56.55                        | 6.14              |
| Russia               | 83.52                        | 5.2               | DPRK                 | 38.86                        | 4.21              |
| DPRK                 | 81.80                        | 5.1               | Brazil               | 35.00                        | 3.80              |
| Germany              | 81.17                        | 5.0               | Russia               | 31.78                        | 3.45              |
| Thailand             | 28.71                        | 1.79              | Australia            | 28.72                        | 3.12              |
| UK                   | 25.10                        | 1.56              | Taiwan               | 21.08                        | 2.29              |
| Total                | 1,232.14                     | 76.7              | Total                | 799.46                       | 86.76             |

Source: (*Almanac of China's Foreign Economic Relations and Trade 1998/99*: 242-3).

## 2.6 Heilongjiang Province

In 1997, the trade volume with Russia accounted for 39.65% of the total trade volume of the province. The total import and export value of Heilongjiang Province reached US\$3.58 billion, up 1.85% over US\$3.51 billion in 1996. The total value of exports was US\$2 billion, accounting for 6.12% of the province's GDP. The total value of imports was US\$1.58 billion. Foreign investment came from 26 countries including Hong Kong (US\$227.10 million), ROK (US\$150.82 million), the US (US\$91.40 million), Taiwan (US\$38.55), Canada (US\$35.54 million), and Japan (US\$15.36 million) (*Ibid.*: 248-250).

**Table 4-5. Heilongjiang Province's major export markets**

| Country/Region | Export Values (US\$ million) | % of Total Export |
|----------------|------------------------------|-------------------|
| Russia         | 718.39                       | 35.88             |
| Hong Kong      | 306.64                       | 15.32             |
| Japan          | 281.45                       | 14.05             |
| ROK            | 213.04                       | 10.64             |
| Taiwan         | 35.24                        | 1.76              |
| Pakistan       | 30.29                        | 1.51              |
| Germany        | 24.14                        | 1.20              |
| DPRK           | 21.87                        | 1.09              |
| Singapore      | 19.22                        | 0.96              |

Source: (*Almanac of China's Foreign Economic Relations and Trade 1998/99*: 249).

## 2.7 Yunnan Province

In 1997, the total trade volume of Yunnan Province reached US\$2.01 billion, down 2.3% from US\$2.05 billion in 1996. The total value of exports was US\$1.21 billion, accounting for 6.2% of the province's GDP and 0.66% of the total value of exports of the whole country. Foreign investment came from 21 countries including Hong Kong (US\$80.15 million), Canada (US\$31.86 million), the US (US\$28.07 million), Japan (US\$16.65 million), Malaysia (US\$15.87 million), Macao (US\$8.86 million), and Taiwan (US\$4.24 million) (Ibid.: 379-381).

**Table 4-6. Yunnan Province's major export and import markets**

| Major Export Markets |                              |                   | Major Import Markets |                              |                   |
|----------------------|------------------------------|-------------------|----------------------|------------------------------|-------------------|
| Country/Region       | Export Values (US\$ million) | % of Total Export | Country/Region       | Import Values (US\$ million) | % of Total Import |
| Hong Kong            | 305.80                       | 25.2              | Hong Kong            | 255.84                       | 32.1              |
| Myanmar              | 276.37                       | 22.8              | USA                  | 127.79                       | 16.0              |
| Japan                | 131.59                       | 10.8              | Italy                | 81.78                        | 10.3              |
| USA                  | 54.26                        | 4.5               | Germany              | 67.41                        | 8.5               |
| Vietnam              | 51.40                        | 4.2               | UK                   | 36.57                        | 4.6               |
| Indonesia            | 44.91                        | 3.7               | Myanmar              | 28.40                        | 3.6               |
| Malaysia             | 44.81                        | 3.7               | Australia            | 26.17                        | 3.4               |
| Netherlands          | 37.90                        | 3.1               | Switzerland          | 19.63                        | 2.5               |

Source: *Almanac of China's Foreign Economic Relations and Trade 1998/99*: 380).

## 2.8 Inner Mongolia

In 1997, the total trade volume of the Inner Mongolia Autonomous Region was US\$1.31 billion, up 4.84% from US\$1.24 billion in 1996. The total value of exports was US\$735.18 million, and the total value of imports was US\$575.08 million. Foreign capital came from 31 countries including Hong Kong (US\$47.83 million), Malaysia (US\$8.95 million), the ROK (US\$8.20 million), and the US (US\$7.44 million) (Ibid.: 227-229).

**Table 4-7. Inner Mongolia's Major export and import markets**

| Major Export Markets |                              |                   | Major Import Markets |                              |                   |
|----------------------|------------------------------|-------------------|----------------------|------------------------------|-------------------|
| Country/Region       | Export Values (US\$ million) | % of Total Export | Country/Region       | Import Values (US\$ million) | % of Total Import |
| Russia               | 202.35                       | 27.52             | Russia               | 228.50                       | 39.73             |
| Japan                | 114.87                       | 15.63             | Mongolia             | 107.75                       | 18.74             |
| Hong Kong            | 88.57                        | 12.05             | Australia            | 40.52                        | 7.05              |
| EU                   | 70.3                         | 9.57              | Japan                | 34.29                        | 5.96              |
| Mongolia             | 32.95                        | 4.48              | Italy                | 22.40                        | 3.90              |
| USA                  | 31.29                        | 4.34              | UK                   | 22.05                        | 3.83              |
| ASEAN                | 30.29                        | 4.12              | Sweden               | 18.10                        | 3.15              |
|                      |                              |                   | USA                  | 16.21                        | 2.82              |
| Total                | 571.27                       | 77.71             |                      | 489.82                       | 85.07             |

Source: (*Almanac of China's Foreign Economic Relations and Trade 1998/99*: 228).

## 2.9 Tibet

In 1997, the total import and export value of the Tibet Autonomous Region reached US\$113.83 million, up 25.58% over US\$94.23 million in 1996. The total value of exports was US\$50.10 million, accounting for 5.61% of the region's GDP of RMB7.4 billion yuan. The total value of imports reached US\$68.23 million (Ibid.: 382-3).

## 2.10 Xinjiang

In 1997, the total import and export value of the Xinjiang Uygur Autonomous Region reached US\$1.44 billion, up 3.06% over US\$1.40 billion in 1996. The total value of exports was US\$666.11 million, accounting for 5.26% of the region's GDP of US\$12.66 billion and 0.36% of the value of the country's total exports. The total value of imports reached US\$781.20 million (Ibid.: 399-402).

**Table 4-8. Xinjiang's major export and import markets**

| Major Export Markets |                              |                   | Major Import Markets |                              |                   |
|----------------------|------------------------------|-------------------|----------------------|------------------------------|-------------------|
| Country/Region       | Export Values (US\$ million) | % of Total Export | Country/Region       | Import Values (US\$ million) | % of Total Import |
| Hong Kong            | 213.64                       | 32.07             | Kazakhstan           | 433.48                       | 55.49             |
| Kazakhstan           | 116.62                       | 17.51             | Hong Kong            | 54.70                        | 7.00              |
| Kirghizstan          | 71.27                        | 10.70             | Uzbekistan           | 49.71                        | 6.36              |
| Japan                | 43.55                        | 6.54              | Russia               | 46.31                        | 5.93              |
| USA                  | 35.66                        | 5.35              | Kirghizstan          | 41.14                        | 5.27              |
| Uzbekistan           | 22.54                        | 3.38              | USA                  | 38.54                        | 4.93              |
| Germany              | 17.21                        | 2.58              | Germany              | 18.34                        | 2.35              |
| UK                   | 13.39                        | 2.01              | Japan                | 17.11                        | 2.19              |
| Total                | 533.88                       | 80.14             | Total                | 699.33                       | 89.52             |

Source: (*Almanac of China's Foreign Economic Relations and Trade 1998/99*: 400-1).

### 3. Special Economic Zones (SEZs)

#### 3.1 The development history of SEZs

Special Economic Zones (SEZs) have been a means by which China has implemented its reform policy of opening itself up (Huang, Taihe, 1991: 16; Jiang, Mingqing 1993).<sup>1</sup> In 1978, the Third Plenary Session of the 11<sup>th</sup> Central Committee of the Communist Party of China took on the task of developing an open-door policy. In July 1980, the State Council approved 'Provisional Regulations on Promoting Economic Cooperation', which began to address the concept of economic zones. This document stressed the importance of strengthening local administrative guidance in economic matters (Nakajima, 1987: 2-3). In August 1980 China established the SEZs in Shenzhen, Zhuhai, Shantou and Xiamen.

In early 1984, fourteen coastal cities (Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, Beihai) were given the status of coastal open cities for foreign investment (Bucknall, 1989: 143-167). The report to the June 1983 session of the Sixth National People's Congress (NPC) argued for the establishment of economic zones and economic networks through increased economic cooperation among various departments. This marked the beginning of various activities to harness the potential of cities as centres of emerging economic zones. In October 1984, the Party endorsed the Central Committee's 'Decision on Reform of the Economic Structure' and supported the idea of economic zones based around large or medium-sized cities. Seven major cities - Chongqing, Guangzhou, Harbin, Xian, Wuhan, Shenyang, and Dalian - were granted provincial-level economic management powers. 16 medium-sized cities were chosen to pilot a programme for organisational reform and to develop urban capabilities. In the Seventh Five Year plan, the whole of China was subdivided again into three wider economic blocs designated the

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<sup>1</sup> Since 1979, there have been a variety of special zones, including the Economic and Technical Development Zones (ETDZs), the National Industrial Development Zones for New and Advanced Technology (NIDZNATs), and the Border-region Economic Cooperation Zones (BECZs) - these have not enjoyed Shenzhen's spectacular growth. The zones have played an important role in accelerating coastal development, introducing a number of managerial, financial and technological reforms, and acting as a bridge between the advanced, capitalist countries and the Chinese economy. The SEZs have thus become the most prominent symbol of China's opening policy (Reardon, 1996: 281-2).

Eastern, Central and Western regions. This was to promote better planning of local economic zones (Nakajima, 1987: 2-3).

In February 1985 the Lower Yangtze Delta, the Pearl River Delta and the Xiamen-Zhangzhou-Quanzhou Triangle were designated as coastal economic development zones. In early 1988 Hainan Island became a separate province as well as China's largest SEZ. Shanghai was authorised in 1990 to launch the development of Pudong New Area and has been treated as a SEZ and given a host of special policies. Other such projects with cities in the Yangtze basin and cities bordering zones in the country's northeast came into being in 1992. Economic development was encouraged in the poorer border regions with large ethnic minorities. 14 Border-region Economic Cooperation Zones (BECZs) were given the blessing of the State Council in 1992, which were designed to develop cross-border economic development in Northeast (Heilongjiang, Jilin, Inner Mongolia, Liaoning) and Southwest (Guangxi, Yunnan) (Reardon, 1996: 300).

### 3.2 The purpose and functions of SEZs

Many Chinese scholars describe China's sub-regional economic cooperation as an 'economic circle' (*jingji quan*), meaning 'a loose form of multilateral economic transnationalism based on a natural division of labour and trade ties' (Liang, 1993, Chap. 1, in Hu, Weixing, 1996: 47). The purpose of building SEZs was not only to promote Chinese indigenous industries and social values and sovereignty, but it was also to fully exploit their geographic advantages of being close to international markets such as Hong Kong, Macao, and other neighbouring countries (Shi, Min, 1991: 89). They are special, externally oriented, comprehensive economic regions focusing chiefly on industry, developing both industry and trade, and integrating industry, trade and technology (Liu, Guoguang, 1992: 9). They enjoy special preferential treatments and convenience in the use of land, taxes and approval procedures (Shi, Min, 1991: 89).

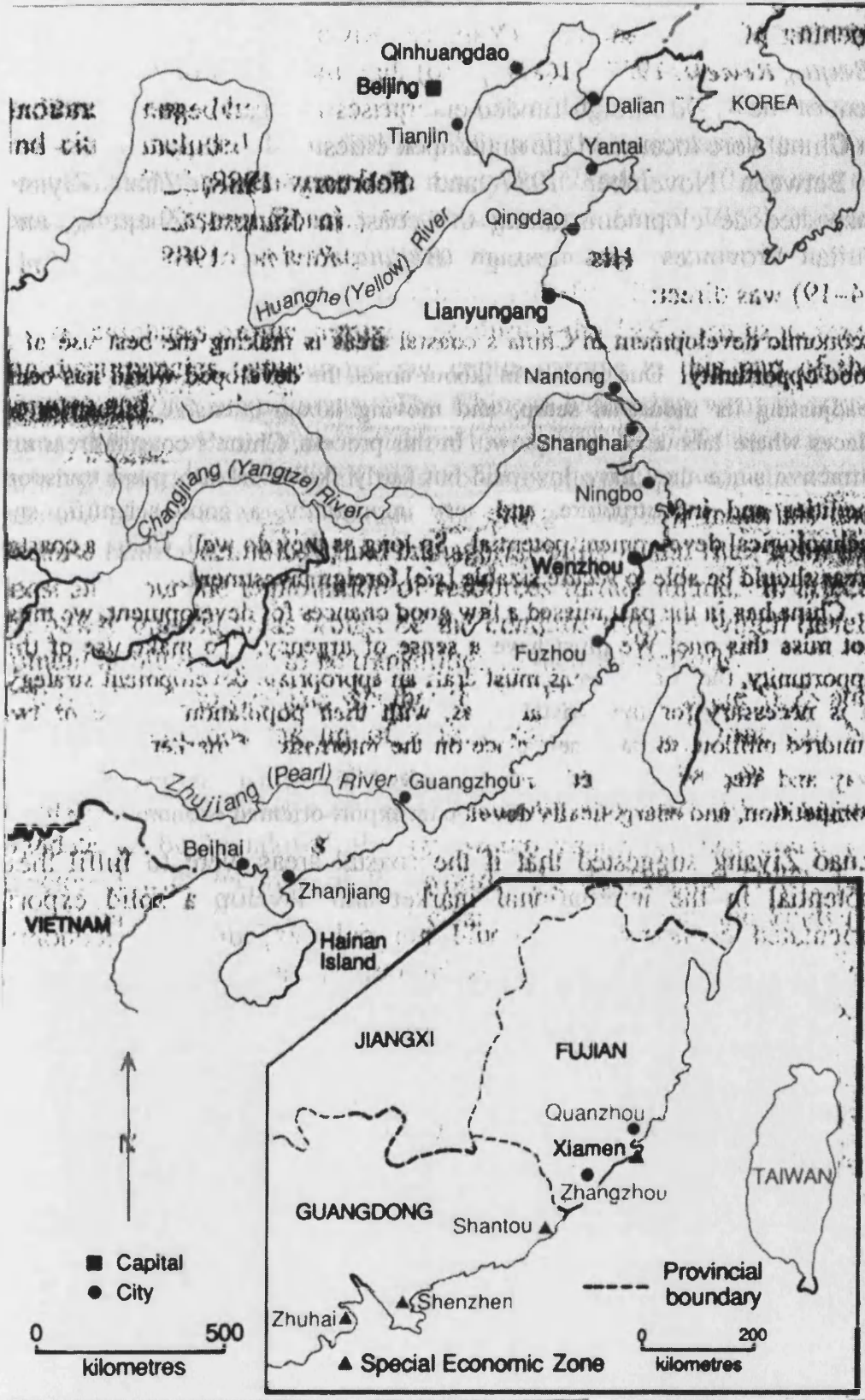
The flow of goods, people, and capital into a sub-region does not happen automatically but usually requires government incentives. SEZs are such incentives, as the Greater South China Economic Zone (GSCEZ) and Singapore-Johore-Riau Growth Triangle

(SIJORI) demonstrate by their effectiveness in attracting foreign investment. On one level, the favourable financial and fiscal conditions are an obvious attraction. On another level investment is encouraged by the political commitment to an area demonstrated by the setting up of SEZs with enhanced prospects of stability.

The focus of SEZs in China follows the pattern of export commodity processing zones and free trade zones for other countries, but they retain so called 'Chinese characteristics': i) The development of the SEZs in China has tried to harness foreign capital in ways similar to those of export commodity processing zones. At the same time Chinese businesses from other parts of the country are also encouraged to invest; ii) As in free trade zones, SEZs are regulated by the markets, especially the international trade market. However, the construction and the development of the Chinese SEZs are also guided by state macro-economic management and control; iii) Most of the goods produced in SEZs will be sold internationally, so external markets determine production. However, the SEZs can sell a limited amount of goods on the domestic market, as defined by regulations; and iv) Preferential tax treatment is granted to all foreign businesses investing in the zones (Li, Wen, 1990: 126-7).



Figure 4-1. Location of the fourteen open cities and the four Special Economic Zones (Linge & Forbes, 1990: 17).



## II. China's foreign policy of interdependence

Why has China pursued a policy of economic interdependence with neighbours in the region, despite negative Chinese experiences of interdependence since the Opium War? What are the major obstacles to its foreign policy? How can we place the TRADP in the context of Chinese foreign policy? This part reviews the significance attached to interdependence in Western and Chinese literature before assessing China's diplomacy of interdependence and its basic goals and limits.

### 1. Levels of analysing Chinese foreign policy

Can we explain China's foreign policy using the structures of the international system? Is its foreign policy shaped mainly by its own domestic situation? Or are external and internal dynamics interactive?<sup>2</sup> We are dealing with a 'level of analysis problem'. This 'problem' comes about when we start looking for explanations as to why states act in certain ways. These explanations may be found at two 'levels': in the analysis of IR theorists and specialists of China.<sup>3</sup>

#### 1.1 The IR theorists' approach

At least three theories may be distinguished in the IR literature: (Neo)realism, (Neo)liberalism, and (Neo)Marxism. Each of these competing theoretical perspectives starts from different sets of premises, and provides a distinctive framework for interpreting China's foreign relations. Each of these theories helps to explain some aspects of Chinese foreign policy.

#### *The Realist perspective*

Realism stresses the primacy of the state and of security. There is seen to be a continuous competition between states for power, with occasional moments of peaceful cooperation (Gilpin, 1987: 42-3). Human nature is believed to lie at the root of political conflict. The

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<sup>2</sup> These questions are also asked by (Rosenau, 1994).

<sup>3</sup> The theoretical analytical framework is based on Chapter 10 of (Roy, 1998: 227-245).

international system is anarchical, and the result is a focus on autonomy and independence. Traditional realists had the likelihood of conflict or war in mind. However, neo-realists acknowledge that national interest can be concerned with economic as well as with physical security. Under anarchic conditions states naturally develop military and economic strategies that bolster their autonomy and enhance security options to be able to counter adverse conditions (Johnston, 1998: 59). The major powers, having achieved a sense of security, may become involved in international arrangements addressing specific issues which will work to maintain the balance and status quo achieved. For less powerful countries such multilateral arrangements benefit them by providing a way to confront the powerful.

Following the analysis of Roy, it is all too clear from a neorealist perspective that China must fear the influence of international treaties on its sense of sovereignty. Any international regime is a concrete inroad into the Chinese regime. In this view China's openness to global trade is seen as a reluctant choice, the only way that China could increase its power in the international arena through economic development, and any idea that China is seeking cooperation and integration in itself is viewed with scepticism. The motivation that drives policy-makers in Beijing is fear of the outside world. As a result openness is carefully limited, and even economically beneficial cooperation will be circumscribed. Economic benefits are considered not as absolute goods, but are seen in relative terms with a careful eye on what others will stand to gain. The extent of China's foreign policy actions will depend on how strong it is in the international order (Roy, 1998: 229-230).

### *The Liberal perspective*

Liberalism rejects most of Neo-realism's basic assumptions. Liberalism acknowledges that states are not impermeable and that other levels of activity – subnational or supranational – are possible (Ibid.: 231-2). There are several processes at work, processes of learning and defining, and these processes are influenced by new international bodies and regimes. The state is not the absolute it was once considered to be, with other units coming maybe even to take its place in certain respects. Liberalism sees trade and economic flows as positive not only in economic terms but as means by which the community of nations is developed. Economic development is also considered as a goal in its own right, and benefits in absolute rather than relative terms, not as a means to an end of enhanced security options. Indeed, the military and security motivation within the neo-realist approach is considered over-exaggerated.

Roy also provides a liberal perspective on China's foreign policy. In this view China is being attracted by and as a result socialised into the international community through soft tactics. Its own populace has tasted alternative ways of living, and the international standards and norms are now too well established to be ignored by China. Any involvement in or concession to the international scene will have a knock-on effect on Chinese policy-making which will ultimately benefit both China and the global community (Roy, 1998: 231-2). Thus the liberal hope is an irresistible movement towards openness despite the protestations of the Chinese leadership.

### *The Marxist perspective*

Despite having very different basis in their views of the state and of human nature, there are affinities between the Marxist and the realist. They both see uneven power relations between states as the prime catalyst for conflict and policy. Marxism sees salvation in the struggle of re-educated human nature against the negatives of capitalism, which include the state, dominated by elites, and its resulting domestic and foreign policies. War, imperialism and the liberal state are regarded as evils to be removed by the communist revolution (Gilpin, 1987: 42-3). While this goal is now held by fewer Marxists, their analysis of global change which factors in both economics and technological advances is

insightful. Lenin emphasised unbalanced development as a factor in global conflict (Ibid: 51). What Western Marxists call 'World System Theory' posits an integrated capitalist world economy based on unequal exchange relations between the developed core and less-developed periphery nations, reflecting in the political sphere the capitalist modes of production. States work to bolster the capitalist division and control of labour on a world scale (Ng-Quinn, 1984: 89).

The idea of a developed core and periphery gives some insights into China's external relations. China would in this view be a semi-peripheral state. China itself is a producer for export both to developed and less-developed countries. It has low labour costs that are attractive to investors. But it is also dependent for advanced technology on the core countries. World System Theory can be used to shed light on the way that different regions in China have developed differently (Roy, 1998: 234).

## 1.2 A Critique of three perspectives

Realism, liberalism, and Marxism thus come to different conclusions regarding the nature and consequences of Chinese foreign policy, according to their different assumptions. Each viewpoint has its weaknesses as well as its insights.

### *Critique of Realism*

States still have the control of some domains, and (Neo)realists can argue that states may rationally use force to protect their interest in those domains. Governments are becoming less strong and alternatives such as social movements, transnational organisations and corporations are becoming more important. However, the sphere of influence of states is being ever made smaller by global changes and realists have not fully taken this into account (Rosenau, 1994: 536-7). The fact is that China has already become integrated into the world economy and its moves have never more been dependent on the calculation of economic gains or losses. China's foreign policy actions are already influenced by the economic interdependence it finds itself in.

### *Critique of Liberalism*

Rosenau criticises the liberal perspective for not giving enough importance to the existence of structures. These will certainly have an impact on defining issues and on the processes at work. This will be so even where such structures are themselves not set in stone (Rosenau, 1994: 538). Keohane and Nye, supporting theories of interdependence, remind us that when push comes to shove states will indeed act to survive and even resort to force if necessary (Keohane & Nye, 1977: 27). The liberals may be right in terms of global trends, but the Chinese leadership may not yet concur. Tiananmen was a sober reminder that China of the 1980s was not on an irreversible path to political liberalisation. There is still a gap between the values of multilateralism, human rights, the rule of law in international trade, and peaceful conflict resolution espoused by liberalism, and elements in current Chinese leadership (Roy, 1998: 232).

### *Critique of Marxism*

There are weaknesses in a purely Marxist analysis. Political and strategic relations before states may carry as much influence as economic relations in certain scenarios (Gilpin, 1987: 51). Political conflicts may not have economic grounds, and political relations may exist even without relations in economic exchange. States competed with each other even before anything that could be called 'capitalism' had evolved (Ng-Quinn, 1984: 90). Traditional class struggles may be significant in themselves, but not so significant as to be determinant of foreign policy (Roy, 1998: 234). Rosenau criticises the 'World System Theory' as not being true to the facts. If developing countries are being kept in place by the elite nations, it is difficult to explain the rise and new found power of the NIEs. Further, in moving from an industrial to an information age, traditional class lines and power relations have shifted (Rosenau, 1994: 537-8). In this aspect, Post-Mao China has embraced the post-industrial system to speed economic development, and even to give China a place among the core nations (Roy, 1998: 235). China has been able to choose between participation and withdrawal, and this means the world economy is not the final arbiter of international action.

### 1.3 The approach of specialists on China

Most specialists on Chinese affairs try to understand Chinese politics within the Chinese state itself, and focus less on the external pressures from other states (Ibid.: 236). In this regard the three factors of Chinese history, ideology, and internal politics are the keys to understanding what shapes Chinese foreign policy and the minds of those that decide it.

#### *Historical factor*

No one can deny the role of history in understanding contemporary events. In China, with its strong tradition of statecraft, this may carry special weight. China has moved through many periods, from the Han and Tang dynasties with their cosmopolitan flavour, the mid-Qing, with its arrogance, to the anti-imperialist revolution (Mancall, 1967). Chinese elites have often seen themselves as being at the centre of civilisation. Regionally, satellite states owing loyalty to the centre developed. The corollary was a sense of cultural superiority, and a lack of concepts of equality of standing in the international arena (Ojha, 1969: 5-6). Chinese society is hierarchical, and the self-expression that is foreign policy may be considered to reflect this background.<sup>4</sup> Another historical determinant may be the 'century of shame', from the Opium War in 1842 until the communist triumph in 1949 (Roy, 1998: 237-8). This historical failure has tended to motivate China's desire to gain respect and recognition among nations and created the need for the ability to act with independence in foreign affairs. Leaders have been driven to seek a dominant position in world affairs rather than accept the mainstream international system (Ng-Quinn, 1983: 207). These two historical factors would seem to be at odds with China's status as a socialist nation, but ingrained attitudes live on (Fairbank, 1968: 4; Schwartz, 1968: 277, 284).

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<sup>4</sup> Fairbank (1968: 2) divides the Chinese view of world into the three zones. First, the Sinic Zone consisting of the most nearby and culturally similar tributaries, Korea and Vietnam, parts of which had anciently been ruled within the Chinese empire, and also the Liu-Ch'iu (Ryukyu) Islands and, at brief times, Japan. Second, the Inner Asian Zone, consisting of tributary tribes and states of the nomadic or seminomadic peoples of Inner Asia, who were not only ethnically and culturally non-Chinese but were also outside or on the fringe of the Chinese culture area, even though sometimes pressing upon the Great Wall frontier. Third, the Outer Zone, consisting of the 'outer barbarians' (*wai-i*) generally, at a further distance over land or sea, including eventually Japan and other states of Southeast and South Asia and Europe that were supposed to send tribute when trading.

### *Domestic political factor*

Another important approach of Sinologists is the emphasis on domestic political characteristics of China. As an authoritarian political system, public opinion has very little influence on the Chinese foreign policy (Roy, 1998: 236). Important foreign policy decisions have been made by the few leaders, so that much has depended on the individuals who have their own approaches to the management of foreign relations. Thus leadership style is important, and is normally dependent on personality.<sup>5</sup> The natural question then, is whether we can attribute significant behavioural tendencies to the different types of actors. One interpretation of Chinese leadership takes a psychocultural perspective and identifies three styles: the 'hierarchical' style, the 'normalcy' style, and the 'rebellious' style (Shih, 1990: 63). A hierarchical leader seeks psychological self-assurance; a normal leader recognises other states' national interests; and a revolutionary leader tends to operate best where everything representing the status quo authority needs to be overthrown (Ibid: 94). Revolutionaries such as Mao Zedong, implemented aggressive foreign policies. Thus the person of Mao had a major impact on foreign policy decision-making as well as its outcome (Hunt, 1996: 231). More 'normal' leaders, like Zhou Enlai, Liu Shaoqi, and Deng Xiaoping, proved more sympathetic towards a China-among-equals world view. The result is that in China, where power is concentrated in persons rather than institutional procedures, it is more difficult to identify the roots of foreign policy decisions as these may be found in the individual leaders (Pye, 1990: 72).

### *Ideological factor*

In the Chinese political system, in contrast to most countries, ideology is still important. It can be harnessed as a 'unifying and energising force of moral values' and justifies control policies to support single party rule (Harmin, 1984, in Wang, Jisi, 1994: 504). It works to legitimise the regime, and provides the leaders with a framework within which to operate and make policy judgements, including international affairs. *Dangdai Zhongguo waijiao* [Contemporary Chinese Foreign Relations], an official history of Chinese foreign relations covering the period 1949-1986, sees Marxism, Leninism, and Maoist-thought as the guide to interpret world affairs (Kim, Samuel, 1994: 5-6). If there

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<sup>5</sup> For an understanding of Chinese political behaviour and thinking, see (Pye and Leites, 1982).



is a conflict in action between national interest and ideology, the latter will overrule (Zhi, 1982: 286).

#### 1.4 A Critique of the three factors

Although each of perspectives provides useful insights, they cannot be proved through logical argument. The strengths of these theories should also be evaluated alongside their weaknesses. A critique of the perspectives will be explored below.

##### *Critique of the historical factor*

The traditional historical and cultural approach has several problems. First, 'Sinocentrism' is more a description than a theory, and it has many faces (Kim, Samuel, 1982: 64). Official Chinese dynastic histories, on which historians rely, may be slanted to support tradition, and thus biased (Ng-Quinn, 1983: 207). It also contains the danger inherent in all-encompassing explanations (Kim, Samuel, 1989: 16). Second, Sinocentrism is subject to ongoing change. There are not only similarities between dynasties and regimes but also dissimilarities and discontinuities. Today's Chinese world view does not resemble the traditional tribute system. The main historical influence on Chinese Communist leaders' foreign policy thinking is modern history (Kim, Samuel, 1994: 12). Thus China may be better viewed as in transition to becoming a fully modern society (Pye, 1968: xv). Industrial societies are different from agrarian ones. Even deep-rooted Confucianism may be less influential than modernisation, urbanisation and indoctrination (Ojha, 1969: 25).<sup>6</sup> Third, China has not been isolated, but has been active on the international stage and to an extent has had to buy into that system. Historically, China handled other states by seeking a resolution based on the balance of power, similar to today's international relations. Examples are China's relations with the Xiong-nu in the Han Dynasty, and with the Turks and Tibetans in the Tang Dynasty (Ng-Quinn, 1983: 207). Chinese history is as huge as its geography and to identify which period is influential in terms of current foreign policy is not straightforward (Kim, Samuel, 1994: 13).

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<sup>6</sup> For the current discussion on the relationship and role of Chinese culture to the modernisation of China, see (Zi, Zhongyun, 1987).

### *Critique of the domestic political factor*

As in most countries, but especially so in China, with its 'geographical, social, generational, social, educational, occupational, philosophical and other diversities', there are any number of sets of cultural viewpoints and thus the leadership of the nation also cannot be said to be culturally 'homogeneous' or even 'Sinocentric' (Ng-Quinn, 1983: 207). During the Mao period it became evident that the revolutionary elite and wider circle of subordinates, which were necessary to support and serve their leaders, needed to be drawn together by a clear and shared system of belief to counterbalance the diversities among them (Hunt, 1996: 231).

### *Critique of the ideological factor*

In China the world has been seen through Marxist-Leninist spectacles, and this has guided interpretation and policy-making. Even so, there have been inconsistent foreign policy outcomes. Hunt notes that self-protection has been as important a motivation as national development. The various military and near military conflicts crises (in Korea in 1950, along the Taiwan straits in 1958, along the Indian border in 1962, in Vietnam in 1965, and along the Soviet border in 1969) have shown a major motivation of China to be the maintenance of historical borders (Hunt, 1984: 39-40). Ideology has later been used to justify China's actions rather than to guide them and has been used as a weapon to criticise Western ideologies (Ojha, 1969: 14-5).

### 1.5 Towards synthesis: Realism with 'Chinese Characteristics'

There are so many aspects to Chinese foreign policy that it is difficult to point to a single unifying perspective. The realist position may, perhaps, be the theory which best explains the reality (Kapstein, 1995). This is due to its focus on maintaining territorial integrity, sovereignty and security within an anarchic international playing-field (Ng-Quinn, 1984: 95). However, as Samuel Kim argues, it does not provide a perfect or comprehensive understanding. Bringing it together with a cultural approach that focuses on specific Chinese characteristics may yield a more fruitful framework for analysis. This combination will avoid acultural and ahistorical biases of mainstream realism, and will seek to identify real and historical fields in the ways in which the outside world has been

seen by the Chinese elite (Kim, Samuel, 1994: 14). Thus the understanding of Chinese foreign policy will not be the exclusive preserve of either IR theorists or of Sinologists. Rather, a cross-disciplinary approach is needed in order to develop a framework that draws on both streams of knowledge, and to develop a deeper theory (Shambaugh, 1994: 8-9; Rosenau, 1994: 532). Johnston has captured an important part of Chinese thinking and behaviour, by stressing the entrenched realism that has been embedded its strategic culture that has evolved through its long history (Johnston: 1995). This will lead to a better understanding of the complexity that is Chinese foreign policy.

Chinese policy makers have no hesitation in ascribing the basis of their actions to Chinese wisdom. For example the *Beijing Review* states: 'The policy-makers are followers of ancient Chinese strategist and philosopher *Sun Zi* whose maxim is "a good go[Chinese chess]-player seeks the trend, while a bad one seeks pieces"' (Shi Nangen, 1998: 7). They have drawn variously on Chinese classical writings such as *Sunzi Bingfa* (Sun Tzu's The Art of War), *Sanguo Yanyi* (The Romance of the Three Kingdoms), *Shuihu Zhuan* (Water Margin), and *Changuo Ts'e* (Chronicle of Warring States).<sup>7</sup> These writings present notions such as, 'subduing the enemy without fighting', 'defensiveness' and 'limited war'. The Warring States period (403-221 B.C.) is an oft-consulted model of Chinese strategic culture. This tradition highlights an amoral interstate system where states are constantly competing ruthlessly and playing each other off. In fact Confucian writers later renounced such 'opportunism and deceitful stratagems' but the Chinese have retained a sense of pride in this era in which they 'knew how to manipulate the situation to their own advantage and inspire complete awe by their prestige' (Hunt, 1984: 8). Thus the Chinese view is that states remain the significant units of action in world affairs, and that force is a suitable, possible, and effective policy instrument. 'In their eyes, world politics continues to involve a zero-sum game, and in the inevitable hierarchy, the more powerful nations dominate the weak' (Strasser, 1995, p. 30, quoted in Roy, 1998: 43). The basic nature of politics is one of the survival of the fittest, a struggle for wealth and power in a ruleless system. Thus, Wang Jisi refers to Zhou Enlai's diplomatic thinking as arguing that Chinese foreign policy may choose to draw on traditional philosophy where

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<sup>7</sup> This point has also been made in (Roy, 1998).

it suits and apply it to its advantage in formulating policies (Wang, Jisi, 1994: 503). This is important in the understanding of Chinese strategic thinking.

## **2. Interdependence as China's foreign policy choice**

How should we understand China's choice of interdependence as foreign policy? Why did China choose to pursue a policy of interdependence, despite its negative view of interdependence resulting from its experiences since the Opium War?

### **2.1 Interdependence in the Western literature**

Interdependence is well established in international relations as a means to establish peaceful security relations through recognising the link between economic and security matters and through promoting diplomatic cooperation (Robinson, 1994a: 187, 190). Interdependence has been defined by Morse as 'the outcomes of specified actions of two or more parties (individuals, governments, corporation, etc.) when the outcomes of these actions are mutually contingent' (Morse, 1976: 663); and by Keohane and Nye as '...mutual dependence. Interdependence in world politics refers to situations characterised by reciprocal effects among countries or among actors in different countries' (Keohane & Nye, 1977: 9, also quoted in Xu, 1993: 22). To distinguish it from mere international interconnectedness, Samuel Kim (1989: 14) expands as follows: '[I]nternational interdependence refers to a balanced and equitable dependence in which actors share the benefits, cost, and consequences of their transactions in goods, services, capital, knowledge, and rule making. Interdependence exists where actors of more or less equal 'power' are engaged in the joint management of their mutual dependence'. There are thus benefits to all parties engaged in economic interdependence, and this encourages better political relations. Peace is sought by those local groups who have benefited from such economic relations. Channels of communication are opened up and information is exchanged, which goes to break down the misconceptions of other parties (Harris & Mack, 1997: 18-9). The likelihood of force being used between partners is reduced because of the threat to wealth generating opportunities and the opposition by interested groups in their respective societies.

However, other views are possible. Interdependence may in fact mask an unbalanced relationship where one partner is advantaged. If there is a dominant partner, economic development may well have negative knock-on effects in the military and cultural spheres. More interdependence may in fact create less rather than more stability. The role of economic development is clearly increasingly important, but not uncontroversial (Scalapino, 1997: 140). The problem is that interdependence is complex. There is no way to measure it, and the benefits may also include some downsides. Thus it is a multi-faceted situation, and assessment is problematic.

Keohane and Nye have attempted to solve the problem of assessment by distinguishing two kinds of interdependence: sensitivity interdependence and vulnerability interdependence. 'Sensitivity means liability to costly effects imposed from outside before policies are altered to try to change the situation. Vulnerability can be defined as an actor's liability to suffer costs imposed by external events even after policies have altered' (Keohane & Nye, 1977: 13, also quoted in Xu, 1993: 24). International interdependence was originally a description of what was happening between the developed countries through progress in communication and transport infrastructure rather than between developed and developing countries. The latter interdependence is likely to involve vulnerable positions for the developing countries, whereas interdependence between developed countries is likely to be sensitivity interdependence (Wu, 1981, p. 448, in *Ibid.*: 25). Holsti reminds us that although interdependence may create an area of new international relations, one should not get too excited nor forget the vulnerability of the weaker players. It is not a sure route to winners all round, for there are cost implications. Unbalanced integration can lead to disintegration, to autarky, to isolation as a reaction to dominance by one party (Holsti, 1978: 530). The weaker parties may lose independence in domestic policymaking. These dangers mean that vulnerable states may be hesitant to buy into interdependent structures especially where other factors make the environment insecure or political relationships less than benign (Harris & Mack, 1997: 19). Thus interdependence has the risk of creating dependence. This in turn

leads to tensions, insecurity and even conflict. The higher the inequality between partners, the less one can speak of real interdependence (Waltz, 1970: 207).

## 2.2 The Chinese view of interdependence

There is some truth in the claim that China's modern foreign relations have been influenced by its history in foreign relations. In the dynastic period foreigners were regarded as inferior, and the result was a system of tributes by which foreigners expressed deference. Gradually, and under the influence of Western expansionism in the nineteenth century, China was forced to become an equal player by law on the international scene, and in practice a player of the second rank. Dependence on the West meant an increased influence of foreign ideas and a loss of self-respect (Robinson, 1994a: 189).

The communist leaders were not happy with the notion that states may be mutually interdependent. It undermined their sense of independence and self-reliance.<sup>8</sup> Mao considered that there was too much dependence on the Soviet Union in the 1950s (Yahuda, 1997: 8). So-called neo-colonialism was vigorously opposed by Maoists, and a sense of self-reliance was fostered. Links were forged with the third world against the powerful countries. After some moves to openness to the global economy from 1978 there was a reactionary response against what was seen as 'bourgeois liberalisation' and 'spiritual pollution' of the communist spirit (Robinson, 1994a: 189-190).

Indeed after the Tiananmen crisis in 1989, the efforts of the West to integrate China and to introduce the concept of interdependence were considered to be a strategy to undermine communist rule (Yahuda, 1997: 6). Thus the Chinese leadership has had to tread a thin line when working with other countries. Its views of independence and sovereignty is inclined to the absolutist extreme, and this tends to constrain its foreign policy actions, since effort is put into defending sovereignty at the expense of other foreign relations possibilities. Combined with a relatively weak position in recent times,

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<sup>8</sup> In usage, independence (*duli* or more fully, *duli zizhu*) has the meaning of 'maintain independence and keep the initiative in one's own hands'. Sovereignty (*zhuquan*) has the connotation of the exercise of exclusive power. Self-reliance (*zili gengsheng*) means 'strive for regeneration through one's own efforts' (Yahuda, 1997: 8).

this has made it hard for China to normalise relations with the rest of the world. Nevertheless, this is not to say that China has rejected interdependence. Indeed interdependence is now at the forefront of Chinese policy, and one may ask why this is so, in the light of its previous suspicions.

### 2.3 Goals of China's Interdependence

Each state has a number of sometimes conflicting objectives. Some may need to be sacrificed for the sake of others, and a number of factors will come into the process of prioritisation (Legg & Morrison, 1991: 61). Factors will include the international and domestic outcomes, the amount of risk the state is willing to take, time frames, and the weighing up of costs and benefits. This goes into making up a rational decision-making process (Lamborn, 1997: 212). In the sphere of foreign policy rationality is 'the process of organising clear and reliable means' towards achieving objectives. States have 'different organisational capacities' and operate within situations of 'internal and external change'. States thus develop strategies to cope with these changes, and these strategies determine international manoeuvring (Ikenberry, 1991: 157).

In Chinese thinking, strategy (*zhanlue*) 'applies to the method of manoeuvring the enemy, actual or potential, into a position from which it would be difficult to counter the Chinese foreign policy offensive' (Simmonds, 1970: 136). It is a way to defend against the shifting array of international hostile forces. It is also a way of evaluating the strengths and weaknesses of others in comparison to itself. Strategy is long-term, whereas tactics are short term. Strategy leads to tactics, which are concerned with the actual actions against the hostile force, having manoeuvred that hostile force into as weak a position as possible (Ibid.: 136).

China has sought to achieve several goals by pursuing a diplomacy of interdependence. It regards great power status and regime stability as long-term goals. A major source of foreign policy motivation is the standing and status of the state in the eyes of world. Many analysts have given less weight to the importance of global social sanctions and 'peer pressure' in accounting for the behaviour of states. But it is clear that even where

there are no concrete benefits or sanctions, states sometimes act according to international public opinion. To gain powerful status is a main goal of Chinese foreign policy (Johnston, 1998: 76-78). This is linked to the historical Chinese view of itself as morally and culturally superior. China can be seen to be seeking affirmation of its superiority (Sutter, 1978: 3-4), particularly as a revived China would be able to erase its past shadows of foreign domination.

Another major foreign policy source is the political state of a nation and the political needs of its government (Legg & Morrison, 1991: 62). The communist elite has always been concerned with external threats, as well as with the threat of discontent from the vast geographical area under their rule (*neiluan, waihuan*). Regional fragmentation has been a perennial concern. The 14<sup>th</sup> century historical novel *Romance of the Three Kingdoms* written by Lo Kuanchung starts with the words, 'Long united, the kingdom must divide; long divided, it must unite. It has always been thus' (also quoted in Roy, 1998: 54). In fact internal and external threats are treated more on par in China than in most other countries (Ibid.: 43; Fairbank, 1968: 3). Chinese analysts have distinguished the pre- and post-Cold War periods. In the former the threat was mainly external and military, in the latter it is internal and political, attacking the rule of the Communist Party (Yahuda, 1997: 18). The Tiananmen crisis was a direct attack on regime legitimacy, which had its roots in the wider worldwide collapse of communism. Legitimacy is a crucial goal to be maintained by the leadership in an age where economic success is more and more becoming the test of such legitimacy. Leaders need continuous economic success in order to maintain legitimacy, and this may be another spur to economic interaction with the outside (Ibid.: 7).

To achieve its long-term goals China has focused on creating a peaceful environment to facilitate domestic development (Cable & Ferdinand, 1994: 259). These goals are to be best achieved through economic interdependence, and the current focus on interdependence should be analysed in terms of 'comprehensive national strength', a term that includes not only military defence but also internal conditions such as economic prosperity, political stability, and cultural or ideological purity.



#### 2.4 China's good neighbourliness

It has been said as late as the 1980s that China did not have a real regional policy (Yahuda, 1996: 186). From that time both domestic and international changes operated to propel China into an entirely new international direction, which including regionalisation (Goodman, 1992: 2-3). Several factors pushed the government to take on a Chinese model of regional cooperation.

First, the end of tripolarity during the Cold War era meant that China itself had become regionalised (Yahuda, 1996: 212) now that the Sino-Soviet-American strategic triangle had gone. Its place was a set of arrangements among five power centres (North America, Europe, Russia, China, and Japan) that were much looser (Robinson, 1994b: 593). This weakened China's relative strength and it had to find new ways to pursue its interests (Gurtov & Hwang, 1998: 66-7). At the same time the collapse of the Soviet Union also ended once and for all any prospect of an invasion from the north. This gave China a degree of strategic latitude it had never enjoyed before.

Second, there was a gradual shift in the Chinese perception of security from military security matters to economic concerns as the main focus in East Asia (Robinson, 1994b: 595-6). Both economic and military action is recognised as necessary to safeguard national security (Hu, Weixing, 1995a: 133).<sup>9</sup> The collapse of communism in Eastern Europe in 1989 followed by the disintegration of the Soviet Union in 1991 caused China's leaders to concentrate even more on economic development as a condition for ensuring continued communist rule.

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<sup>9</sup> Obviously, for Beijing 'security' is a dynamic concept in a broad sense rather than a static one in a narrow sense. It refers not only to 'safety' in the military and diplomatic sciences, but also to economic and technological security. Also, political security requires the unity of leadership at different levels. The leading group should cope with social contradictions, thus avoiding serious political and social turbulence (Wang, Yizhou, 1999: 7).

Third, the late 1980s saw regionalism become an important part of the global political structure discourse largely as a result of developments in the EU and NAFTA. The development of these trading blocs coincided with attempts by East Asian NIEs (Hong Kong, Taiwan, Singapore and South Korea) to restructure their economies because of high factor costs. China's new export-oriented outlook and lower labour costs met their needs for cost-saving processing and production. Thus East Asia grew in China's economic relations as a direct source of investment and then as an export market. China was catching up with the realities of the international political economy. This not only increased intra-regional trade, but also furthered China's integration into the economic and, to an extent, the political order of East Asia.

The Chinese revised their military strategy to focus primarily on the preparation for localised high-tech small wars because they no longer followed Mao's belief in the inevitability of another world war. Hence they focused on the prospect of wars near their borders. But because of their need for a peaceful international environment the new military strategy highlighted the need to maintain friendly relations with neighbouring countries and deepen mutually beneficial cooperation (*Beijing Review*, 1994b & 1998). Ideology in China was taking more and more of a back seat allowing room to deal with countries with differing values, social structures, and economic systems. Further, developing relationships with as many different countries as possible would help in China's integration process with the rest of the world (Harding, 1994: 399-400). Diplomatic relations was established with Singapore (1990), Brunei (1991), South Korea (1992), and the four Central Asian states of the former Soviet Union (Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan; 1992-93); relations were normalised with Mongolia and Laos (1990), Vietnam (1991), and Indonesia (1990); there was a boundary agreement with Laos and Vietnam (1992) (Gurtov & Hwang, 1998: 67).

These interactions on China's borders were guided by Beijing's foreign policy (Christoffersen, 1996b: 294). It was realised that foreign policy should hasten to create a peaceful political external environment, enabling China to concentrate on domestic

economic development. Sub-regionalism was seen as the most flexible method to achieve this aim.

## 2.5 Constraints to China's interdependence due to neighbouring countries' concern for relative gains

To adapt to the rapidly changing domestic and international environment, China has adapted interdependence to meet its own strategic requirements. However, it is important to keep in mind that China's foreign policy objectives face a major constraint, which is the concern regarding relative gains of neighbouring countries.

A main tenet of liberal thinking is that states work together with the target of achieving absolute gains. It is said that states act on rational economic grounds to increase their own net benefits (Milner, 1992: 470), and in doing so they must be prepared to take into account the choices of other states. Nonetheless, the issue here is the tension between absolute and relative gains. Where joint gains are made from cooperation, the next question is how they should be distributed. This may result in disagreement between partners, which hinders cooperation (Powell, 1994: 314-5). Even where absolute gains may be had all round, competitive or jealous states do not like to realise fewer gains than their partners, and thus the issue of relative gains in economic and political terms can present a problem for cooperation. This comes from the anarchic system states find themselves in. Survival is dependent only upon a state's own power and cohesion. Relative shifts in gains are thus a central concern, and unfavourable cooperative situations will not be tolerated lightly (Milner, 1992: 483). 'No nation will concede political advantages to another nation without the expectation of receiving proportionate advantages in return' (Grieco, 1990, p. 47, in *Ibid.*: 471).

Cooperation is thus made more difficult the more a participant state feels that the group objectives diverge from its own. It will not be willing to take risks on behalf of the group goals (Lamborn, 1997: 195). The fact is that the main goal of states in such situations may not be to achieve advances for itself, but may be to prevent other states from moving ahead in a relative sense (Grieco, 1990, p. 39, in Milner, 1992: 484-5). States may even

act to reduce the gains of other partners, or they may decide to take unilateral action or be inactive in the partnership (Ibid.: 468).

With this in mind, China has ruled to manipulate interdependence to serve its own strategic advantage, but it may have been less successful than it had hoped. In playing the international game, it cannot avoid the rules and problems given by the game, and this has had an impact on its regionalist approaches. Beijing has tried to follow a 'maxi/mino principle' in the conduct of multilateral diplomacy - maximising China's rights and interests and minimising China's responsibilities and normative costs (Kim, Samuel, 1991, pp. 25-7, in Yahuda, 1997: 15). In fact China has retained a mindset that is rather focused on a narrow definition of self interest. This viewpoint takes the realist approach, and many of the international norms of cooperation have not been taken on board (Ibid.).

Both weaker neighbours and stronger powers are suspicious of China's moves to interdependence. The former are vulnerable, the latter sensitive, to growing interdependence. Weaker neighbours such as the ASEAN are, as a group, an important trading partner of China. The bilateral trade volume between China and ASEAN countries, reached US\$24.36 billion in 1997. However, they are rivals in producing natural resources, labour-intensive and agricultural products, and manufactured goods. The economic structure of China and the ASEAN countries have converged. They share the same market focus on countries and regions as America, Europe, and Japan. Indeed, there is much concern and uncertainty about the emergence of China. The biggest problem for the countries in the region is China as a military power. The realisation of modernisation would enable China to command the maritime heart of Southeast Asia, with hegemonic implications for its resident states as well as for all states concerned (Leifer, 1997: 157). The conflict over Mischief Reef in the South China Sea of 1995 has led to a belief that China is not constrained by concerns that it might damage its economic interdependence.

In case of stronger neighbours, such as China's relations with Russia, economic relations have developed at both national and local levels. In 1993 China was Russia's second

most important trading partner and Russia China's seventh, with the value of bilateral trade reaching US\$7.68 billion. However, their economic relationship was downscaled, because of Russia's concern for the vulnerable situation of its Far Eastern provinces (Yahuda, 1997: 19). China wanted to improve economic and trade relationships with Russia, but could not manage to attract a positive a response. Low quality products and the fear of potential Chinese migration made the Russian Far East hostile and reluctant to cooperate with China (Christoffersen, 1996b: 267, 277-80). Although their relationship was good in terms of military and diplomatic cooperation, their relationship can be better described as one that was based on the 'Five Principles of Peaceful Coexistence' rather than the practice of interdependence (Yahuda, 1997: 19).

In Foreign Direct Investment (FDI), Japanese investment rapidly increased in the 1990s, reaching US\$3.2 billion in 1998. By the late 1990s China ranked second only to the US in the Japanese investment volume. Japan has become China's greatest trading partner and China, Japan's second biggest. Politically, Japan was the first of the Western allies to lift economic sanctions against China after the Tiananmen crisis in 1989. However, their complementary economic relations have not transcended the traditional security issues. Their relationship remains, in the realist approach, deeply influenced by several unsolved issues such as the historical legacy of Japanese invasion of China, the Taiwan question and the territorial disputes in Diaoyu Dao/Senkaku Islands (Yahuda, 2001).

The same goes for relations with the US. Sino-American bilateral trade volume reached US\$48.99 billion in 1997. By the end of the same year, the US was committed to investing US\$40.06 billion with an actual investment of US\$17.5 billion (*Almanac of China's 1998/99*: 431-2). Despite the US's great commitment in trade and investment, there is a notion among the Chinese leadership that the US is trying to resist the development toward multipolar arrangements in order to retain its dominant position. The intent of the US is to thwart the emergence of China as a great power, since the US sees China as its main competitor in Asia. Beijing sees shifts towards integrating it in the international community as moves to subject it to US dominance (Godwin, 1998: 177-8). Meanwhile the US holds China to blame for many issues, including not making an effort

to reduce the US's trade deficit, its human rights record, threatening to invade Taiwan, and infringement of minorities such as Xinjiang and Tibet. Even China's military power is seen as an indication of its ambition to be a hegemon of the region. Tensions still remain and there has been no real change in the substance of their interdependence.

### **3. Sub-regionalism in China's regional policy**

As examined in Chapter Two, SREZs are a form of soft regionalism, based more upon the flow of economic interaction across ideological and political boundaries. This means that within a cooperative situation the properties of regionalism are manifest, but there is little or no institutional structure and such structures or effects that may be there do not cover whole states. The growing significance of such soft regionalism results from the realisation that at different points in the peripheral provinces there are indeed SREZs that link regions of China with adjacent neighbouring territory (Yahuda, 1994: 264). The vast mass of China sits in the middle section of the western shores of the Pacific and bridges Northeast and Southeast Asia. It possesses rich natural resources, a relatively complete industrial system, a large capacity in its multilevel technological structure, and great technological strength. These must be used in bilateral, multilateral and 'sub-regional' cooperation. The fruits of the open-door policy, originally confined to the east coast, are evident, and emphasis is now placed along the land borders of China with its neighbours and along the major rivers, focusing on areas with natural access to the outside world.

Of the sub-regionalisms around the Chinese territory, there are two projects that involve more than two countries. China is involved in both the GMS<sup>10</sup> and the TRADP at opposite ends of its vast territory. Yunnan Province and the Yanbian Korean Autonomous Prefecture are similar in that they are underdeveloped provinces near coastal areas. Both projects commenced in 1992 with objectives of economic development. That would be sustainable in the long term, with resulting improved living standards for local people. Major international aid organisations have been involved in facilitating inter-country cooperation in the targeted region (Husband, 1998: 68-70). The

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<sup>10</sup> For the general principles of the project, see (ADB, 1993).

two projects have focused on non-Chinese investment (ECFA, 1993: 9-10; Zou & Ma, 1992: 71). Despite their potential, however, both projects have not been successful, and have also faced similar difficulties. The comparison with the GMS could be a good starting point from which to analyse the TRADP. Why did the GMS fail? What are the political and security implications of the Mekong project? This section will begin with the description of the Mekong project and then highlight the significance of the TRADP.

### 3.1 The GMS in Chinese foreign policy

The GMS comprises Cambodia, Laos, Myanmar, Thailand, Vietnam, and Yunnan Province of China, the six countries through which the Mekong flows or borders. The area covers 2.3 million sq. km with a population of almost 237 million in 1996. Thus there are both human and natural resources, which include timber, agricultural land, some oil and gas, and rivers suitable for hydropower development. The labour force is large and the GMS could generate a vigorous and sustained growth (Green, 1998: I-2-4; See also ADB 1993).

The GMS was launched in 1992 by the ADB. It relies heavily on grants and subsidies, since there is little private capital inflow, largely because the project remains in its early stages (except for in Thailand) and levels of socio-economic development are low.<sup>11</sup> The initial strategy by the ADB was to promote basic infrastructure, namely transportation and energy, thus to date development has mainly been of dams and roads (Brimble & Oldfield, 2000: 25).<sup>12</sup>

The six countries have established some kind of institutional framework. There are also working groups and forums covering both the 'hardware' and 'software' aspects of implementation. A body at ministerial level coordinates cooperation and provides overall

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<sup>11</sup> The terrain is mountainous and difficult jungle, requiring massive inputs to build transportation with low economic returns in the immediate future.

<sup>12</sup> So far, the ADB has provided US\$366 million in loans for priority sub-regional projects in the transport and energy sectors. It has also extended US\$20 million in technical assistance grants to support sub-regional activities. Approximately US\$300 million is in the pipeline for GMS projects (Green, 1998: I-2-5). A recent ADB publication notes that ten sub-regional infrastructure projects have been completed or are nearing completion. Out of the US\$ 1 billion in financing for the ten projects, the ADB has financed six for US\$465 million and mobilised US\$234 million of co-financing (ADB) (Brimble & Oldfield, 2000: 25).

policy guidance and support. This is supported by a National Coordinating Committee in each country (Green, 1998: I-2-5).

Starting with the open-door policy in 1978, Yunnan gradually began renewing ties with its neighbours. The focus was on cross-border trade with Myanmar, Vietnam and Laos and on establishing links with Thailand. In 1984, the Southwestern Cooperation Zone was established, consisting of the provincial-level administrations of Yunnan, Sichuan, Guangxi, and Guizhou as well as Tibet. Its task was to open up the Southeast Asian market. For example, the eastern Dehong Prefecture attempted to establish, via Myanmar, trading links with Bangladesh, India and Pakistan; and the southern Xishuangbanna Prefecture developed links with Thailand, Malaysia and Singapore (d'Hooghe, 1994: 286, 295, 302).

The significance of the GMS lies in its role in China's foreign policy. As far as China's foreign policy is concerned, Southeast Asian countries are a key source of further development. Along with economic cross-border developments, China restored ties with Vietnam in 1989, and with Indonesia and Singapore in 1990. Improved regional relations are evidenced by increasing numbers of visits by various heads of governments from Thailand, Myanmar, Laos and Vietnam. China provides isolated Myanmar with political, economic, infrastructure, and military support. Myanmar provides China with strategic links with Southeast Asia and the Indian Ocean. China and Laos restored diplomatic relations in 1987 and have recently settled their border disputes (Ibid.: 305, 310, 315).

Nevertheless, not all is rosy. In fact the GMS has not been of huge economic access and interest and the project has not been the main priority for the central government. Economic affairs in Yunnan (apart from its drug problems) are not the biggest worry of the Chinese government to directly impinge on foreign policy. Bilateral political relations with Yunnan's neighbours are still not very developed and are delicately balanced, which does not encourage a confident push for sustained growth (Ibid.: 315-6). And indeed the amount of trade between China and Southeast Asia, despite increases, remains small relative to China's total. China does not really need what they have to offer, so



complementarities are difficult. Plentiful cheap labour and natural resources but a lack of technology, capital, skilled labour, and managerial experience are common to all the participating countries (Ding, Jingping, 1995: 61).

More importantly, from the point of view of Southeast Asian countries, China's flexing of its economic muscles is seen as a comprehensive threat. Most of them have trade deficits with China, and are concerned that further cooperation in markets will add to these deficits (Handley, 1993a & 1993b). Despite improving relations between China and neighbouring countries since the late 1980s, tensions still remain. The Tonkin Gulf region has provided territorial sea disputes, with several ASEAN countries claiming the Parcels and the Spratly archipelago along with China. As China believes that in the long run the Mekong offers a way a way to resist Japanese political and economic dominance of the region, Japan also tries to check and balance the Chinese movement in the region. As a result, the Mekong has become a stage for the two countries' political game of aiming to influence Indochina (Handley, 1993a; *The Economist*, 1996).<sup>13</sup>

### 3.2 The significance of the TRADP in China's foreign policy

The significance of sub-regional economic cooperation lies in its role in China's security and foreign policy. One example is the Greater South China Economic Zone (GSCEZ). It utilised ethnic and blood ties with Chinese abroad to create strong capital inflows. In addition to accelerating national and regional development and acting as 'experimental hot houses' and generators of foreign exchange, since 1978 China has manipulated the GSCEZ in its foreign policy. It also has the function of integrating China with Hong Kong and Macao, and maintaining links with Taiwan (Reardon, 1996: 299). The growing trade with Taiwan via Hong Kong is naturally considered to be a favourable precondition for a possible political rapprochement. Thus the SREZ has implications in the political sphere that are potentially much more significant than economic development. China's handling of the SREZ may shed light on how it might approach an eventual reunification process (Segal, 1994b: 328; Linge & Forbes, 1990: 15).

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<sup>13</sup> With its traditional thirst for new markets and raw materials, Japan has launched two initiatives and financed some of the ADB studies (*The Economist*, 1996).

China worked out its policy with regard to the TRADP and the GMS. Sub-regional economic cooperation may create some groundwork on which to begin building a new peace-oriented foreign policy. The new economic relations may pave the way for a new political alignment where states are not forced to choose between free market and command economy systems, but may rely on China as a kind of peacemaker with an interest to guarantee stability in the region for the sake of economic development of Northeast and Southeast China (Christoffersen, 1988: 1246).

The two projects have had similar roles in China's foreign policy. At the same time, there are differences between the two. Firstly, the prime agent in the GMS are national governments. Only Yunnan Province is proceeding as an autonomous prefecture, while the TRADP is concerned as a cooperation between local and national governments, and covers peripheral areas of the countries taking part. The Tumen region is a sparsely populated hinterland of 5 million inhabitants, whereas the GMS has approximately 237 million people. The GMS was a response to a growing trade situation resulting from the synergies of moving from subsistence farming to more diversified market-based, outward-oriented economic systems. A main aim of the TRADP is to build on a relatively small base to kick-start a new point of economic growth and develop a gateway for trade (Ibid.). Nevertheless, beyond superficial comparisons, we can assume the political and security significance may give more weight to the TRADP than the GMS, if we compare the two. The TRADP has developed in a more complex way than might be suggested by the concept of the SREZ. The TRADP will be more interesting if we examine the very rare case of multinational cooperation between the different economic systems: the capitalist economies (Japan, South Korea, with perhaps the US behind the two countries) and the socialist economies (North Korea, and to some extent Russia, China and Mongolia). On the other hand, the GMS member countries are all socialist economies except Thailand.

More importantly, the major difference between GMS and the TRADP is that China's partners in the latter are large powers that are competing with China for influence. Laos,

Myanmar, Thailand, and Vietnam are no match for China, but Russia and Japan are formidable rivals. China's northeast is of obvious security significance since it faces both Russia and Japan. China has sought to develop a trade network in this region between the Soviet/Russian Far East, South Korea and Japan, and possibly North Korea. This would help to ease political tensions in the region by shifting focus away from an aligned position (Christoffersen, 1988: 1246). Finally, in terms of security, China's analysts still warn of the possible dangers posed by Russia's remaining forces in the region (Yahuda, 1994: 254). North Korea's unpredictability means that Chinese forces in the region must remain alert. Thus the TRADP has great strategic significance and Beijing wants to maintain control of the politics of the economic relations.

## **Conclusion**

The need for economic development has required growing interdependence with foreign countries. Since 1979 China has received more foreign direct investment than any other developing country. As a result of its economic reforms, different regions have been integrated more closely with their foreign neighbours. However, Segal and Goodman ask a pertinent question: 'How much was China's rise shaped by its own agenda and how much was it constrained by interdependence with the outside world?' (Segal & Goodman, 1997: 1). When confronted with a different set of external challenges, states manoeuvre and adjust their policies to varying internal needs and aspirations. It is apparent that China has become interactive in regional and global affairs, and along several dimensions it has promulgated a policy of cooperation. China is preoccupied with its great tasks of political consolidation and economic construction, and it has adopted and manipulated a policy of interdependence in order to meet rapidly changing circumstances. However, it is important to emphasise that there exists a major constraint in achieving China's foreign policy objectives - the relative gains concern. In fact China has retained a mindset that has focused on a narrow definition of self-interest. It maintains territorial disputes and conflicts over sovereignty and identity, which go back many decades. Both weaker neighbours and stronger powers are suspicious of China's moves to interdependence.

Trans-border cooperation with China, such as the Mekong region, raises fears relating to economic, political and security matters. These fears are likely to inhibit border countries' cooperation.

## **Chapter Five. The Perspective of Jilin Province**

### **Introduction<sup>1</sup>**

While Mongolia and the two Koreas engage bureaucratically in the TRADP at central government level, China, like Russia, operates at two different levels with local and central governments. The main player would seem to be Jilin Province with its Hunchun Zone that, together with the central administration in Beijing, constitutes the Chinese side of the TRADP. While the next chapter will investigate the perspective of the Beijing government, Chapter Five will explore the provincial level perspective. This chapter will consider the ways in which Jilin Province is motivated mainly by its own local economic interests.

Divided into three parts, Part I will provide an overview of the evolution of the Chinese regional development policy. This helps understand the general background of the birth of the project and its status in Beijing's regional development policy. Part II will review the economic position of the three Northeast Chinese provinces that make up the Northeast Asia Regional Development Area (NEARDA), the largest development triangle of the TRADP. It will then examine the development strategies of the three provinces, which have targeted the TRADP as a means to access the East Sea. Part III will examine the rationale at various administrative levels for Hunchun development: Jilin Province, Yanbian Korean Autonomous Prefecture, and Hunchun City level. It will investigate the role played by these various administrative levels in the initial development of the TRADP. Finally, it will look at their institutional arrangements for operating the project.

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<sup>1</sup> Economic data for this chapter will be taken from the early 1990s as these were the relevant statistics at the times when the project was being developed.

## I. Evolution of regional development policy: An overview

Part I will provide an overview of the changing patterns in Chinese regional economic development, presenting a time-series policy review of the People's Republic of China (PRC)'s spatial strategies. This part thus helps us understand the place of the TRADP in China's current national development policy.

### 1. Regional development in the Pre-Tiananmen Period (1953-1989)

Mao's 1953-78 development strategy, despite the fact that there were several differing phases during this period, was basically an interior-focused strategy. The regional development policy was influenced by notions of regional balance as well as military strategy. The Third Front strategy (*sanxian zhanlue*)<sup>2</sup> developed to meet the projected threats of war by the US and the Soviet Union that prevailed through the 1960s until the mid-seventies.<sup>3</sup> Concentration of industry along the coastal region was avoided, because the coast was strategically exposed to foreign military attack (Yang, Dali, 1997: 16-7). The remote areas of the Northeast, North and Northwest were considered to be beyond the reach of the US in the event of a military strike. Later industry moved even further westward in light of the threat from either the US or the Soviet Union (Li & Fan, 1996: 56), and new projects were generally established in such third-front or remote areas. These included the provinces and regions of Sichuan, Guizhou, Shaanxi, Gansu, Qinghai, Ningxia, Guangdong, Hubei, Hunan and Shanxi. There was progressively more investment in the field of construction in third front areas: 20.6% in the First Five-Year Plan (FYP) (1953-57); 36.9% in the Second FYP; and 52.7% in the Third (1966-70) (Yang, Dali, 1997: 19). The third-front construction continued in the early 1970s.<sup>4</sup>

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<sup>2</sup> The Third Front was well developed by B. Naughton. See his work (1988).

<sup>3</sup> This strategy was formulated on the basis of the experiences of the Japanese invasion in the Second World War and the civil war against the Nationalist regime. These places named '*Shen*' (remote and concealed areas), '*Shan*' (mountains) and '*Dong*' (caves and tunnels). There were two third fronts. 'One was called the "Big Third Front" which covered national, strategic, interior safe areas in the country as a whole, comprising ten interior and remote provinces. The other was the "Small Third Front" which included strategic and interior safe areas at the provincial level' (Zhao & Gu, 1995: 389). For the strategic factors for the Third-front policy, see (Cannon, 1990: 36-9).

<sup>4</sup> Even though the interior continued to be out-produced by the coastal region, the third front was continued because the 1969 Sino-Soviet border clashes made third front construction a top priority in the domestic decision-making. In addition, it was both politically and economically difficult for the leadership to leave projects half-finished. The decentralisation in economic decision-making made it difficult for Beijing to control investment scale as various localities used technology funds under their control to build small third front projects in each locality (Yang, Dali, 1997: 20; Naughton, 1988: 362-4).

There was a reversal, however, in Mao's regional development policy towards the late 1970s, especially at the party's Thirty Plenum of the Eleventh Congress 1978. Younger leaders argued for some reforms and liberalisation, and against the huge coast-interior imbalance in development, which was seen as detrimental to strategic interests.<sup>5</sup> Regional specialisation and trade replaced the ideology of self-reliance,<sup>6</sup> and a 'Coastal Development Strategy' (CDS)<sup>7</sup> was adopted.

The change in thinking was motivated by a objective view of industrial and economic potential. The coastal regions had more developed infrastructures than the interior, and a more skilled workforce. The interior-based industrial projects were also in fact not as successful as had been expected, and they had not had the revitalising impact on the local economies as hoped (Yang, Dali, 1997: 23). Politically, the Cultural Revolution had come to an end. The government was facing criticism on all sides and needed some fresh ideas. Internationally, although China perceived a heightened threat from Soviet-led encirclement (Vietnam, Middle East, Afghanistan etc), by the end of the 1970s the environment was more less threatening than it had been until then and by 1982 the Chinese were able to assert a policy of interdependence between the two superpowers.<sup>8</sup> This eased the way for the leadership to make changes to catch up with economic development in the rest of the world that was racing far ahead in Japan, the NIEs and Taiwan.

The CDS, coming out of the Beneficial International Cycle (BIC),<sup>9</sup> aimed to maximise regional advantages, and also sought to attract foreign investment to revitalise the Chinese

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<sup>5</sup> One aspect was the difficulty of efficiently exploiting the resources in inland areas. The coast was being seriously disadvantaged by being cut off from distant raw materials processing and energy supply. Cost of transport had to be added to any production and the transport infrastructure was put under pressure. See State Statistical Bureau, *Guanghui de sanshiwu nian: 1949-1984* (Thirty-five glorious years: 1949-1984), Beijing: Zhongguo tongji chubanshe, 1984, cited in (Yang, Dali, 1997: 16).

<sup>6</sup> K. C. Yeh also observed some distinctive features of the new economic development approach during the first years of reform era, see his work (1984); For regional disparities on industrial sectors, see (Kueh, 1989: 424-430).

<sup>7</sup> The CDS was clearly favoured under the leadership of Hu Yaobang and Zhao Ziyang. Zhao further commented that 'the disparity [between the coastal region and the interior] was unavoidable and conformed to the law of economic development', according to Xinhua report on January 1988, quoted in (Yang, Dali, 1997: 87).

<sup>8</sup> Technically, relations with the US were normalised on 1 January 1979.

<sup>9</sup> According to Tzeng (1991: 272-3), the CDS concept originated from the notion of 'Beneficial International Cycle' (BIC), a framework formulated by Wang Jian, Research Fellow at the Institute of Planning Economics in the State Planning Commission (SPC). Wang Jian's BIC formulation, reflecting the policy position of the SPC, was published in June 1987. It was integrated into Zhao's notion of China's CDS Strategy. The essence of BIC consists of four major ideas: 'i) coastal areas should concentrate on developing export-oriented and labour-intensive industrialisation; ii) industries should seek both their raw materials and markets for their products

economy (Yang, Dali, 1997: 15). The Sixth FYP (1981-85) and Seventh FYP (1986-1990) were in marked contrast to the previous FYPs. In effect, the interior was abandoned as lacking in capital, in management, and in resources, and would have to survive by trickle down effects. The coastal regions were favoured, since these met the new conditions for development. The wording in the Seventh FYP is telling: the most effective way was 'to speed up the development of the coastal region, to put the emphasis on energy and raw materials construction in the central region, and to actively make preparations for the further development of the western region'<sup>10</sup> (Ibid.: 29).

Increasing economic growth became a key preoccupation for the Chinese government in the 1980s, and indeed the CDS worked, with GDP per capita growing at 8% per year, overall GDP by 14% and exports by over 12%. However, there was a widening gap between the coast and the interior, though a geographical version of the trickle-down effect (*waiyin neilian zhanlue*: the strategy of bringing in from the outside and spreading into the interior) still held sway dominant in the Chinese leadership.

The disparity grew so wide, however, that tensions between east and west were created, and resulted in the interior adopting its own closed market to protect itself.<sup>11</sup> In 1987 60% of gross national industrial output was based in the coastal region with 14% of the land area and 41.3% of the population (Yang, Dali, 1991a: 42). 80% of FDI went to coastal areas (Qiou et al., 1994: 61-5).

In late 1989 widespread complaints and discontent from the interior regions, as well as social concerns for equality forced Li Peng's government to think about achieving a more balanced regional development strategy. His government report and the State Planning Commission's guidelines for drafting the 'Eighth Five-Year Plan (1991-1995) and Ten-Year Planning for

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abroad and be more actively involved in earning foreign exchange and global competition; iii) industries should use their foreign exchange earnings to attract more foreign capital and technology for the development of heavy industry; and iv) once development of domestic heavy industrialisation is complete, the state could employ the funds to facilitate agricultural development'.

<sup>10</sup> For proposals for specialisation and differential development of the three regions, see Table: Macroregions of the Seventh Five-Year Plan (Cannon, 1990: 42).

<sup>11</sup> Competition among the regions over the processing industries that had yielded immediate and huge profits led to irrational duplications and resulted in the convergence of a sectoral structure among the regions and the wastage of productivity. The regions battled heatedly over raw materials in order that their processing potential would not become redundant. For the causes and evolution of 'economic warlordism', see (Li & Fan, 1996: 64); For the other pessimistic view of Chinese excessive regionalism and cases of conflicts among regions, see (Segal, 1994a).



the 1990s' were reworked and presented to the National People's Congress (NPC) Conference in 1990. It sought to gain interior support by highlighting once again the importance of interior development (Yang, Dali, 1991b: 68), and accepted slower economic progress, which was necessary to accommodate the remnants of the command economy.

## 2. New regional development policy in the Post-Tiananmen Period (1990- )

In May 1992 the Chinese Communist Party (CCP) adopted a new 'omni-directional, all-dimensional opening' approach (*quan fangwei duo chengci kaifang*), and in October 1992 the 14<sup>th</sup> NPC formally endorsed the full-scale open-door policy.<sup>12</sup> The omni-directional opening policy sought a more balanced regional development strategy supported by the '4-Yan Development strategy'. This aimed to broaden the reach of the open door policy from the existing coastal area (*Yanhai*) to the inland areas, including border areas (*Yanbian*) and inland cities/towns/counties along the Yangtze River (*Yanjiang*) and railway (*Yanxian*) (Kim, Icksoo, 1995b: 251-3). The primary rationale of the '4-Yan development strategy' was to 'revitalise the backward inland regions through the attraction of foreign capital and technology and also through the expansion of cross-border trade with neighbouring countries, and to accelerate the linking-up of the regional economies to the international economy. It also contains important measures for promoting co-ordinated regional economic development' (Li & Fan, 1996: 67).

In the *Yanbian* areas, in June 1991, as a way of co-operating with Commonwealth of Independent States (CIS) countries, Eastern Europe, and Central Europe, four northeastern cities and towns of Heihe, Shuifenhe (Heilongjiang), Hunchun (Jilin), and Manzhouli (Inner

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<sup>12</sup> The same year Deng Xiaoping launched his '*nanxun*' (southern tour) and encouraged the coastal development strategy, but the CCP officially adopted the omni-directional opening policy. The feasibility of omni-directional opening had been under careful study since the Tiananmen Crisis of June 1989. In April 1991, the Fourth Plenum of the 7<sup>th</sup> NPC decided to include the '3-Yan' regional development strategy in the Ten Year Plan and the Ninth FYP Socio-Economic Plan. The key points are as follows: Effort should be made to speed up the opening up to the world. China should actively join international economic development and promote its competitiveness, taking advantage of rich raw materials and the market (13<sup>th</sup> section, p. 15). However, it should consider the regional balance and reduce the gap between regions. From the Ninth FYP, China should give more help to the interior region and give some preferential policies as well. This is the best way to maintain social stability (15<sup>th</sup> section, pp. 15-6). As a concrete action, the united *Yin-Di Zhi-Yi* (the right plan in the right place) policy should be developed with the characters of division of labour, co-operative development, and taking its own advantages. The coast should reinforce export-oriented economy with foreign investment, raw material and market, while the interior should develop its own competitive power, using the support from the centre and the coast. The central government must support the minority and poor areas and take a lead its development (22<sup>nd</sup> section, pp. 23-25). See (*The 9.5 Plan and Long-term Sketchy Objectives up to 2010 Concerning National Economy and Social Development*: 1996).

Mongolia) were designated as border open cities, and in March 1992 were given economic management authority comparable to special economic zones. In August 1992 Dandong (Liaoning), Yining, Urumqi, Bole, and Tacheng (Xinjiang) and in June of the same year, seven southwestern towns bordering Vietnam, India, and Pakistan, including Nanning, Fengxiang, Dongxing (Guangxi), Kunming, Wanding, Luirui, and Hekou (Yunnan) were granted the same status aimed at cooperation with South and Southeast Asia (Kim, Icksoo, 1995b: 252).

A development plan around Pudong, the *Yanjiang* development, was introduced in September 1990. Beginning with the Three Gorges (*Sanxia*) Dam construction, this included proposals to open up the Yangtze all the way from the 'dragon head' city of Shanghai to Chongqing as a way of improving east-west and north-south communications, and the flow of economic development. Again, open cities were designated, at the Yangtze Delta Zone Conference in June 1992 - a total of 28 cities and 8 districts, and this was built on in August 1992 by giving the five cities of Chongqing, Yueyang, Wuhan, Jiujiang and Wuhu, the same status as the 14 open coastal cities (Ibid.).

A further 11 inland province capitals that were located along railroads (*Yanxian*) were also granted favourable tax status from August 1992 to March 1993. The Trans-China Railway (TCR) linking Lianyungang to Lanzhou to Urumqi was also targeted with a number of open cities being declared. In 1991 the number of open cities/towns/counties stood at 339, covering 545,000 km<sup>2</sup> and 230 million people (Ibid.: 252-3).

Since the establishment of the PRC, China has re-established its regional economic development policies and major economic regions for more balanced regional development and industrial efficiency. In the Eighth FYP period, the State Planning Committee (SPC) defined the four larger economic regions: Coastal, Inland, Minority and Poor (Wu, Jungha, 1994: 748-51).

**Table 5-1. Four larger economic regions**

| Coastal  | Inland  | Minority  | Poor  |
|--|---|---|---|
| Developing high-tech industries Restructuring old industries | Abundant resources & energy, Speeding up agricultural/ husbandry industry | Improving backward status, combining economic and resources development | Helping the region out of a poor situation, first |

Source: (Wu, Jungha, 1994: 750)

In February 1992, the SPC once more divided the whole country into 10 major economic zones: Northeast, Bohai, Yangtze Delta, South China, Yellow River Mid-stream, Yangtze Midstream, Yellow River Upstream, Yangtze Upstream, Xinjiang and Tibet.<sup>13</sup> This replaced the 'Third Front' approach of dividing China into the east, central and west: Each of the 10 economic zones is centred upon the identification of sectors that have comparative advantages in each region. However, the 10 major zones were revised in the Ninth Five-Year Plan (1996-2000) and the Ten Year Plan (1991-2000) finally produced seven: Northeast, Bohai-Rim, Yangtze Delta, South China, Southwest China, Central China, and Northwest.<sup>14</sup>

### **3. Concluding remarks**

Since the open-door policy, China has experienced rapid economic growth, but the continuing east-west gap pushed the Chinese leadership to revise the existing regional development policies and brought in a special concern for the non-coastal regions. The Chinese government chose the 'omni-directional opening policy' as a new regional development model to balance the regional gap. In order to maximise economic efficiency of each region, the Chinese territory has been divided into the Seven Major Economic Zones. Heilongjiang, Liaoning and Jilin became part of the Northeast Economic Zone.

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<sup>13</sup> For similar content but giving different names to the ten major economic zones, see (Yang & Liang, 1992).

<sup>14</sup> For the evaluation of the seven economic regions, see (Hu, Zhaoliang, 1997).

**Table 5-2. Major Economic Zones in China and Industries of Comparative Advantage**

| Economic Zones  | Provinces included in Each Zone                       | Priority Industries  |
|-----------------|---|--|
| Northeast       | Liaoning, Jilin, Heilongjiang, East of Inner Mongolia | Heavy industries (esp. steel, machinery, petrochemical ind.), agriculture, forestry, animal husbandry, food processing.      |
| Bohai-Rim       | Beijing, Tianjin, Hebei, Shanxi, Liaoning, Shandong   | High-tech ind., export-oriented light ind., marine products.   |
| Yangtze Delta   | Shanghai, Jiangsu, Zhejiang                           | High-tech ind. (esp. electronics, semi-conductor), finance, real estate, telecom., information.                              |
| South China     | Guangdong, Fujian, Hainan                             | Export-oriented light ind., finance & insurance, real estate   |
| Southwest China | West of Guangdong, Guangxi, Yunnan, Guizhou, Sichuan  | Energy development, heavy ind., space & aeronautics, timber processing, agriculture, forestry                                |
| Central China   | Anhui, Jiangxi, Hubei, Hunan, Henan                   | River transportation, light ind., food processing.   |
| Northwest       | Gansu, Qinghai, Ningxia, Shaanxi, Xinjiang, Tibet     | Agriculture, forestry, Hydraulic power, energy, foodstuff, raw materials, heavy ind., Petroleum & petro-chemical agriculture |

\* Ind. (Industry)

Source: (*Guojia Jiwei*, 1996: 54-9; *Jilin Ribao*, 20 March, 1996; The Ninth Five-Year Socio-Economic Plan (1996-2000) & the Ten-Year Plan (1991-2000).

## II. The three Northeast provinces

This part notes the geographical location, trade and investment figures, and the economic situation of the three Northeast Chinese provinces. It then looks at the development strategy of the Northeast Economic Zone (NEEZ), under which the three provinces are allocated in China's regional development policy.

### 1. Background

#### 1.1 Geography

With about 800,000 sq. km (8.2%) of the total Chinese territory (9,600,000 sq km) and a population of about 102.4 million in 1994, the NEEZ, one of China's major seven economic zones, is located in the Northeastern part of China and comprises the three provinces of Liaoning, Heilongjiang and Jilin (UNIDO, 1995a: 2). The relatively advantageous geographical position includes a maritime coastline in Liaoning province<sup>15</sup> that extends to

<sup>15</sup> Of the three Northeast provinces, Liaoning Province belongs to the east coastal district and Jilin and Heilongjiang provinces to the interior.

2,180 km, with 4 ports for external contact; and a land and riverine border of over 7,000 km with more than 20 ports for foreign trade (Li, Bing, 1992: 90).

**Table 5-3. Basic information of Northeast China, 1991**

|          | Population 1991 |     | Area 1991 |     | GNP 1991 |      | Industrial Product 1990 |      | Agricultural Product 1990 |     |
|----------|-----------------|-----|-----------|-----|----------|------|-------------------------|------|---------------------------|-----|
|          | 10m             | %   | 1m sq. km | %   | 100mr    | %    | 100mr                   | %    | 100mr                     | %   |
| National | 1,200.00        |     | 9.60      |     | 19,875   |      | 6,610                   |      | 5,000                     |     |
| HLJ      | 35.75           | 3.1 | 0.45      | 4.7 | 732      | 3.7  | 315                     | 4.8  | 160                       | 3.2 |
| Jilin    | 25.09           | 2.2 | 0.18      | 1.9 | 424      | 2.1  | 164                     | 2.5  | 125                       | 2.5 |
| LN       | 39.90           | 3.4 | 0.14      | 1.5 | 1,073    | 5.4  | 468                     | 7.1  | 167                       | 3.3 |
| Total    | 100.74          | 7.7 | 0.78      | 8.2 | 2,229    | 11.2 | 947                     | 14.3 | 452                       | 9.0 |

\*m (million); mr (million RMB); HLJ (Heilongjiang); LN (Liaoning)

Source: (Wu, Jungha, 1994: 822).

**Table 5-4. Economic growth of the three Northeast Chinese provinces (%)**

|         | National average | Heilongjiang | Jilin | Liaoning |
|---------|------------------|--------------|-------|----------|
| 1952-78 | 6.0              | 6.3          | 5.5   | 7.3      |
| 1979-89 | 9.0              | 6.2          | 8.5   | 8.8      |
| 1989    | 4.4              | 5.0          | 4.1   | 2.3      |
| 1990    | 4.1              | 4.5          | 3.5   | 0.3      |
| 1991    | 7.7              | 3.9          | 4.9   | 5.5      |

Source: (Wu, Jungha, 1994: 823).

## 1.2 Trade

In 1993 total trade for the whole of China was US\$ 104 billion in imports as shown in Table 5-5. Of this total, 30% of exports and 33% of imports were with countries of Northeast Asia. Trade with Japan dominated, accounting for 70% of regional trade. The three Northeastern provinces show a higher percentage of China's regional trade: 61% in exports and 65% in imports, suggesting a stronger sub-regional dependency. Major trade partners are Japan (31% of exports and 25% of imports), and Russia (16% of exports and 28% of imports) (ERINA, 1996: 36-7).

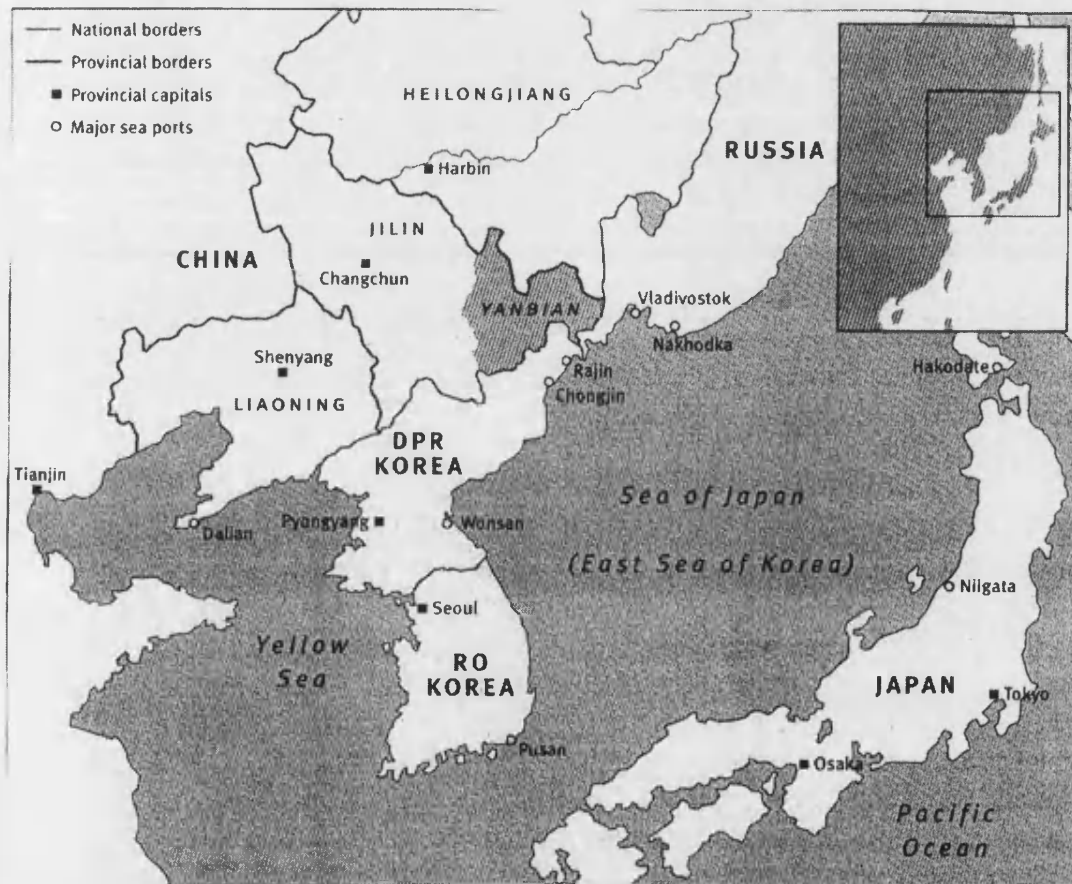
## 1.3 Investment

Total investment in fixed assets in the three Northeastern provinces was RMB129 billion yuan, representing 10.4% of national investment in 1993, as against 12.4% in 1985. This is lower than the share in national GDP, which is 11.3%. The investment GDP ratio was 40% in Liaoning, 38% in Jilin, and 30% in Heilongjiang. On a national basis, the share of investment from the government budget decreased from 16% in 1985 to 3.7% in 1993, while foreign

sourcing and domestic loan sourcing increased (ERINA, 1995: 9, 37). The 1993 share of the three Northeastern provinces was approximately 6.4% compared to the 11% share in GDP. Of the three provinces, Liaoning received the lion's share of investment (4.7%) while contributing 5.7% in GDP. Most investment in 1994 (53.7%) came from other parts of China, although Japan contributed 5.1% and the US, 4.3%. The major area of investment was industry (49.7%) (ERINA, 1996: 31). The share of foreign capital in total investment in fixed assets was 9.3% in Liaoning (Coastal Bohai), exceeding the national average of 7.3%, but in Heilongjiang and Jilin it was 4.3% and 5.2% respectively (ERINA, 1995: 9, 37).

**Figure 5-1. The three Northeast provinces**

Source: (UNIDO, 1995a)



**Table 5-5. Trade Matrix, 1993**

| Exporting countries | Importing countries and provinces | China   |         |        | S. Korea | Japan   | Russia |          |        | N. Korea   | Mongolia | Others    | World                |
|---------------------|-----------------------------------|---------|---------|--------|----------|---------|--------|----------|--------|------------|----------|-----------|----------------------|
|                     |                                   | Total   | 3 prov. | Others |          |         | Total  | Far East | Others |            |          |           |                      |
| China               |                                   | -       | -       | -      | 3,929    | 20,565  | *2,692 | 582      | 2,110  | 643<br>(1) | 82       | 63,852    | *91,763              |
|                     | 3 Prov.                           | -       | -       | -      | *704     | *3,040  | *1,591 | n.a.     | n.a.   | 612        | n.a.     | 3,765     | *9,712               |
|                     | Others                            | -       | -       | -      | 3,225    | 17,525  | 1,101  | n.a.     | n.a.   | 31         | n.a.     | 60,170    | 82,051               |
| South Korea         |                                   | *5,151  | 226     | 4,925  | -        | 11,678  | *601   | 69       | 532    | 8          | *4       | 64,807    | *82,250              |
| North Korea         |                                   | 359 (2) | 359     | 0      | 178      | 252     | 54     | 2        | 52     | -          | n.a.     | 357       | *1,200               |
| Russia              |                                   | 4,988   | 1,317   | 3,671  | 975      | 2,769   | -      | -        | -      | 188        | 157      | 35,220    | *44,297              |
|                     | Far East                          | 607     | n.a.    | n.a.   | 97       | 869     | -      | -        | -      | *10        | *6       | 234       | *1,823               |
|                     | Others                            | 4,381   | n.a.    | n.a.   | 878      | 1,900   | -      | -        | -      | 178        | 151      | 34,986    | 42,474               |
| Japan               |                                   | 23,283  | 1,179   | 22,104 | 20,016   | -       | *1,501 | 223      | 1,278  | 220        | *19      | 315,873   | *360,911             |
| Mongolia            |                                   | 69      | n.a.    | n.a.   | 4        | 27      | 81     | 0.1      | 81     | n.a.       | -        | 201       | *383                 |
| Others              |                                   | 70,100  | 1,685   | 68,484 | 58,879   | 205,378 | 21,878 | 342      | 21,537 | 571        | 117      | -         | *3,192,896           |
| World               |                                   |         |         |        |          |         |        |          |        |            |          |           | 3,773,700<br>Imports |
|                     |                                   | 103,950 | 4,766   | 99,184 | 83,980   | 240,670 | 26,807 | 1,217    | 25,591 | 1,630      | 379      | 3,275,634 | 3,733,050<br>Imports |

Note: Either data from exporting country or importing country is used whenever the value is larger than the other to cover broader range of trade.

\* Data from exporting countries

The exports-imports of North Korea, and the three northeast provinces of China. Others include Mongolia.

The exports-imports of Mongolia, and the three northeast provinces of China.

Source: (ERINA, 1996: 26)



**Table 5-6. China's Share of Total Exports with Particular Countries, 1993**

| Exporting countries | Importing countries and provinces | China |         |        | S. Korea | Japan | Russia |          |        | N. Korea | Mongolia | Others | World  |
|---------------------|-----------------------------------|-------|---------|--------|----------|-------|--------|----------|--------|----------|----------|--------|--------|
|                     |                                   | Total | 3 prov. | Others |          |       | Total  | Far East | Others |          |          |        |        |
| China               |                                   | -     | -       | -      | 4.28     | 22.41 | 2.93   | 0.63     | 2.30   | 0.70     | 0.09     | 69.58  | 100.00 |
|                     | 3 prov.                           | -     | -       | -      | 7.25     | 31.30 | 16.38  | n.a.     | n.a.   | 6.30     | n.a.     | 38.77  | 100.00 |
|                     | Others                            | -     | -       | -      | 3.93     | 21.36 | 1.34   | n.a.     | n.a.   | 0.04     | n.a.     | 73.33  | 100.00 |
| S. Korea            |                                   | 6.26  | 0.27    | 5.99   | -        | 14.20 | 0.73   | 0.08     | 0.65   | 0.01     | 0.00     | 78.79  | 100.00 |
| Japan               |                                   | 6.45  | 0.33    | 6.12   | 5.55     | -     | 0.42   | 0.06     | 0.35   | 0.06     | 0.01     | 87.52  | 100.00 |
| Russia              |                                   | 11.26 | 2.97    | 8.29   | 2.20     | 6.25  | -      | -        | -      | 0.42     | 0.35     | 79.51  | 100.00 |
|                     | Far East                          | 33.30 | n.a.    | n.a.   | 5.33     | 47.67 | -      | -        | -      | 0.55     | 0.33     | 12.83  | 100.00 |
|                     | Others                            | 10.31 | n.a.    | n.a.   | 2.07     | 4.47  | -      | -        | -      | 0.42     | 0.36     | 82.37  | 100.00 |
| N. Korea            |                                   | 29.92 | 29.92   | 0      | 14.85    | 21.03 | 4.50   | 0.18     | 4.32   | -        | n.a.     | 29.70  | 100.00 |
| Mongolia            |                                   | 18.03 | n.a.    | n.a.   | 1.04     | 7.18  | 21.17  | 0.03     | 21.14  | n.a.     | -        | 52.58  | 100.00 |
| Others              |                                   | 2.20  | 0.05    | n.a.   | 1.84     | 6.43  | 0.69   | 0.01     | 0.67   | 0.02     | 0.00     | 88.82  | 100.00 |
| World               |                                   | 2.78  | 0.13    | n.a.   | 2.25     | 6.45  | 0.72   | 0.03     | 0.69   | 0.04     | 0.01     | 87.75  | 100.00 |

Note: Percentages have been calculated from the above.

Source: (ERINA, 1996: 27)

**Table 5-7. China's Share of Total Imports with Particular Countries, 1993**

| Exporting countries | Importing countries and provinces | China  |         |        | S. Korea | Japan  | Russia |          |        | N. Korea | Mongolia | Others | World  |
|---------------------|-----------------------------------|--------|---------|--------|----------|--------|--------|----------|--------|----------|----------|--------|--------|
|                     |                                   | Total  | 3 prov. | Others |          |        | Total  | Far East | Others |          |          |        |        |
| China               |                                   | -      | -       | -      | 4.68     | 8.54   | 10.04  | 47.80    | 8.25   | 39.45    | 21.64    | 1.95   | 2.43   |
|                     | 3 prov.                           | -      | -       | -      | 0.84     | 1.26   | 5.94   | n.a.     | n.a.   | 37.55    | n.a.     | 0.11   | 0.26   |
|                     | Others                            | -      | -       | -      | 3.84     | 7.28   | 4.11   | n.a.     | n.a.   | 1.90     | n.a.     | 1.82   | 2.17   |
| S. Korea            |                                   | 4.96   | 4.74    | 4.97   | -        | 4.85   | 2.24   | 5.65     | 2.08   | 0.52     | 1.06     | 1.98   | 2.18   |
| Japan               |                                   | 22.40  | 24.74   | 22.29  | 23.83    | -      | 5.60   | 18.30    | 4.99   | 13.48    | 5.01     | 9.64   | 9.56   |
| Russia              |                                   | 4.80   | 27.63   | 3.70   | 1.16     | 1.15   | -      | -        | -      | 11.51    | 41.42    | 1.08   | 1.17   |
|                     | Far East                          | 0.58   | n.a.    | n.a.   | 0.12     | 0.36   | -      | -        | -      | 0.61     | 1.58     | 0.01   | 0.05   |
|                     | Others                            | 4.21   | n.a.    | n.a.   | 1.05     | 0.79   | -      | -        | -      | 10.90    | 39.84    | 1.07   | 1.13   |
| N. Korea            |                                   | 0.35   | 7.53    | 0.0    | 0.21     | 0.10   | 0.20   | 0.18     | 0.20   | -        | n.a.     | 0.01   | 0.03   |
| Mongolia            |                                   | 0.07   | n.a.    | n.a.   | 0.0      | 0.01   | 0.30   | 0.01     | 0.32   | n.a.     | -        | 0.01   | 0.01   |
| Others              |                                   | 67.44  | 35.35   | 69.04  | 70.11    | 85.34  | 81.61  | 28.07    | 84.16  | 35.05    | 30.87    | 85.34  | 84.61  |
| World               |                                   | 100.00 | 100.00  | 100.00 | 100.00   | 100.00 | 100.00 | 100.00   | 100.00 | 100.00   | 100.00   | 100.00 | 100.00 |

Note: Percentages have been calculated from the above.

Source: (ERINA, 1996: 28)

**Table 5-8. China's share of export and import partners (%).**

| Country or area | Exports |       |       | Imports |       |       |
|-----------------|---------|-------|-------|---------|-------|-------|
|                 | 1985    | 1989  | 1993  | 1985    | 1989  | 1993  |
| S. Korea        | 1.75    | 3.25  | 4.28  | 0.09    | 0.74  | 4.96  |
| Japan           | 2370    | 21.21 | 22.41 | 35.58   | 17.81 | 22.40 |
| Russia          | 3.64    | 3.52  | 2.93  | 3.32    | 3.63  | 4.80  |
| Russian FE      | n.a.    | n.a.  | 0.63  | n.a.    | n.a.  | 0.58  |
| N. Korea        | 0.85    | 0.72  | 0.70  | 0.61    | 0.31  | 0.35  |
| Mongolia        | 0.02    | 0.04  | 0.09  | 0.01    | 0.02  | 0.07  |
| Others          | 70.04   | 71.26 | 69.58 | 61.38   | 77.49 | 67.44 |

Source: *Analytical Overview and country Studies*, (ERINA, 1996: 29).

**Table 5-9. Foreign direct investment in the three Northeast Provinces (accumulated up to 1997)**

|                    | Number of invested projects | %      | Actual amount (US\$ 1m) | %      | Amount per capita (US\$) |
|--------------------|-----------------------------|--------|-------------------------|--------|--------------------------|
| China: Total       | 304,821                     | 100.00 | 2,218                   | 100.00 | 179                      |
| 3 provinces: Total | 26,771                      | 8.78   | 139                     | 6.27   | 132                      |
| Helongjiang        | 5,375                       | 1.76   | 25                      | 1.11   | 67                       |
| Jilin              | 4,879                       | 1.60   | 19                      | 0.84   | 72                       |
| Liaoning           | 16,517                      | 5.42   | 95                      | 4.30   | 230                      |

Source: Chinese Ministry of Foreign Trade and Economic Cooperation 'Statistics of Foreign Investment', 1998, (Wang, Zhile, 1999: III-2-5).

**Table 5-10. Direct investment in China**

| Investing country | Direct investment 1993         |           |                             |           | Total trade amount 1993 |           |
|-------------------|--------------------------------|-----------|-----------------------------|-----------|-------------------------|-----------|
|                   | Number of registered contracts |           | Registered investment value |           | Millions of US dollars  | Share (%) |
|                   | Number                         | Share (%) | Millions of US dollars      | Share (%) |                         |           |
| Japan             | 3,488                          | 4.2       | 2,960                       | 2.7       | 43,848                  | 22.4      |
| South Korea       | 1,748                          | 2.1       | 1,557                       | 1.4       | 9,080                   | 4.6       |
| Russia            | 397                            | 0.5       | 160                         | 0.1       | 1,189                   | 3.9       |
| North Korea       | 73                             | 0.1       | 52                          | 0.0       | 1,002                   | 0.5       |
| +Mongolia         | 16                             | 0.0       | 4                           | 0.0       | 151                     | 0.1       |
| Others            | 77,175                         | 93.1      | 106,703                     | 95.8      | 140,443                 | 68.5      |
| Total             | 83,437                         | 100.0     | 111,436                     | 100.0     | 195,713                 | 100.0     |

Investment actual amount in 1994 US\$ 550 million

Source: *Statistical Yearbook of Foreign Economy and Trade in China, 1994-95*, (ERINA, 1996: 34).

**Table 5-11. Direct investment in China - Northeast provinces**

| Investing country | Direct investment to two provinces – Liaoning and Jilin 1993 |           |                             |           | Trade amount of three provinces 1993 |           |
|-------------------|--|-----------|-----------------------------|-----------|--------------------------------------|-----------|
|                   | Number of registered contracts                               |           | Registered investment value |           | Millions of US dollars               | Share (%) |
|                   | Number   | Share (%) | Millions of US dollars      | Share (%) |                                      |           |
| Japan             | 652.0  | 11.9      | 336.0                       | 7.4       | 4,219                                | 29.1      |
| South Korea       | 680.0  | 12.4      | 287.0                       | 6.3       | 930                                  | 6.4       |
| Russia            | 33.0   | 0.6       | 12.0                        | 0.3       | n.a.                                 | n.a.      |
| North Korea       | 21.0   | 0.4       | 11.0                        | 0.2       | 971                                  | 6.7       |
| Others            | 4,102.0  | 74.7      | 3,916.0                     | 85.8      | 8,358                                | 57.7      |
| Total             | 5,488.0  | 100.0     | 4,562.0                     | 100.0     | 14,478                               | 100.0     |

Source: *Statistical Yearbook of Foreign Economy and Trade in China, 1994-95*, (ERINA, 1996: 34).

#### 1.4 The development of Northeast China

Prior to the adoption of the policy of economic reform and openness in December 1978, the Northeastern part of China was relatively well known for its heavy industries and agriculture. Economically speaking, in certain areas of production it was strong as a percentage of national production: more than half percent of grain, 36% of timber, 20% of its steel, 17% of its coal and 15% of its grain in 1992. It was quite inward looking (Zhou, Yuan, 1995: 276-7).

During the Mao period the industrial Northeast was regarded on as one of the country's main industrial bases, with many important industries from heavy industry to chemical production located there and run from Beijing. In the 1950s most projects sponsored by the Soviet Union were centred in the three Northeast provinces. In terms of national GNP share and industrial product the rankings of these three provinces were respectively: Liaoning, 2<sup>nd</sup> (12%) and 2<sup>nd</sup> (14.9%); Heilongjiang, 4<sup>th</sup> (5.9%) and 3<sup>rd</sup> (6.6%); and Jilin, 17<sup>th</sup> (3.0%) and 13<sup>th</sup> (3.5%). From the Table 5-4, we can see that the economic growth in 1952-78 of Heilongjiang and Liaoning was higher than the national average, but that of Jilin's was below. However, from the 1960s, when state investment shifted toward the southwest and was reduced in the NEEZ, all three provinces experienced economic stagnation. In 1991, Liaoning was fifth in terms of national GNP share (5.4%) and industrial production (4.2%). Heilongjiang was the 12<sup>th</sup> (3.7%) and 11<sup>th</sup> (2.3%), and Jilin 21<sup>st</sup> (2.1%) and 16<sup>th</sup> (1.5%) respectively (Wu, Jungha, 1994: 823).

In 1990 the GNP of the three provinces together reached RMB199.6 billion yuan in GNP. Industrial and agricultural output stood at around RMB373 billion yuan. Most of this was industrial output (RMB302.2 billion yuan). Industrial fixed assets were valued at RMB255.3 billion yuan (net value RMB174 billion yuan) (Li, Bing, 1992: 87). While secondary industries decreased during the Seventh FYP (1985-90), dropping from 60.4% in 1985 to 53.6% in 1990 as a proportion of GNP, primary industry grew 19.8% to 22.6% of GNP in the same period and tertiary from 19.8% to 23.8%. This was as a result of increased focus on the latter (Touma, 1992: 292-6).

#### 1.5 Northeast phenomenon

Economic reforms in the three Northeastern provinces have not been as fast as in the Southern regions of China. Since 1978 Chinese economic growth has been led by small-scale collectives and private enterprises. Heilongjiang and Jilin have continually fallen behind economic growth rates in the southern coastal provinces of Jiangsu and Guangdong (Yahuda,

1994: 257). In 1997 the national earnings average was US\$179 per capita, in the three Northeast provinces this figure was US\$132. It was even lower in Heilongjiang Province (US\$67) and Jilin Province only managed US\$72 (Wang, Zhile, 1999: III-2-5). The figures for foreign trade and investment are given in Table 5-11. Guangdong and Liaoning both have double-digit percentages of total national exports. But Guangdong is far ahead of Liaoning, while Heilongjiang and Jilin make up only 2-3%. The same trend can be seen in terms of imports. Apart from Guangdong, all the provinces score badly. Guangdong has also a huge lead (41.9%) in attracting direct investment (Kuribayashi, 1993: 51). This is because Guangdong has been the most open to the outside world.

The south has a definite economic advantage, which shows itself in growth figures. The southern coastal provinces have used light industry as a vehicle for development, with capital injections from foreign or private companies. Thus the private sector and small scale collectives have played a strong role. In the three Northeast provinces there are still many state-owned heavy and chemical industries. These generally have low productivity, out of date facilities and excess human resources. As a result the Northeast's share of the national economy has declined (ERINA, 1996: 35-6). In addition there are disadvantages to the Northeast which arise from the type of industry located there and national price mechanisms. The Northeast supplies much energy and raw materials to the light industry in the south. Not only does heavy industry require more capital expenditure, but also the products, especially energy, have been highly subsidised to support the growing South. The management structures of the Northeast and the South are also radically different, the South being open to much more foreign investment, and thus more efficiency, which will perpetuate the imbalance in growth (Kuribayashi, 1993: 51).

In the National People's Congress in March 1993, governor Yue Qifeng of Liaoning identified the Northeast situation as arising from too long an influence of the planned economy. The Northeast was not only technically behind, but was also behind in ideological terms (Yahuda, 1994: 257). Thus terminology such as the 'Northeast Phenomenon' was popularly used to describe economic stagnation in the three Northeast provinces. In short the following can be identified to help explain the phenomenon: i) no industrial balance between heavy and light industries; ii) out-dated facilities; iii) lack of financial support; iv) a dualistic structure between industry and agriculture; v) delayed starting of open-door policy; vi) economic inefficiency; vii) poor infrastructure; viii) insufficient leadership; and ix) the legacy

of Soviet style focus on heavy industry and large State-owned enterprises (SOEs) (Wu, Jungha, 1994: 823-4; Yuan & Huang, 1995: 10-18; Li & Li: 1996).

**Table 5-12. Principal Economic Indicators for Provinces**

|              | Growth Rate: % |      | National Income (Y)    | Y Share | Per Capita Y | Accumulative Rate | Manufacturing Y | Ratio of Heavy Industry | Ratio of State Enterprise |
|--------------|----------------|------|------------------------|---------|--------------|-------------------|-----------------|-------------------------|---------------------------|
|              | 1984-89        | 1990 | 1990: 100 Million yuan | 1990: % | 1990: yuan   | 1989: %           | 1989: %         | 1990: %                 | 1991: %                   |
| Heilongjiang | 6.4            | 4.2  | 574.9                  | 4       | 1,659.00     | 33.6              | 59.8            | 66.4                    | 80.9                      |
| Jilin        | 7.8            | 4.2  | 336.9                  | 2.3     | 1,383.00     | 30.8              | 53.2            | 58.1                    | 71.8                      |
| Liaoning     | 8.5            | 2.9  | 783.8                  | 5.4     | 1,990.00     | 33.7              | 62.4            | 67.4                    | 60.2                      |
| Beijing      | 7.8            | 6.4  | 367                    | 2.5     | 3,577.00     | 53.6              | 60.8            | 56                      | 59.1                      |
| Tianjin      | 7.1            | 3.4  | 244.1                  | 1.7     | 2,842.00     | 41.8              | 64.3            | 49                      | 55.9                      |
| Shandong     | 10.4           | 8.8  | 1,144.20               | 7.9     | 1,350.00     | 42.3              | 50.4            | 49.2                    | 4                         |
| Jiangsu      | 10.8           | 6.2  | 1,138.30               | 7.9     | 1,695.00     | 40.5              | 54.3            | 45.3                    | 33.1                      |
| Shanghai     | 7.5            | 5.2  | 617/2                  | 4.3     | 4,822.00     | 50.9              | 71.6            | 48.1                    | 64.9                      |
| Zhejiang     | 12.7           | 9.9  | 726.5                  | 5       | 1,717.00     | 39.4              | 50              | 34.8                    | 58.2                      |
| Fujian       | 12.1           | 11.2 | 388.8                  | 2.7     | 1,313.00     | 30.6              | 41.2            | 38                      | 40.7                      |
| Guangdong    | 13.4           | 14.3 | 1,132.20               | 7.8     | 1,842.00     | 35.6              | 42.3            | 32.5                    | 38.2                      |
| Nationwide   | 9.2            | 5.9  | 14,429.00              | 100     | 1,267.00     | 34.3              | 47.4            | 50.6                    | 52.8                      |

Source: Compiled from *Statistical Yearbook of China*, various issues, cited in (Kuribayashi, 1993: 52).

**Table 5-13. Principal Indicators of External Economic Relations for 1990**

|                   | Export<br>\$100<br>million | Export | Imports<br>\$100<br>million | Import | Degree of<br>Dependence<br>upon<br>Foreign<br>Trade | National<br>Income | Foreign<br>Capital<br>Utilised<br>\$10,000 | Foreign<br>Capital<br>Utilised | Direct<br>Investment<br>\$10,000 | Direct<br>Invest-<br>ment |
|-------------------|----------------------------|--------|-----------------------------|--------|---|--------------------|--|--------------------------------|----------------------------------|---------------------------|
| Heilongjiang      | 10.9                       | 1.8    | 4.1                         | 0.8    | 12.3  | 4                  | 4,695                                      | 0.5                            | 2,449                            | 0.7                       |
| Jilin             | 7.5                        | 1.2    | 2                           | 0.4    | 13.4  | 2.3                | 3,085                                      | 0.3                            | 1,760                            | 0.5                       |
| Liaoning          | 56                         | 9      | 7                           | 1.3    | 37.9  | 5.4                | 72,739                                     | 7.1                            | 24,373                           | 7                         |
| Inner<br>Mongolia | 3.2                        | 0.5    | 1.6                         | 0.3    | 9.8   | 1.6                | 1,064                                      | 0.1                            | 1,064                            | 0.3                       |
| Guangdong         | 105.6                      | 17     | 57.5                        | 10.8   | 20.8  | 7.8                | 201,541                                    | 19.6                           | 146,000                          | 41.9                      |
| Nationwide        | 620.1                      | 100    | 533.5                       | 100    | 38.5  | 100                | 1,028,939                                  | 100                            | 348,711                          | 100                       |

Source: Compiled from *Prefecture Statistical Yearbook 1991*, cited in (Kuribayashi, 1993: 52).



## 2. Development strategies of the three Northeast provinces

The Northeast Economic Zone (NEEZ) has an advantageous geographical position, ample resources, technology and openness to the outside world. Many commentators and local functionaries feel that in order to make the most of these advantages, the future development of the economy should focus on the careful and thorough processing of resources. To establish the area as an economic trade zone, planners recognised the need for higher-level industries and the use of new and advanced technology (Li, Bing, 1992: 90-1).

Local leaders now say that sub-regional economic cooperation is the best way out of economic stagnation. They would like to see the NEEZ maximise its own geographical advantages, open to the North and cooperate more with Russia, Mongolia and other Far East Asian countries. They support involvement with Bohai Sea economic cooperation and see the Pacific Ocean as a means to access the rest of the world. Thus they favour committed and active international cooperation and economic integration to cultivate internationalised economic 'hot spots' (Zhou, Yuan, 1995: 298).

In recent years, the three Northeast provinces have established a more progressive foreign investment introduction strategy to promote the economic development of this region (Wang, Zhile, 1999: III-2-6; See also Jian, Chuan, 1995: 18-21; Lu, Jianren, 1995: 56-70; Lu, Yanhua, 1996).

Liaoning Province<sup>16</sup> has undertaken the reform of large and medium size state-owned enterprises using foreign investments to improve existing manufacturing bases and promote the industrial structural adjustments of the entire province. This has been achieved through various means such as direct investments from foreign enterprises, transfer of shares and management rights, overseas loans, and Chinese-foreign joint ventures.

In Heilongjiang Province there has been comprehensive development of agriculture and agricultural processing, technological reform of the large and medium size state-owned enterprises, improvements in infrastructure, and development in high-tech industries and

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<sup>16</sup> This view is limited to the coastal Liaoning. In terms of economic development Liaoning can be divided into an advanced coastal belt and a more stagnant interior.

township and village enterprises. The five major industries, namely, automotive, petrochemicals, foods, medicines, and electronics have been cultivated.

In Jilin Province agricultural construction has been enhanced and industrialisation of agriculture promoted. Two major industries - automotives and petrochemicals - have been encouraged, and three major industries - foods, medicines, and electronics – have been developed.

The regional layout for economic development in the NEEZ can be depicted as a ‘three strips and one zone’ model differentiated by their different functions, that roughly corresponds to the 4-*Yan* policy. Below is a summary of Zhou’s description of the 4-*Yan* policy (Zhou, Yuan, 1995: 300-302).

#### *Coastal Economic Strip Centred at Dalian (Yanhai)*

The Coastal Economic Strip stretches from Dandong in the east to Shanghaiguan Pass in the west. This includes the six cities of Dalian, Dandong, Yingkou, Panjin, Jingzhou, and Jinxi and 12 counties under their jurisdiction. It puts Dalian harbour as the centre and Dandong, Yingkou and Jingzhou as its wings. The strip, the southern front for the vast Northeast inland, serves as its ‘window’ to the outside world. It can play the role of ‘pace-setter’ in attracting foreign advanced technologies. Speeding up the development of the Strip is of great significance in promoting the overall economic development of the region and the prosperity of the Bohai-rim area.

#### *Border Economic Development and the Opening Strip (Yanbian and Yanjiang)*

All the provinces in the NEEZ border neighbouring countries and have long inland borders. The Border Economic Development and Opening Strip has 36 cities and counties, with 8 million people, making up 7.1% of the total population of the region. Having abundant resources of land, forestry, hydraulic power, coal, non-ferrous metals and tourism resources, the strip boasts some large and medium sized industrial and mining cities like Dandong, Hunjiang, Jixi etc. and relatively efficient communications backed up by the hinterland cities. Manzhouli, Heihe, Suifenhe and Hunchun were approved at state level as open port border cities.

### *Economic strip with Harbin-Dalian Railroad as the Axis (Yanxian)*

With a population of 50 million, the Economic Strip with Harbin-Dalian Railroad as the Axis starts from Dalian in the south and ends at the Harbin-Dalian railroad and road. In 1991 its GNP reached RMB130 million yuan, 54% of the region's GNP. Gross Industrial Product (GIP) was RMB240 billion yuan, or two thirds of that of the whole region. The GNP and GIP per capita in the strip are 22% and 49% higher than that of the whole region respectively. It is the heartland of the Northeast. Iron and steel, oil and chemistry, automobile manufacturing, heavy-duty machinery and equipment are all located in the strip. Speeding up the development of this area is the key to reinvigorating the old industrial base.

### *Western Resources Development Zone*

The Western Resources Development Zone includes the cities of eastern Inner Mongolia, Chaoyang city of Liaoning Province, Baicheng Prefecture of Jilin Province and Daxinganling area of Heilongjiang Province. The population of the zone is 1.7 million, 14.8% of the region's total. Most of the area is very weak in terms of its economic foundations. There are vast land resources but a small population living off agriculture and husbandry. But with abundant natural resources, it can be built into a base within the NEEZ for energy, forestry, husbandry and non-ferrous metal mining and refining.

Meanwhile, the NEEZ's basic disadvantage is its lack of direct access to the East Sea. Most international goods have to come through Dalian in Liaoning Province. That is the main port, although there are others such as Yingkou, Jinzhou, Dandong. The main transport artery of Northeast China is the Harbin-Changchun-Shenyang-Dalian route, and this is very much determined by geography. Land transport is mainly by railway and capacity is over-stretched (Lee, Chanwoo, 1999: 170-1).<sup>17</sup> The end of the Cold War brought new possibilities to the land-locked provinces such as Jilin and Heilongjiang. It became relatively easy to develop some border trade with Russia. But the key to real regional cooperation for these two provinces is a permanent link to the East Sea. Since October 1995, Jilin Province has had some access through Rajin, as well as a limited weekly link to Pusan, South Korea. Now road and train links to Zarubino Port in Russia have been established which provides another route to the outside world for Jilin Province (Ye, Shunzan, 1997: 33-4).

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<sup>17</sup> Dalian was the largest sea port until 1995, mostly exporting grains and oil, but since 1996, with the dramatic decrease in the export of those products, the freight volume it handles is behind Shanghai, Tianjin, and Yangpu, which mostly handle general goods (Lee, Chanwoo, 1999: 171).

### **3. Concluding remarks**

The three provinces of the NEEZ had been outrun economically by other coastal provinces since they were privileged with special economic status in 1978. The condition and status of the region within the Chinese economy was termed the 'Northeast Phenomenon'. To overcome with their economic difficulties, the provinces had tried to secure economic support from the central government, claiming as advantages their geographical position, ample resources, technology and openness to the outside world. Within the NEEZ, the provinces have also individually made their own economic policies and set up economic zones.

## **III. TRADP and Jilin Province**

Part III examines the rationale of the development strategies of the various administrative levels for Hunchun development. Hunchun development is the Chinese component of TRADP involving Jilin Province, Yanbian Korean Autonomous Prefecture, and Hunchun City. This part explores the role of the Hunchun project in Jilin Province's development strategy. Two other development strategies at local administrative levels (Yanbian Prefecture and Hunchun City) will be discussed later in this chapter.

### **1. Jilin Province**

#### **1.1 Background**

With an area of 187,400 sq. km (1.95% of national territory and 23.80% of the NEEZ), Jilin, which contains the state development project in Hunchun area on the Chinese side of TRADP, borders Russia on the Northeast, Inner Mongolia on the west, Liaoning on the south, Heilongjiang on the north, while the Southeast overlooks the DPRK across the Yalu and Tumen rivers. There are 8 administrative divisions (Changchun, Jilin, Siping, Tonghua, Liaoyuan, Baishan, Songyuan, Baicheng) and one autonomous prefecture (Yanbian Korean Minority Autonomous Prefecture) in Jilin Province. The population of Jilin Province is 25

million (2.1% of national population) (1994) while for the NEEZ it is 102.4 million (UNIDO, 1995a: 2).

## 1.2 Economy

Jilin is a major agricultural province in terms of grain production, animal husbandry, agricultural and by-products, processing industry, and has a rural economy. However, Jilin's industrial base is weak. In the earliest days, the industrial development of Jilin's strength was limited to energy supply for industry in neighbouring Liaoning (Cotton, 1996: 1087-88; Wang, Shijun et al., 1996: 32-5). In 1978 Jilin accounted for around 2.6% of China's economy (calculated on the basis of the Gross Output Value of Industry and Agriculture), but this declined to 2.3% in 1990 and 2.0% in 1993 as the Jilin economy grew less rapidly than the country as a whole. Its economic size was 2.5 times less than that of Liaoning and 1.7 times less than that of Heilongjiang and remained at almost the same level as that of underdeveloped Yunnan and Shaanxi (*Gilimseung Pyunlam*, 1994: 71-5).

Jilin Province had difficulties in matching the pace of reform elsewhere since it did not attract the same kind of foreign investment; was slower to re-orientate towards export markets; and was behind in encouraging private or collective enterprises. It was still behind in 1993, when there was still a 65% state sector as opposed to private sector output, compared with a national state sector output of 43.1% (Cotton, 1996: 1092). Its percentage of total trade in entire China was just 0.2% in 1978 and peaked at 1.0% in 1991. Reliance on agricultural production was very high, occupying 55% in total of exports and imports. The total amount of FDI for Jilin was around US\$650 million from 847 contracts (only contractual terms) from 1984 until 1992 (*Gilimseoung Pyunlam*, 1994: 83-9).

**Table 5-14. Comparison of GDP in Jilin and other Cities/Provinces (RMB 100 million,%)**

| City/Province | GDP      |          |             |
|---------------|----------|----------|-------------|
|               | 1990     | 1991     | Growth Rate |
| Beijing       | 500.72   | 558.58   | 11.6        |
| Shanghai      | 744.67   | 857.71   | 15.2        |
| Tianjin       | 310.95   | 337.35   | 8.5         |
| Liaoning      | 964.89   | 1,073.16 | 11.2        |
| Heilongjiang  | 656.84   | 731.86   | 11.4        |
| Jilin         | 393.90   | 424.95   | 7.7         |
| Jiangsu       | 1,315.82 | 1,452.57 | 10.4        |
| Zhejiang      | 836.89   | 983.54   | 17.5        |
| Fujian        | 465.84   | 557.82   | 19.7        |
| Shandong      | 1,331.94 | 1568.38  | 17.8        |
| Guangdong     | 1,471.84 | 1780.56  | 21.0        |
| Yunnan        | 395.99   | 432.86   | 9.3         |
| Shaanxi       | 374.85   | 430.85   | 14.9        |

Source: (*Gilimseung Pyulam*, 1994: 72).

**Table 5-15. Total trade of Jilin within China**

| Year | Country              | Jilin                | (%) |
|------|----------------------|----------------------|-----|
|      | Total trade US\$100m | Total trade US\$100m |     |
| 1978 | 206.4                | 0.3                  | 0.2 |
| 1979 | 293.3                | 0.67                 | 0.2 |
| 1980 | 381.4                | 1.18                 | 0.3 |
| 1981 | 440.3                | 1.71                 | 0.4 |
| 1982 | 416.1                | 1.77                 | 0.4 |
| 1983 | 436.2                | 2.18                 | 0.5 |
| 1984 | 535.3                | 3.40                 | 0.6 |
| 1985 | 696.0                | 5.50                 | 0.8 |
| 1986 | 738.5                | 7.17                 | 1.0 |
| 1987 | 826.5                | 6.39                 | 0.8 |
| 1988 | 1,027.9              | 7.07                 | 0.7 |
| 1989 | 1,116.8              | 9.44                 | 0.8 |
| 1990 | 1,154.4              | 9.52                 | 0.8 |
| 1991 | 1,357.0              | 13.49                | 1.0 |

Source: (*Gilimseung Pyunlam*, 1994: 84).

**Table 5-16. Foreign Direct Investments in Jilin Province (Actual Amount, Accumulated up to September 1998)**

|        | Total | HK | USA | ROK | Germany | Taiwan | Japan | France | Canada |
|--------|-------|----|-----|-----|---------|--------|-------|--------|--------|
| Amount | 2,350 | -  | -   | -   | -       | -      | -     | -      | -      |
| %      | 100   | 36 | 13  | 13  | 7       | 7      | 5     | 3      | 3      |

Source: (Wang, Zhile, 1999: III-2-6).

### 1.3 Development strategy

Jilin Province has encouraged all the cities and counties located on the border to adapt themselves to the new international environment, speed up economic cooperation with bordering countries, widen the opening to the outside world, and gear up the development and construction of the Tumen River area (Wang, Shengjin, 1992; Zhang, Hongyan, 1996).<sup>18</sup> In order to attract FDI, development zones should become the cornerstone of constructing Jilin Province into a developed near-sea boundary province and the new growth point for the economy of the whole province. For planning purposes Jilin could be divided into the three regions.

The riverine area has one prefecture (Yanbian Korean Autonomous Prefecture), two cities (Hunjiang and Tunhua) and fifteen counties with 42.9% of the area and 21.1% of population. The centre has four cities (Changchun, Liaoyuan, Siping, Jilin) and seventeen counties with 33.8% and 63.9%. Lastly, the west includes one city (Baicheng) and six counties with 23.3% and 15%, respectively. The pace of development in the three areas is not same, because of different structural characteristics. But the provincial government thinks that it should concentrate its limited resources on the eastern part, where it is close to the East Sea, and only develop the underdeveloped western part later (Chen & Yuan, 1996: 31-42).

According to the 'Profile of Recommended Economic and Technological Projects of the Development Zones of Jilin Province for Cooperation with Foreign Countries' published by the People's Government of Jilin Province, 1997, there are now 16 development zones in total. While the total planned area of the 16 development zones is 153.89 km<sup>2</sup>, the preliminary construction area is 26.09 km<sup>2</sup>. Of these, four national level development zones include the 'Changchun New and High-tech Industries Development Zone', 'Changchun Economic and Technical Development Zone', 'Jilin City New and high-tech Industries Development Zone', and 'Hunchun Border Economic Cooperation Zone'. 12 provincial level economic development zones include 'Changchun Jingyuetan Tourist Economic Development Zone', 'Antu Changbai Mountain Economic Development Zone' and the economic development zones of Songyuan, Jian, Yanji, Dunhua, Tumen, Gongzhuling, Da-an, Dehui, Changbai and Linjiang.

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<sup>18</sup> However we should bear in mind that the only countries bordering Jilin are Russia and North Korea – hardly ideal places for providing openings to the outside world.

**Figure 5-2. Jilin Province Development Zone Distribution Chart**

Source: (Jilin Government, 1997)



- |               |   |
|---------------|---|
| ▲ 琿春邊界經濟合作區   | Hunchun Boundary Economic Cooperative Zone      |
| ● 圖們經濟開發區     | Tumen Economic Development Zone                 |
| ● 延吉經濟開發區     | Yanji Economic Development Zone                 |
| ● 安圖經濟開發區     | Antu Economic Development Zone                  |
| ● 長白經濟開發區     | Changbai Economic Development Zone              |
| ● 敦化經濟開發區     | Dunhua Economic Development Zone                |
| ● 臨江經濟開發區     | Linjiang Economic Development Zone              |
| ● 集安經濟開發區     | Jian Economic Development Zone                  |
| ▲ 吉林高新技術產業開發區 | Jilin High-tech Industries Development Zone     |
| ▲ 長春高新技術產業開發區 | Changchun High-tech Industries Development Zone |
| ▲ 長春經濟技術開發區   | Changchun Economic & Technical Development Zone |
| ● 長春淨月潭旅遊度假區  | Changchun Jingyue Pool Tourist & Holiday Zone   |
| ● 德惠經濟開發區     | Dehui Economic Development Zone                 |
| ● 公主嶺經濟開發區    | Gongzhuling Economic Development Zone           |
| ● 松原經濟開發區     | Songyuan Economic Development Zone              |
| ● 大安經濟開發區     | Daan Economic Development Zone                  |
| ▲ 國家級開發區      |   |
| ● 省級開發區       |   |



## 2. Yanbian Korean Autonomous Prefecture

### 2.1 Background

The Yanbian Korean Autonomous Prefecture forms the 42,700 sq. km eastern part of Jilin province which borders the Russian Far East to the north and the DPRK to the south. The length of the entire prefecture reaches 755.2 km, including 522.5 km for Sino-North Korean border, and 232.7 km for the Sino-Russian one. The Prefecture is about the same size as Taiwan, with an area of 42,700 sq. km. Jilin is rich in natural resources with grain, forests, and minerals. Wollastonite, diatomite, bentonite, oil, gas, coal, iron mine, and nickel are the main mineral resources. The Prefecture has a high urbanisation rate (61%) by Chinese standards, reflecting the area's relatively high level of industrialisation (UNIDO, 1995a: 2).

The Prefecture's name, Yanbian (*Borderline* in English), reflects the 860,000 ethnic Koreans living there making up 40% of its population. The name of this prefecture comes from the fact that there is a large Korean minority. The Han Chinese makes up a 57.4% majority of the people. Other minorities include the Manchu (1.8%) and Moslem Hui Chinese (0.2%). Yanbian has five cities (Yanji, Dunhua, Hunchun, Longjing, Tumen) and three counties (Antu, Wangqing, Hualong) and seven border crossings; one with Russia at Changlingzi and six with the DPRK at Nanping, Sanhe, Kaishantun, Tumen, Shatuozi and Guchengli (UNIDO, 1996: 2).

### 2.2 Economy

Before the Seventh Five-Year Plan (1949-85), the total growth of industrial and agricultural product in Yanbian remained at just 6.8%, which was not only lower than that of the country (12.7%) but also that of the province (8.9%), as well as other minority regions (7.4%) (*Guojia Kewei*, 1995: 4). The Yanbian economy generated a GDP of RMB11.2 billion yuan (US\$1.35 billion) in 1997, or US\$619 per capita, a little less than that of Jilin Province. Economic growth since 1995 has maintained a rate of 5.7%, less than the national average (*China's Tumen River Area - Investment Guide*, 1998: 3-4). The percentage of international trade in Yanbian's GDP was just 6.4% against a national average of 16.8% (Ibid.: 8).

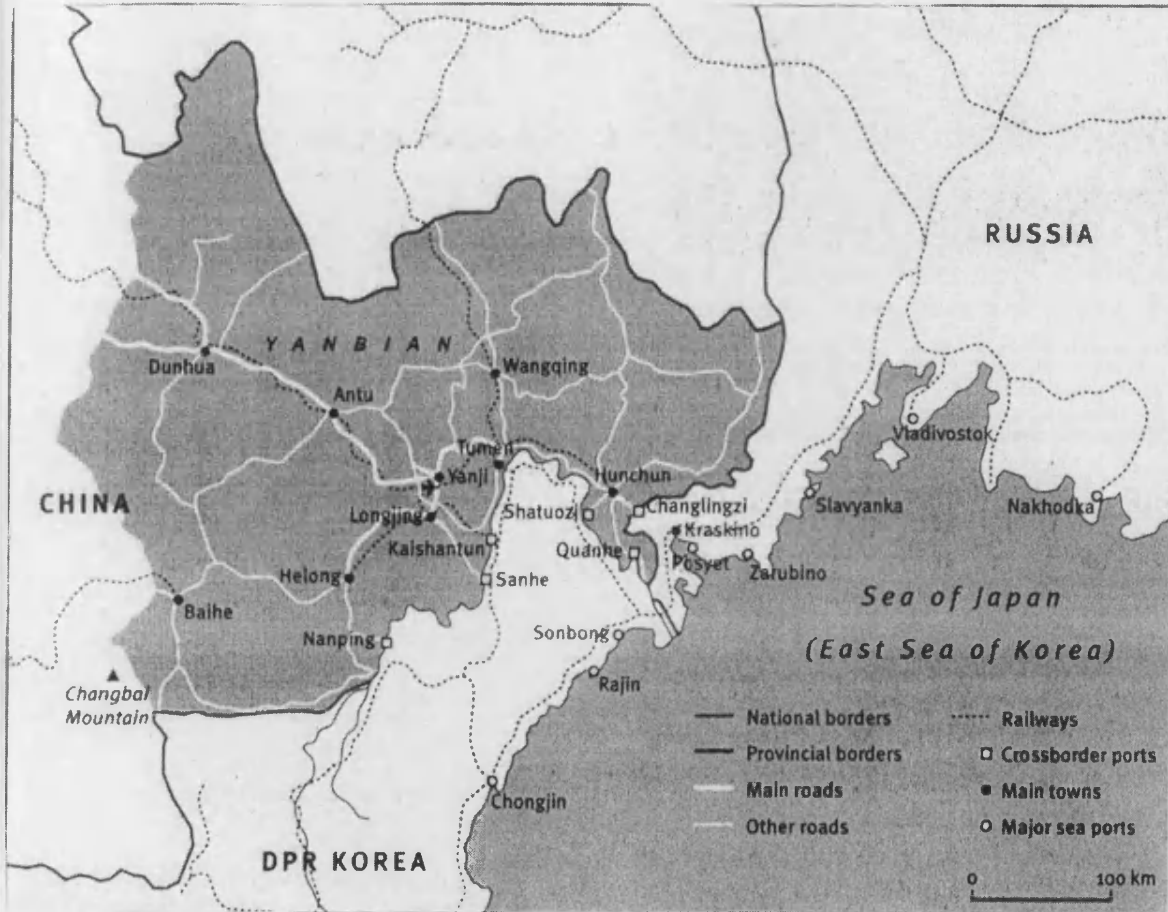
Total FDI in Yanbian during 1986-91 remained at 2.5%, compared to 10.8% at the national level (Ibid.). But there have been improvements in the economic situation since the open-door policy towards South Korea was adopted, and Yanbian has received relatively more FDI

than other regions of the province (*Yanbian Ribao*, 16 May 1997). By the end of 1997, there were 682 registered foreign investment enterprises and US\$411 million came in actually foreign investment, US\$ 228 million, or 55%, of which had been absorbed in 1996-97. Foreign investment from the ROK, Hong Kong, Malaysia and Japan, accounts for 87% of total FDI to Yanbian. The ROK was the major investor, accounting for 53%, followed by Hong Kong with 14%, Japan with 11% and Malaysia with 9%. There were 393 ROK supported enterprises driven primarily by Korean ethnic, language and market considerations in all sectors of the economy. Other investment comes from Taiwan (78 enterprises), USA (39), DPRK (37) and Russia (6) (*China's Tumen River Area - Investment Guide*, 1998: 7).

The Yanbian Prefecture now has relatively strong manufacturing industries, especially in food processing, textiles and timber processing. These accounted for 34.6% of GDP in the Prefecture in 1997. As a result these sectors are attractive to foreign, export-oriented investment (ERINA & FIAS, 2000: 7). Secondary industries account for 44.1% of GDP and tertiary for 42.8%. The primary sector has a 13.1% share - relatively low for the Northeast region. State-owned enterprises (SOEs), collective enterprises, private enterprises and foreign-invested enterprises (FIEs) are the four main types of enterprise in Yanbian. The SOE sector had the highest industrial output at 65.8%. However, more than 40% of these made losses in 1997. In contrast, FIEs and private enterprises contributed 22.2% of output in 1997, up from 3.8% in 1993. These are expected to provide the highest industrial growth in Yanbian (*Ibid.*: 40-1).

**Figure 5-3. Yanbian Korean Autonomous Prefecture**

Source: (UNIDO, 1995a)



**Table 5-17. GDP for Yanbian Prefecture (1998)**

|            | Total  | Primary Industry | Secondary Industry |     | Tertiary Industry |
|------------|--------|------------------|--------------------|-----|-------------------|
|            |        |                  |                    |     |                   |
| GDP        | 11,470 | 1,510            | 4,400              | 660 | 4,900             |
| Proportion | 100.00 | 13.1             | 38.4               | 5.8 | 42.8              |

(Unit: RMB million,%)

Source: Statistic Bureau of Yanbian Prefecture, *Statistics of Economic and Social Development in Yanbian Prefecture*, March 1999, (ERINA & FIAS, 2000: 40).

**Table 5-18. Industrial Structure of Yanbian Prefecture (1997)**

| Category                 |                          |                    | % of Gross Output          |          |      |
|--------------------------|--------------------------|--------------------|----------------------------|----------|------|
|                          |                          |                    | Total industries           | industry |      |
| Industries               | Total                    |                    | 100.00                     |          |      |
| Primary industry         | Agriculture and forestry |                    | 11.7                       |          |      |
| Secondary industry       | Industry                 | Total              | 46.5                       | 100.00   |      |
|                          |                          | Mining & lumbering | Sub-total                  | 9.6      | 24.8 |
|                          |                          |                    | Mining                     |          | 5.3  |
|                          |                          |                    | Lumbering                  |          | 19.5 |
|                          |                          | Manufacturing      | Sub-total                  | 34.6     | 69.7 |
|                          |                          |                    | Food processing            |          | 12.4 |
|                          |                          |                    | Textiles & apparel         |          | 9.9  |
|                          |                          |                    | Timber processing          |          | 14.1 |
|                          |                          |                    | Chemicals                  |          | 9.2  |
|                          |                          |                    | Pharmaceuticals            |          | 8.7  |
|                          |                          |                    | Non-metal mineral products |          | 4.5  |
|                          |                          |                    | Metal products             |          | 4.5  |
|                          |                          |                    | Machinery                  |          | 3.0  |
|                          |                          |                    | Electrical & electronics   |          | 0.6  |
|                          |                          |                    | Other products             |          | 2.8  |
| Electricity, gas & water |                          | 2.2                | 5.6                        |          |      |
| Construction             |                          | 7.6                |                            |          |      |
| Tertiary industry        | Total                    | 34.1               |                            |          |      |
|                          | Transportation           | 7.6                |                            |          |      |
|                          | Commerce and restaurants | 11.4               |                            |          |      |
|                          | Other services           | 15.1               |                            |          |      |

(Unit:%)

Note: 'Industry' in China includes 'Mining and Lumbering', 'Manufacturing' and 'Electricity, Gas and Water' sectors.

Source: (ERINA & FIAS, 2000: 40).

The following table summarises the strengths and weaknesses of Yanbian Prefecture affecting the investment environment.

**Table 5-19. Yanbian: Strengths, weaknesses, and potential sectors for investment**

| Strengths  | Weaknesses  |
|--|---|
| 1. Geographical proximity to DPRK, Russia and the sea: distances to DPRK, Russia, ROK, and Japan are shorter from Yanbian than elsewhere in China  | 1. Geographical distance from major domestic markets and ports of the three Northeast provinces: Changchun, Shenyang, and Dalian                                    |
| 2. The Korean ethnic community (39% of the 1997 population): trade and investment relations between Yanbian and ROK have grown rapidly over the last decade, and Yanbian has good communications with DPRK | 2. Land-locked location and lack of efficient access to east coast ports, due to hard and soft infrastructure constraints, and of regular services from those ports |
| 3. A low-cost, skilled and disciplined labour force: FDI using new technologies, combined with monthly wages of US\$ 70-80, produce levels of productivity similar to southern China                       | 3. Lack of supporting industries, including parts manufacturing. The domestic banking system is also weak.  |
| 4. Natural and tourism resources   | 4. Inadequate infrastructure and underdeveloped international access routes to Yanbian.   |

Source: (ERINA & FIAS, 2000: 41-2)

### 2.3 Development strategy<sup>19</sup>

Yanbian sees the Prefecture as a very unique place, where all the *4-Yan* development strategies, *Yanhai* (along coast), *Yanbian* (along border), *Yanjiang* (along river), and *Yanxian* (railway), meet together. The prefecture is located in the Tumen River Economic Development Area (TREDA) along the Tumen River (*Yanjiang*). It borders on other neighbouring countries (*Yanbian*) and is close to the East Sea (*Yanhai*). Also it connects the Tumen River and Europe by the trans-continental railway (*Yanxian*). With Hunchun as its head and Yanji as its body of the strategy, Yanbian fits the all-out open policy of '*nanlian beituo, dongchu xijin, mianxiang dongbeiya*', namely, to unite with the south (North and South Korea), open the north (Russia), reach to the east (Japan), launch to the west (Eastern Europe and Mongolia), and to face Northeast Asia.

In order to pursue the above-mentioned objectives, during the Eighth FYP (1991-95) and Ninth FYP period (1996-2000), the prefecture announced five general principles below (Wei & Xu, 1994: 68-9; *Guojia Kewei*, 1995: 353-4):

<sup>19</sup> This is a plan that expresses Jilin Province's aspirations rather than properly evaluate projects based on proper costs and feasibility statistics. Much of this describes a potential rather than an actual situation.

1. The importance of the right of navigation in the Tumen River is the key point.<sup>20</sup>
2. The priority given to the Hunchun project. The TRADP on the Chinese side includes the large triangle area (Hunchun, Tumen, Yanji, Longjing), but the core area is Hunchun-Changlingzi-Jingxin-Fangchuan. The central and provincial governments need to ensure prefecture support for Hunchun.
3. Hunchun is at the heart of 'engine growth' of the prefecture and its development should lead to the development of the whole prefecture and should be backed by other development zones such as Tumen and Yanji.
4. In order to attract foreign investment, infrastructure such as '*wutong iping*' (five-running and one-arrangement: air, water, energy, telecommunications, roads and land use) must be provided. Further, preferential policies must ultimately encourage investment by foreign companies.
5. Hunchun must take an active role in co-operating with the UNDP.

In August 1992 Jilin Province, working at provincial level, established the four economic zones in Tumen, Yanji, Antu and Dunhua. The description of the four zones in the UNIDO document is summarised below (UNIDO, 1995b: 8-18).

#### *Yanji Economic Development Zone*

Yanji City, the capital of Yanbian Prefecture, is the centre of politics, economy and culture of the prefecture. It is an open city having the features of being close to the East Sea and to the land border. Being situated along the Tumen River, it is one of the three supporting cities (Yanji, Chungjin and Vladivostok) of the medium-sized TREDAs. The city covers an area of 1,350 sq. km and has a population of 343,000, of which ethnic Koreans constitute 59.5%. The Yanji Economic Development Zone is located in the eastern part of the city, on both banks of the Burhatong River. The total area of the zone will be 5.33 sq. km, but initial development will be on the northern part of the river (1.14 sq. km). The annual industrial output value in 1994 was RMB300 million yuan. The development plan of the Yanji Zone is divided into 3 stages: the starting stage (1995-2000); the growing stage (2001-2005); and the high developing stage (2006-2010).

#### *Dunhua Economic Development Zone*

This is situated in the eastern part of the province, with a total area of 14.09 sq. km. The zone is a varied one with industry, commerce as well as trade and tourism. Along the Changchun-Tumen railway, the city has an important geographical position and serves as a junction

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<sup>20</sup> Jilin's border on the Tumen stops well short of its exit to the East Sea. The strip along Russia to the sea is also too shallow.

station and collection and distribution centre for the Tumen River development area and various inland markets.

#### *Tumen Economic Development Zone*

Tumen City borders the DPRK across the Tumen River. The city is 160 km from Rajin-Sonbong Free Trade Zone of North Korea, 138 km from the Zharubino Port of Russia, and 150 km from the East Sea. Tumen City has a population of 140,000, of which 59.8% is Korean. The total area of the zone is 3.02 sq. km and the starting zone is 1.36 sq. km. The leading industry of the zone is food processing, light and textile industries, plastics and construction material.

#### *Antu Changbai Mountain Economic Development Zone*

This is situated on the northern slopes of the Changbai Mountain, a well known international tourist spot, and in the Erdao Town of Antu County. The development of the zone is divided into three stages. 1995-2000 was the basic construction stage, 2000-2005 the development stage and 2006-2010 the stage of improvement and enhancement.

Yanbian needs to secure direct access to the East Sea. It is heavily reliant on Dalian Port, 1,296 km from Hunchun. Access to the sea is needed to attract FDI and stimulate economic growth. Alternatives to Dalian include new routes via the DPRK and Russia. These should help to divert some business from the Dalian route since distances are much shorter – 79 km to Zarubino Port and 116 km to Rajin Port from Hunchun.<sup>21</sup> Rajin Port was chosen since it had easier operating conditions and cross-border arrangements. In 1995 the Yanbian shipping company began a container service three times a month to the South Korean port of Pusan. Since then transit trade business through the DPRK Rajin-Sonbong Zone has developed (*China's Tumen River - Investment Guide*, 1998: 23).

Yanbian has provided tax and other incentives to investors. The main characteristics of the tax incentive regime are as follows:

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<sup>21</sup> However, these routes are not competitive enough to replace the Dalian Route, due to poor infrastructure conditions, non-physical impediments, limited regular vessel services, and so on. In this regard high transportation costs and excessive overall transit times are the major complaints of foreign investors in Yanbian. These transit routes are thus currently only used for about 20% of the import/export cargo of Hunchun according to official city figures (ERINA & FIAS, 2000: 13).

- In Yanbian, as in other parts of China, all foreign-invested enterprises (FIEs) are exempt from income tax for the first two profit-making years. In addition, most foreign manufacturing enterprises in Yanbian pay corporate income tax at a rate of 12-15%, which is either equal to or below that paid by foreign investors in China's major open areas. For example, the rate is 15% in the Special Economic Zones (SEZs: Shenzhen and four other regions) as well as the Shanghai Pudong Zone, and 24% in the Economically Opened Coastal Areas. Furthermore, the Yanbian government also refunds paid income tax for one, two or three years from the sixth profit-making year depending upon the size of the investment. Agriculture and infrastructure projects are exempt from income tax for the first ten profit-making years.

- Regarding customs duties and value-added tax (13-17%), the Yanbian authorities... exempt foreign investors from these charges for imports of capital equipment, raw materials, parts and packing materials. In the Yanji Economic Development Zone, especially, the local portion of value-added tax (Yanji City - 10%) is refunded for the first three operational years. These exemptions notwithstanding, many foreign enterprises currently operating in Yanbian have not benefited from these reductions due to the complicated VAT system, and the fact that many transactions with domestic enterprises are made without receipts.

- Yanbian also offers land-related incentives... Foreign investors can rent manufacturing-use land... for US\$17-20/m<sup>2</sup> for a 50-year lease. Furthermore, for lump sum lease payments by foreign investors, Yanbian authorities refund 20-70% of the lease amount. Yanbian authorities also reduce the annual land use tax of RMB1/m<sup>2</sup> by 50% for the first three operating years (ERINA & FIAS, 2000: 33-4).

### **3. Hunchun City: City level**

#### **3.1 Background**

Hunchun, the second largest city in Yanbian after Yanji, is also centrally located in the Tumen area. In March 1992 it was designated an Open Border City, and the Hunchun Border Economic Cooperation Zone (HBECZ) was inaugurated. This zone covers 88 sq. km, and development work was started immediately in a 5 sq. km area. It is well-placed, being only 14 km from the Sino-Russian border, 42 km the Russian port of Posyet, 71 km from the Russian port of Zarubino, and 93 km from the North Korean port of Rajin. It is 750 km to Pusan in South Korea and 800 km to the west coast of Japan. The HBECZ has a 372.2 km long border, of which 139.5 km is shared with Hamkyung Province of North Korea and 232.7 km with Russia. The 198,000 population is made up of 11 nationalities, of which 44.3% are Korean, 45.6% Han Chinese, and 9.7% are Manchurian. The HBECZ breaks down into four



sub-development zones: these are 'Hunchun export-processing zone', 'Fangchuan free trade zone', 'Border trade zone with North Korea and Russia', and 'Agriculture zone'.

### 3.2 Economy

The main focus of the HBECZ is export-processing and high-tech industry. There is a full range of facilities and services: industrial production, finance, bonded warehouses, commercial services, public utilities, accommodation and leisure facilities (UNIDO, 1995b: 1; Liu, Zhuangfei et al., 1990). In 1996 Hunchun turned US\$30.43 million in trade, US\$13.91 million in imports, and US\$16.52 million in exports. In 1996, total industrial product reached RMB130 million, and total infrastructure investment RMB493 million yuan (Zhang Shihe, 1997: 51-3). Hunchun City quickly became the main destination for foreign capital in Yanbian's manufacturing sector, attracting more than 25% of foreign investment (US\$98 million), 80% of this came from the ROK, and most (85%) was channelled into the HBECZ to be applied in export-oriented advanced manufacturing (*China's Tumen River Area - Investment Guide*, 1998: 7).

During the Ninth FYP there was an annual contribution of RMB10 million yuan from the central government, and local revenues have also been used. Responsibility for administering the central government funds was given to the Administration Committee under the authority of the Hunchun municipal government. The central government provided annual grants and loans to Hunchun City for urban, public and housing infrastructure construction in the city. Total funds received from all sources reached RMB4.79 billion yuan (US\$580 million) and during the period 1992-98 these were spent on capital projects. RMB1.32 billion yuan of this was spent on state infrastructure projects. Domestic enterprises spent a further RMB3.5 billion yuan (US\$425 million) on the development of local commercial, mining and industrial businesses (*China's Tumen River Area - Investment Guide*, 1998: 24).

Hunchun approved 102 foreign investment projects during 1992 and 1995. The foreign participants included 29 companies from Hong Kong, 25 from South Korea, 9 from Japan, 8 from Russia, and 7 from Taiwan. Projected investment by foreign and joint venture companies was US\$160 million, of which US\$40 million was invested in late 1994 (Ibid.). 57% was in manufacturing and food processing, 30% in real estate, hotels and tourism, 9% in commerce and services and 4% in agricultural activities (UNIDO, 1995a: 3).

### 3.3 Development strategy

The approach taken by the Chinese government in the TRADP is a typical 'bottom-up' participatory development approach (Kim, Haksoo, 1993: 21). This means there are three phases. The first phase (1992-97) was preparatory. Basic institutions, infrastructure, energy supply and urban planning, were to be strengthened, and management systems improved. The second phase (1997-2002) harnesses local resources to encourage export production, and focuses on attracting foreign investment. In this phase tourism and agriculture would also be encouraged as well as economic cross-border cooperation.<sup>22</sup> The final phase (2002-2007) will see the introduction of an open-style economic system with an aim to develop high-tech industry (Ibid.: 36).

According to the 'Hunchun & Fangchuan Development Plan', Yanbian foresees that Hunchun should use economic complementarities of neighbouring countries, combining its cheap labour and resources with foreign finance and technology. The HBECZ has to be developed, with the aim of balancing regional development policy by the central government so as to promote horizontal inter-regional economic cooperation. The Hunchun Project should be developed along the entire development project, in cooperation with Yanbian and Jilin (*Gilimseung Pyunlam*, 1994: 224-6; Kim, Haksoo, 1993: 36; Jin, Tie, 1993: 12-8; Wang, Shengjin, 1997).

Population in Hunchun is projected to go up to 600,000 (2010) from 250,000 (1998). The growth in population is seen as part and parcel of an expansion in the industrial, mining and energy base and output of Hunchun, which is expected to be five to ten times its current level by the year 2010. Such growth should build an industrial, tourist and transit trade foundation which is needed to consolidate Hunchun's position as the leading growth pole in the Tumen River Area. Such growth would place Hunchun in a similar position to Vladivostok in size and economic capacity (*China's Tumen River Area - Investment Guide*, 1998: 25).

Currently, Hunchun has been pursuing four major plans: 'The General Principles on Hunchun Development', agreed by the State Planning Committee, 'Hunchun City Border Economic Cooperation Zone Plan' by Jilin Province, 'Hunchun's Municipality Development Plan' and

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<sup>22</sup> The central government thinks that Hunchun can not follow other coastal free economic zones (FEZs) such as Shenzhen, because it is a geologically land-locked area. So Beijing sees the economic success of this region as connecting traditional border trade and export processing.

'Hunchun City's Land Use Plan' by Hunchun City. The zone is supported by extensive preferential policies from the three administrative levels.<sup>23</sup>

In Hunchun, there are income tax exemptions for the first three profitable years for all types of foreign-invested enterprises (FIEs) with ten-year contracts. In addition if FIEs reinvest profits for a period of five years they qualify for a complete income tax refund. In other areas of Yanbian the benefit is only a 50% refund. Hunchun City has a degree of autonomy in making economic decisions, including the approval of imports and exports; the approval of new foreign investment projects of up to US\$10 million in value and construction and technical upgrading projects of up to US\$30 million in value; and the granting of planning permission for land use (UNIDO, 1996: 4).

#### **4. The role of Beijing, Jilin and Yanbian in TRADP policy-making<sup>24</sup>**

In October 1992, recognising the Tumen River area to be the proposed centre for regional international trade and industrialisation, the UNDP suggested that TRADP should raise US\$30 billion in 20-30 years. However, the idea of the TRADP was not developed by the UNDP overnight. Long before the commencement of TRADP by the UNDP, China had started to develop Hunchun as the core of the Tumen River area development. The centre and the province had discussed the development within Hunchun. Since the open door policy in 1979 when the four special economic zones and the 14 open coastal cities were set up, Jilin Province had felt itself to be trailing the other regions. The wish to ride the tide of economic development led the local government and scholars in Jilin Province to express a strong interest in regional development. In response to the province's enthusiasm, the central government instructed Jilin Province to develop regional development scheme and supported this scheme as part of consensus-building with Jilin.

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<sup>23</sup> The State Council's 8 preferential articles, Jilin Province's 20 preferential articles and 10 provincial level's management rights, and Hunchun City Government's 12 preferential articles and 3 special treatments for border economic cooperation zone (Jin, Tie, 1994: 263). For the brief contents of the preferential articles, see (Ren Shufu et al., 1994: 347-8); And also for the State Council's 8 preferential articles and the Jilin Province's 20 preferential articles, see (Wei & Xu, 1994: 69-74).

<sup>24</sup> Lack of research materials and information has hampered investigation into the central-provincial linkages that this section is devoted to examining. It is not clear who proposed first and how the negotiation went. Limited Chinese materials only provided chronologies of the project. As a result, it should be recognised that the detail of this section remains largely the author's personal feelings and related speculations, and the content of this section is heavily based on the chronology of one local material. See (Chiao, 1994).

In December 1985 Jilin Province's first move proposing access took place. The 'Study Group on Jilin Province's Trade with the Soviet Union' submitted a report on the possibilities for the province's trade. The report suggested the need for trade with the Soviet Union, and included two scenarios: the development of Hunchun and Changlingzi, and the use of North Korea's railway and the port of Rajin. Jilin should among other things focus on its relationship with Northeast Asia; properly use its riverine border area with the Soviet Union; rebuild Da-an Port; open Changlingzi; and develop Fangchuan (Chiao, 1994: 635).

In response to the provincial government's request, in June 1986, the central government permitted Hunchun to carry out border trade with North Korea. The Border Management Group of the State Council sent officials to examine the situation in July. In December, the 'Study Group on Jilin Province's Trade With the Soviet Union' and the Geography Department of Northeast Normal University worked together and submitted the 'Report on the Use of Tumen River and the Development of Jilin Province's Coastal Area to the Outside' (Ibid.: 636).

On 10 January, 1987, Gao Dezhan, the then governor of Jilin Province, and Chui Lin and Chen Hua-guan, the then Vice-chairmen of the Province's Nation People's Congress (NPC), requested further research. In April the Jilin Provincial Government sent an official letter entitled, 'Request to solve the right of the Province to exit the Tumen River', and further recommended the State Council to place it high on the agenda in the Sino-Soviet border talks (Ibid.: 637). On 6 June, Yu Ke, the head of the provincial committee of the NPC sent a letter to Wan Li, the head of the NPC, asking whether the NPC could support Jilin's Tumen River navigation plan at the national level (Ibid.: 639).

The central government's response became more positive and concrete. When Chen Cai, Jilin's representative as well as a professor from Northeast Normal University went to meet Qian Qichen, the then foreign minister, on 21 July, 1987, Qian responded that the Ministry was very concerned about the issue of right of exit to the Tumen River and would discuss it in the Sino-Soviet talks (Ibid.: 640). The central government then set up some policy arrangements which saw fruit in 1988. The State Council permitted Hunchun to trade with Khasan of the Soviet Union (16 April); opened up Changlingzi (10 May); and further agreed that the areas surrounding Hunchun be upgraded from county to city status (25 May) (Ibid.: 640-1).

Receiving warm support from the Beijing government, the then province governor Wang Zhongyu expressed hope on 6 June of that year that Hunchun would be a 'window' of Northeast Asian economic cooperation, and on 14 June announced plans that Yanbian Prefecture should lead the Hunchun development. On 26 November, the Yanbian Autonomous Government sent a report, 'On Building Hunchun Development', to the Jilin Provincial Government, suggesting the importance of the project and the immediate resolution of remaining obstacles to starting work on the project. As a result of that research, on 13 December, the provincial leadership decided to establish the 'Hunchun Economic Development Zone' (Ibid.: 642). The provincial government's argument for the introduction of a special economic zone in the area around Hunchun had paid off.

Jilin Province became more active and made an effort to communicate the province's enthusiasm. On 14 February 1989, Jilin Province sent a letter to Deng Xiaoping requesting that in his meetings with Gorbachev later that year whether he could ask the Soviet Union to let the Chinese use the Tumen River on the Soviet side. Only two months after the Tiananmen Crisis, on 23 August, Chui Lin, the vice-director of the provincial standing committee of the NPC, wrote a letter to ask Li Peng, the then Premier, about the establishment of a Hunchun Economic Special Zone to enjoy the same status as one of the fourteen main Chinese coastal cities (Ibid.: 641-5).

On 16 February 1990, the Special Zones Office of the State Council sent a report to Li Peng proposing that the plan for building a special zone in Yanbian Prefecture should focus on self-reliant resource development through border trade first before finally moving into export processing industry. On 31 March, Li Pengming, vice-director of the provincial Science and Technology Committee, and three other representatives of Jilin province attended the meeting on Tumen River navigation in Beijing. The Ministry of Foreign Affairs negotiated with the Soviet diplomats on 22 May, and with North Korean diplomats during 22 to 24 of May regarding the navigation issue (Ibid.: 645-8). This diplomatic support from the Ministry of Foreign Affairs secured the two countries' compromise. For the first time since 1938 when China was blocked access, Jilin could navigate through the Tumen River. The first navigation took place in May 1990, and the second in May 1991 (For a more detailed discussion of the navigation attempts, see also Part II of Chapter Six).

Apart from the province's effort, development in the Tumen area had received stimulus from the international academic circle as well as international organizations. In July 16-18 1990, 'the first International Symposium on Economic and Technological Development in Northeast Asia', co-sponsored by the Asia-Pacific Institute of China, the East-West Centre in Hawaii and the UNDP, was held in Changchun (Chiao, 1994: 645-652). The conference reviewed new possibilities for regional and cross-border development. This led to a meeting sponsored by the UNDP in July 1991 at Ulaanbaatar where delegates from China, Mongolia, North Korea, and South Korea affirmed the need for a TRADP programme. The Commission of Science and the UNDP discussed the Tumen River Area Development in May. From 6 to 7 July, the UNDO supported the TRADP as part of the Northeast Asia Technological Cooperation Conference 1992-96 in Ulaanbaatar (Ibid.: 654).

The appearance of central government political heavyweights was a great boost. The president and General Secretary Jiang Zemin visited Jilin Province in 8 January 1991 and stated: 'If we add this kind of [TRADP] to the outside world, it will be of great significance to Jilin, Northeast China, and indeed the whole of China'. The visits from high officials to Hunchun continued during the second half of the year including those by the then vice-premier Zhu Rongji on 15 June, another vice-premier Tian Jiyun on 20 June, Premier Li Peng on 7 August and Zou Jiahua, then another vice-premier, on 18 August (Ibid.: 654-8).

Encouraged by the attention from the central leadership, Minister of Science and Technology Committee Song Jian briefed Professor Ding Shicheng, a member of the Jilin Province Science and Technology Committee, about economic cooperation and presented him with a draft for the region. At the second 'International Symposium on Economic and Technological Development in Northeast Asia' (29-31 August, 1991), Ding presented results of a study into the complementarities of Northeast Asian economies compared to economic cooperation elsewhere, which had been commissioned by the provincial governor Wang Zhongyu. Ding argued that the Tumen River in its lower reaches could become the 'golden delta' (*jin sanjiao*) of the region. The first initial proposal identified two regional 'triangles'. The smaller of these did not at the time include Hunchun, but only the territory at the Tumen River mouth. Ding's idea was that China should build a seaport at Fangchuan (See Figure 6-2), which is the mouth of the East Sea (Cotton, 1996: 1094-5).<sup>25</sup>

On 15 January 1992, Northeast Normal University chaired a seminar on 'Current Situation of the Korean Peninsula and Policy Directions', in which representatives from eight provincial organisations participated. The Jilin provincial government called a meeting on Tumen Area development, including more than 30 experts from Jilin Province's Academy of Social Science, Northeast Normal University, Jilin University, Jilin Province's Economic Management Cadre College and other relevant organisations. The then vice leader of the Leading Group as well as Director of the TRADP Office of Jilin Province, Ding Shicheng gave an important speech on the future and implementation of the project detailing: i) the need to recognise its crucial importance to the province; ii) the importance of expanding border trade and building infrastructure; iii) the goal of gaining access to Japanese and Korean capitals by establishing designated economic zones for the two countries respectively; iv) the desirability of obtaining the navigation rights from the Soviet Union and North Korea; and v) the establishment of a Tumen area development committee (Chiao, 1994: 665-6).

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<sup>25</sup> However, in 1992 the plans for Fangchuan were shelved on the grounds that they were too ambitious and expensive with smaller returns than would be achieved through developing port facilities in North Korea and links from these to China (Rajin-Sonbong). Instead, an inland railway and warehouse hub located in Hunchun was put forward as an alternative project (Cotton, 1996: 1094-5).

On 9 March 1992, Hunchun was finally designated an open city at national level while other economic development zones in Yanji, Dunhua, Antu and Tumen were established at the provincial level. On 16 March, Vice Premier Tian Jiyun met the Yanbian Governor Jin Zhezhu and emphasised that the timing was right to expand full trade relations with Russia, North and South Korea. On 3 April, 1992, the State Council sent Jilin Province an official letter (1992-30) 'About the development of the Tumen River Area', which included five points: i) how to join the UNDP-led TRADP; ii) how to open up Hunchun; iii) how to develop the mouth of the Tumen River; iv) how to manage navigation on the Tumen River, and v) how to put the development of the region into national policies. On 13 April in a letter (1992-32) 'Joining the UNDP Preliminary TRADP Study', the State Council recommended that the development should be led by the minister of the State Science and Technology Committee with the minister of the State Planning Commission as a vice-leader. In addition, the State Council officially allowed the province to join the UNDP-led TRADP (Ibid.: 667-8). On 21 October the State Council designated Hunchun as a border economic cooperation zone (Ibid.: 675).

Under the guideline of the State Council, on 12 February 1993, Liu Xilin, the then provincial vice-governor, called a TRADP leading group meeting. In this meeting Zhang Dehong, Vice Secretary of Yanbian Prefecture, made a speech 'On the Current Situation of Hunchun and Tumen River Development in 1992 and Key Points for 1993'. The meeting noted with approval that: i) the State Council had given Hunchun the status of an open city; ii) the province gave Hunchun special legal treatment; iii) the province made three missions to Hong Kong, Beijing, and Seoul; iv) the State Council approved the Tumen project; v) the Council also approved the 'Hunchun Border Economic Cooperation Plan'; vi) the province actively joined international conferences in and out of China; vii) the central government made some agreements with Russia to support the province; and viii) the investment environment had improved (Ibid.: 684).



Later on, central leaders gave the provincial leaders great encouragement. In March in the eighth NPC period, Qian Qichen and Song Jian met the representatives from the State Science and Technology Committee and Jilin Province, and told them not to lose this opportunity despite obstacles. In April Li Peng, Zhu Rongji, Zhou Jiahua, Qian Qichen, Li Lanqing and Song Jian approved the report 'The Current Situation of the UNDP-led TRADP' provided by the State Planning Committee and the State Science and Technology Committee (Ibid.: 686). On 12 November Jilin's Technology Committee showed its strong willingness on the TRADP issue, submitting a report on 'The Current Situation of Jilin's Relations with North Korea and Russia'. The report gave six recommendations: i) standing firmly on navigation issues; ii) firmly keeping to policy principles; iii) building infrastructure and borrowing ports; iv) coordinating the development and trade policies; v) attracting foreign direct investment; and vi) obtaining support from the central government (Ibid.: 693).

## **5. Institutional arrangements**

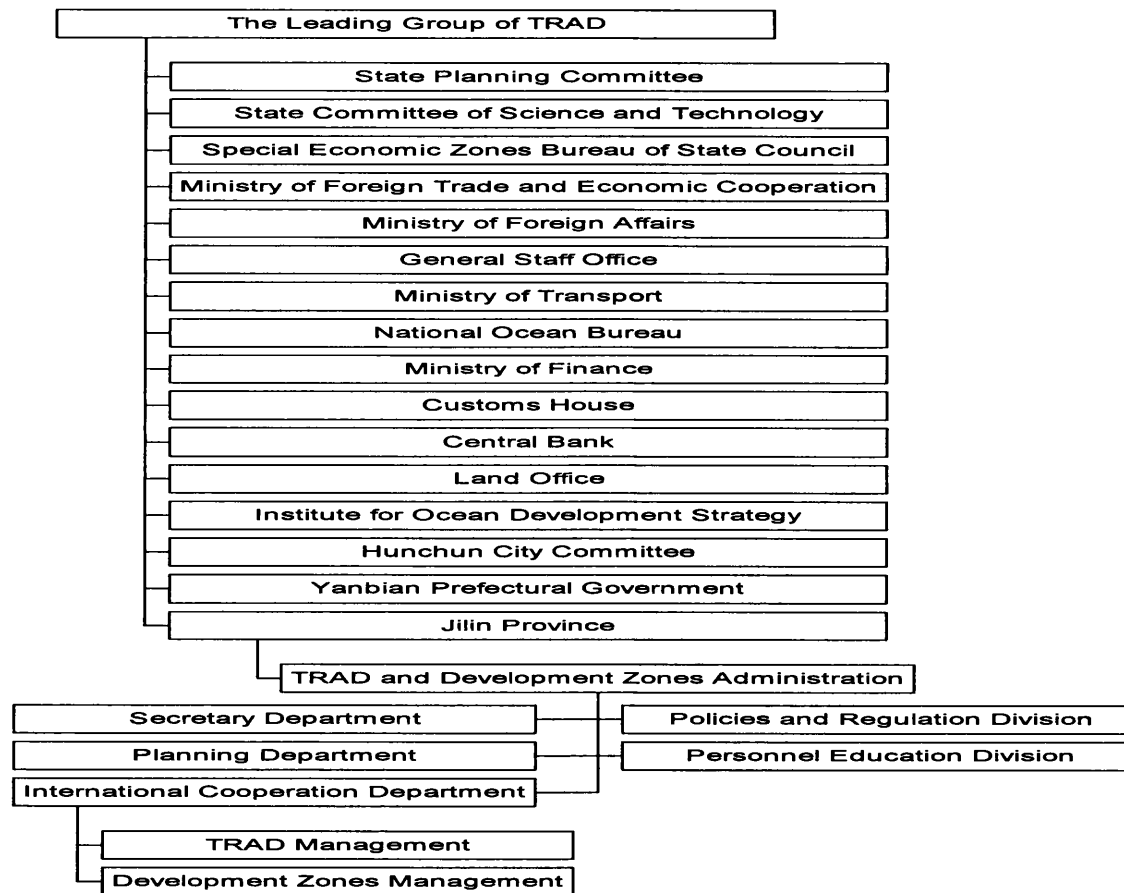
Various institutions to coordinate and manage the TRADP have been developed by the central government, Jilin provincial authorities, Yanbian prefecture government and Hunchun city. The 'Hunchun Border Economic Cooperation Zone Administration Committee' came into being in May 1993. This was followed in April 1994 by the 'Tumen River Area Development Administration', set up by provincial government to coordinate Tumen Policy. At the highest level under the State Council and the State Science and Technology Committee is the 'Tumen River Area Leading Group' which includes representatives from other state ministries as well as provincial representation. It meets once or twice a year to look at overall Tumen project policy (Cotton, 1996: 1096).

There are different procedures for approving foreign investment in Yanbian, and the relevant decision making body varies according to the scale of the investment and where it is targeted. Hunchun has some autonomous decision making power. In China as a whole the foreign trade and Economic Bureau system is part of the Ministry of Foreign Trade and Economic Cooperation (FTEC). The Yanbian Foreign Trade and Economic Cooperation Bureau (Foreign Investment Approval Department) is empowered to approve all foreign investment projects with a value of less than US\$10 million in Yanbian. In Jilin the equivalent body has authority for investments between US\$10 and US\$30 million. In Hunchun, however, there are special foreign trade and foreign investment approval rights. Its Open Border City status

(gained in 1992) gave it rights to approve foreign investment of any type up to the value of US\$30 million, the same power as vested in Jilin Province (*China's Tumen River Area - Investment Guide*, 1998: 9-10).

**Figure 5-4. Tumen River Area Development (TRAD) Administration**

Source: *Jilin Sheng Kaifaqu ji Tumenjiang Diqu Duiwai Jingji Hezhuo Xiangmu Jianjie* (Profile of Recommended Economic and Technological Projects of the Development Zones of Jilin Province for Cooperation with Foreign Countries), Jilin Government, China, 1997; Personal interviews, August 1997.



## Conclusion

As China has widened its opening to the outside world, Jilin Province has aspired to function as a 'window' to that world, and economic growth of the development zone should become the gateway and cornerstone of the policy to reconstruct the whole province into a developed near-sea boundary province. It is clear that a number of interests has intersected in the development of the Tumen River region. Centre, province and locality have all had a stake. This project not only has served the government's present economic objectives, but also allowed Jilin Province and the Yanbian Prefecture to overcome their land-locked and backward economic status.<sup>26</sup> Having made a step forward, Jilin Province continued to ask for permission to build a special economic zone in the province. In 1992 Beijing made development of the zone one of ten national projects. However, in addition to the stated economic objectives, non-economic considerations were embedded in the creation of the Tumen project. The following chapter will unfold the major theme of this thesis as it analyses Beijing's political and security perspectives in implementing the Tumen project.

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<sup>26</sup> Of course, this would require agreement of Russia and North Korea.

## **Chapter Six. The Perspective of Beijing**

### **Introduction**

In October 1992 the UNDP inaugurated the TRADP based on the claims of the Tumen River area to be a centre of international trade and industrialisation. However the idea of the Tumen River Area development was not developed by the UNDP overnight. In fact long before the commencement of the TRADP by the UNDP, as seen in the previous chapter, the centre, provinces and localities in China had all discussed internally the development in Hunchun and had actively developed the Hunchun Project, not only as a core development project for the Yanbian Korean Autonomous Prefecture, but also for Jilin Province as well as Northeast China. What were the reasons that prompted the Chinese to develop the area independently, separately from the UNDP-led TRADP?

Jilin Province's hopes of turning the province around were centred on benefiting the whole Jilin Province through development of the Tumen region. However, the central government's calculations were more complicated. Beijing had to appease the province, whose development had been left behind by the coastal areas. At the same time, the TRADP was devised with China's security and foreign policy interests in mind as well. This chapter will attempt to investigate what kinds of interests drove the Beijing government to approve the development in the region, and if these undermine China's long-standing assertion that the formation of the TRADP would be for the mutual benefit of neighbouring countries. This chapter begins with four specific questions with regard to China's political interests in the TRADP: Why was the special economic zone (SEZ), one of the ten national development projects, given to the Korean Autonomous Prefecture in particular? Why did China insist on the right to have access to the East Sea through the Tumen River? Why did China make an effort to keep North Korea involved in the project? Lastly, how did the project fit into China's regional strategy?

## **I. The Korean minority policy**

Despite many other international cooperation projects such as the Greater South China Economic Zone (GSCEZ), the Pudong Area Circle and the Bohai Rim Circle, all of which appeared to give more competitive advantages than the TRADP, the Tumen project was upgraded to one of ten national development projects in 1992. Why was it so? Was the establishment of the SEZ in the Tumen River region linked to relations with the Korean minority within the region? What role does the Tumen project play in the central government's regional development plans? Part I will explain why the Korean minority is important to China. It will first be necessary to provide a brief overview of China's nationality policy so as to place the Chinese management of the Korean minority in context and to show why the TRADP is important for China's Korean policy.

### **1. China's minority policy**

#### **1.1 Background<sup>1</sup>**

According to 1990 statistics, the Han nationality is in the vast majority. With 936 million members, it constitutes nearly 92% of China's population of more than 1.3 billion people. Fifty-five other nationalities<sup>2</sup> make up the remaining 8%. The Zhuang are the largest minority with over ten million members. Then there are fourteen other groups with populations up to 10 million, including the Koreans and Hui. Thirteen minority groups, including Kazak and Dai, number between 100,000 and one million. The Daur and Jinpo have populations of 10,000-100,000 along with 16 other national groups, and there are nine very small minorities, including Russians and Tatars who number less than 10,000. The smallest population is the Hezhen, with only 1,400 people (He, 1990: 1).

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<sup>1</sup> For the chronological evolution of the Chinese responses towards minorities, see (Liu, Ziwen, 1994).

<sup>2</sup> The government undertook lengthy examination of the applications, recognising 54 nationalities by 1957, adding one (the Jinuo) in 1979.

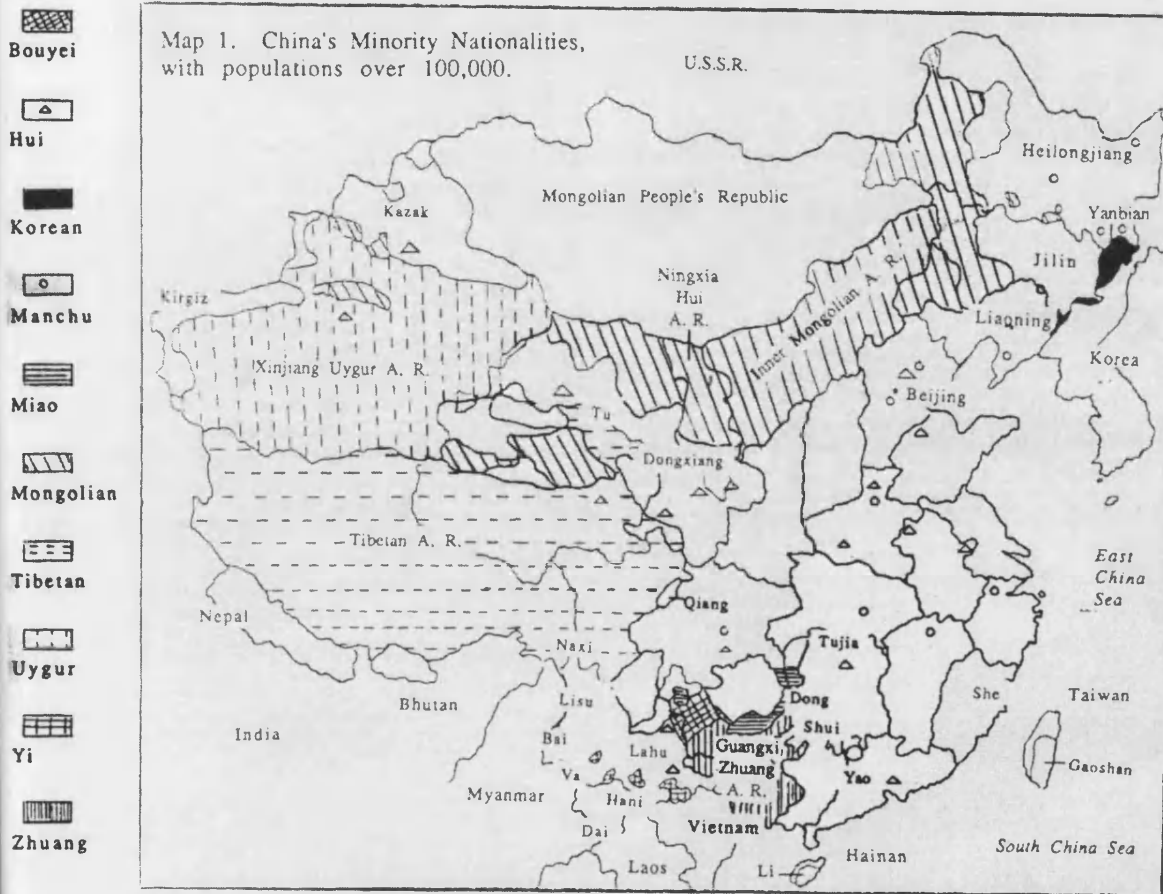
Since the establishment of the PRC, autonomy (*zizhi*) defined by a combination of territory and nationality, has been granted to minority areas.<sup>3</sup> The Chinese Communist Party (CCP) has decided that the structure of national autonomous regions are the best way to handle the diversity of minority groups within China (Jin, Shangzhen, 1990: 31). The institutional unit could be an autonomous region, prefecture, county, or township and bodies for self-administration were established. In 1989 there were 141 areas that were granted regional national autonomy (5 autonomous regions at the provincial level: Inner Mongolia, Xinjiang of the Yugur, Guangxi of the Zhuang, Tibet, and Ningxia of the Hui; 31 autonomous prefectures and 105 autonomous counties and nearly 3,000 minority townships. These regions (in 1987) covered an area of 6.1 million sq. km (64% of the country) and contained 142.5 million people, of which more than 62.5 million were from national minorities (Heberer, 1989: 40-1).

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<sup>3</sup> Heberer explains autonomy 'does not mean that these regions have the right to secede from the sovereign territory of the PRC, but it does mean that, under the "direction of higher authorities", they enjoy certain special rights over other administrative units. In these regions, the language(s) and writing(s) of the region's autonomous nationality (or nationalities) should be used; administration must (or should) be in the hands of functionaries from the minority population; the regions can promulgate their own laws and regulations, draw up their own production plans (within the bounds of the central state plan), and choose their own path of economic and cultural development (within the lines of the constitution). Furthermore, the autonomous regions can administer local finances themselves (within the framework of financial planning for the state as a whole), and can have their own local security forces' (Heberer, 1989: 40-1). However, this changed in the 1990s as a result of the spread of more market conditions and increased Han migration to minority areas.

**Figure 6-1. China's Minority Nationalities**

Source: (Heberer, 1989: xiv)





## 1.2 Characteristics of minorities

Compared to other multi-ethnic countries, China has a small portion of minority populations. However, the significance of the minority for China cannot be ignored for three basic reasons. First, some of these areas are rich in natural resources, which are as yet under-exploited. If living standards are to be raised and economic development to be progressed, these resources need to be exploited efficiently (Dreyer, 1983: 359; He, 1990: 1-2).

Second, the border regions where the minorities are mainly located are of strategic importance (Dreyer, 1983: 358). The size of the non-Han minority groups is small in relations to the total population, but they are settled mainly in the west, north and northeast that most of the non-Han areas lie. Up to 70% live in these areas (Olivier, 1993: 1-2). Thus the minorities are of importance to China's defence strategy. In the case of war a change of allegiance by minorities could significantly impair China's defence capability (Ibid.: 16). Apart from this, immediate relations with neighbouring countries have potential to influence social stability even in times of peace.

Finally, there is the propaganda factor. The CCP held out its own brand of socialism as a model for other areas of the developing world. Clearly, discontented ethnic populations would undermine this claim (Dreyer, 1993: 359). Specifically, a successful minority policy might help to persuade Taiwan that absorption into the PRC would not destroy the Taiwanese sense of nationhood (Ibid.: 377).<sup>4</sup>

## 1.3 Evolution of China's minorities policy

The PRC has tried to keep national unity as a fundamental, and this can be seen in the policies and actions proposed since 1949. The policy on minorities in general has four dedicated goals: equality among the nationalities, autonomy in nationality areas, joint development, and joint prosperity and unity among the nationalities (He, 1990: 3). In the early 1950s the approach of the CCP towards minorities was 'gradualist'. The focus was on 'integration' (*ronghe*) rather than 'assimilation' (*tonghua*) (Brugger & Reglar, 1994: 313-9). In the Great Leap Forward (1958-61) and especially during the Cultural Revolution (1966-

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<sup>4</sup> For the importance of the Taiwan problem to the legitimacy of the Chinese nation-state itself, see Chapter 1 of (Hughes, 1997: 1-20).

76), however, the earlier official minority policy was revised.<sup>5</sup> Pressure was exerted to assimilate the ethnic minorities, and in cases force was used.<sup>6</sup>

In the Third Plenum of 1978, a wholesale reassessment of the minorities policy which had been applied during the Cultural Revolution was taken. Errors were recognised (Ibid.: 332) and the 1982 constitution set out a relatively improved new status for minorities. This was followed by the autonomy law of 1984, which, in granting special rights in the areas of regional planning, economic development and administration of resources, foreign trade, the financial and tax sectors and education, took the process even further (Heberer, 1989: 43). Lower administrative levels (provinces and prefectures) were given broader decision-making powers with the aim of benefiting the local populations (Ibid.: 46).<sup>7</sup>

#### 1.4 Limits of China's minority policy

However, there remain limits to this newer approach from a legal point of view, as well as in practice. On the face of it, more freedoms and rights were allowed under the 1984 law. But upon closer look, it transpires that in order for the law to be effective substantial legislation from central government is required. However, the CCP was granted supreme power by the constitution and therefore the autonomous regions were necessarily subordinate to the organisation that was dominated by the Han (Ibid.: 42-3). Sceptics further point out that the commitment to improving minority well-being is apparent only in rhetoric and declaratory statements, and not in practice. Actual policy involves Han supremacy and assimilation through the denial of self-rule coupled with the encouragement of Han migration into minority areas. In Inner Mongolia the Han outnumber the Mongolians by more than 5:1. In Xinjiang the Han proportion has grown to 45% making it the largest ethnic group when in 1949 it accounted for only 7% of the total.<sup>8</sup> More importantly, the gap between minority and Han regions has been growing. If the state cannot guarantee a broad margin of substantive self-determination to minority areas, especially in economic matters, it will lead to increased tension between minorities and Han. The minority regions are among the poorest and least-

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<sup>5</sup> In the 1950s the CCP followed Stalin's policy which at least enabled minorities a degree of separation. This was abolished briefly from 1958 to 1961 and again in 1966 to 1976.

<sup>6</sup> 'They were divested of all special rights, their languages and modes of writing were forbidden, and their manners and customs suppressed. Although all the Chinese (including Han) suffered during the Cultural Revolution, the minorities experienced the particular indignity of being coerced to renounce most of their national identities' (Heberer, 1989: 17).

<sup>7</sup> It is important to note that the leadership and real decision-making was in the hands of the Han.

<sup>8</sup> Dissatisfaction with the Han grew. But the Han are the dominant majority now everywhere except for Xinjiang and the Tibet.

developed regions in China, and there are real fears that they will see the erosion of national and cultural symbols and cohesion with natural resources being exploited but not for the good of the region (Ibid.: 45). Such ill-feeling towards the centre would have strategic disadvantages for China, as minorities would be more open to subversive influences from foreign powers (Dreyer, 1993: 358-9). Thus the CCP needs to keep control over minority regions, since these are important for defence and economic growth. At the same time it has to tread carefully to keep the loyalty of the minorities (Ibid.: 360).

## **2. China's Korean minority policy**

This section explains why the Korean minority is important to China. To understand this, this section firstly provides a brief overview of China's nationality policy, and with regard to Koreans examines how China has managed the Korean minority policy.

### **2.1 Background**

As a Chinese area of the Tumen River Economic Development Area (TREDA), the Yanbian Korean Autonomous Prefecture forms the 42,700 sq. km of Jilin province which lies in the extreme Northeast of Jilin, bordering the Russian Far East to the north and the east and the DPRK to the south. The length of the entire prefecture reaches 755.2 km, including 522.5 km for the Sino-North Korean border, and 232.7 km for Sino-Russian one. The area has five main urban centres (Yanji, Dunhua, Hunchun, Longjing, Tumen), three counties (Antu, Wangqing, Halong) and has seven border crossings; one with Russia at Changlingzi and six with the DPRK at Nanping, Sanhe, Kaishantun, Tumen, Shatuozi and Guchengli (UNIDO, 1995a: 2).

The prefecture's name reflects the 855,000 Koreans living there - 40.6% of the 1995 total population of 2,150,000. However the Han Chinese make up a 57.4% majority of the people. Other minorities include the Manchu (1.8%) and Moslem Hui Chinese (0.2%) (Ibid.). As previously mentioned there are 55 minorities in China. Koreans represent the thirteenth largest non-Han nationality. They are a significant minority group as they outperform other minorities in various socio-economic areas, and are considered to be a success story in China's minority policy.<sup>9</sup> The Yanbian Korean Autonomous Prefecture was established in

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<sup>9</sup> Koreans in China have the highest percentages of young people in further education in relation to other

Jilin on September 3, 1952. In December 1955, the Yanbian Korean autonomous *qu* was changed into the Yanbian Korean autonomous *zhou*.<sup>10</sup> In 1958 a second important autonomous Korean area, the Changbai Korean autonomous county, was created on the Chinese side of the Yalu river. Six other Korean autonomous townships in Jilin province and one mixed Manchu and Korean autonomous township were later established (Olivier, 1993: 74-5).

## 2.2 History of Korean migration

The Chinese of the Northeast and Koreans have a long shared history. Forefathers of the Koreans, the Yemaek, were settled in Northeast China, and founded the Chosun and Koguryo states. After the Korean Peninsula was brought together over 1000 years ago the Northeast Chinese regions were abandoned to China (Ibid.: 11). Those Koreans that remained gradually blended with other native peoples of the region. In fact the present Korean minority traces its roots back not to those early Koreans, but the migrations in the seventeenth and nineteenth century from south of the Yalu and Tumen Rivers (Piao, 1990: 44-5).

The Qing dynasty sought to create protective buffer zones around its Manchu homeland. The region between Korea and China in the area of Yalu and Tumen Rivers was targeted, and in the so-called 'Willow Palisades' of 1677 Han people were forbidden to move to the area north of Mount. Changbai (Ibid.: 48). Some migration to the Northeast still took place. From 1845 the restrictions were slowly lifted until after losing territory to Russia in 1860, and full freedom to migrate was re-established. Indeed there was a reversal in that Korean settlement in Yanbian to the north of the Tumen River, in present-day Yanbian, was encouraged (Olivier, 1993: 17-9).<sup>11</sup>

After Japan controlled Korea and annexed it in 1910 following its victory over China in the 1894-5 war, many Koreans fled to Northeast China. In fact migration had begun to grow from the middle of the nineteenth century and it continued until the end of World War II in

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minorities, and the highest literacy rates. Only 11.4% of the population (over 6 years of age) remains illiterate. In other minorities this is 33%. Life expectancy through birth is high among Koreans, and Koreans have the highest and lowest percentages of people employed in the professions and agriculture respectively (Park, Kyung Ae, 1991: 209).

<sup>10</sup> 'An autonomous *qu* was, equivalent to a province, but when it was part of a province it had to be called an autonomous *zhou*, or 'prefecture'' (Olivier, 1993: 72).

<sup>11</sup> The occupation by Russia and later Japan coupled with the impact of the flooding of the Yellow River as it changed course in the 1850s caused the Qing to encourage Han people from Shandong to move in the Northeast.

1945. In 1860, the Korean population of Yanbian stood at 100,000 people or 77% of the population. By the end of the Qing dynasty it was 200,000. In the 1920s, it grew to 500,000; and it reached a million in the late 1930s. By 1944, the total population of the area had increased to 1,002,650 - 63.5% of the population (Ibid.: 26). The 1985 census showed 1,765,200 Koreans in China, located in the three provinces of Manchuria. Jilin had 1,104,074 Koreans – 61% of the Koreans living in China, Heilongjiang had 431,644 or 24%, and Liaoning, with 198,752 Koreans, or 11% of the total Korean population. In addition Koreans lived in other parts of China, for example, 17,680 reside in Inner Mongolia (Jin, Shangzhen, 1990: 32).

### 2.3 Changes to China's Korean minority policy

However, the authorities and elites did not wish to acknowledge Koreans as an internal 'minority nationality', and took action to suppress Korean identity and to encourage assimilation (Piao, 1990: 70). This was true from the Qing, who sought to make the Koreans Manchurians, through to the Kuomintang (KMT), who saw the Koreans as an element of local nationalism which prevented China's effective unification (Brugger & Reglar, 1994: 307),<sup>12</sup> and who were used by the Japanese.<sup>13</sup>

Unlike the Qing and the KMT, the CCP had a closer relationship with the Koreans. Drawing on their common opposition to Japan it managed to muster significant Korean support, whilst other minorities were better disposed towards Japan or even supported the KMT. Korean communists both took part in the Northeast Anti-Japanese United Army to fight Japan, which had made much of the theme of 'national independence' in its intention to wrest territory away from China, and supported the revolution in China. They had full encouragement from the Chinese communists, who realised the potential of the Korean populace in the 'old liberated areas' of Yanbian of the Northeast. By 1930 the CCP had recognised the Koreans in China as a minority nationality (Piao, 1990: 71), even though they were relative newcomers to the region.

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<sup>12</sup> The KMT hardly ruled here – the warlord Zhang Zuolin did so until he was killed by the Japanese, who ruled from 1931 to 1945. Then came the Russians.

<sup>13</sup> 'Japan used the Koreans of Yanbian as a convenient excuse for advancing its interests in Northeast China, declaring, in 1905, that they would protect the Koreans of Yanbian. Japan appeared to be helping the non-Han to rid themselves of Han domination while it was simply using them. It suited Japan to "protect" the Manchus, Koreans, and Mongols because of their numerical significance and potential political leverage' (Olivier, 1993: 42).

This historical relationship between the CCP and the Korean minority in Manchuria, and also the Korean War, can explain the party's positive stance towards the Koreans of Northeast China in the early 1950s. Granting them autonomy within China rather than repatriation was a natural outcome after Japan's defeat and the establishment of an independent Korea. Koreans became well represented in all autonomous organs, and the two main Korean territorial autonomous areas were established (Oliver, 1993: 48-55).

#### 2.4 Korean minority problem in the 1990s

Nevertheless, in the 1990s the implementation of the CCP's minority policy underwent changes, which threatened to destroy such earlier achievements for the Koreans. The post-Mao era of the late 1970s and early 1980s and its new economic policies overwhelmingly benefited the Han. Emphasis on technological development and economic performance in areas other than the Northeast meant that Koreans began to fall behind from an original position of relative socio-economic advantage (Ibid.: 2).

The Chinese government began to be especially worried about internal political stability and security. The 1989 Tiananmen crisis followed by the collapse of communist regimes in Europe and the Soviet Union made China's leaders feel insecure about the political cohesion of the country. Domestic unrest is especially dangerous for China when the unstable elements have links outside the country, giving rise to a serious external security threat. Minority populations are central to Beijing's perception of security. For the Chinese leadership minorities such as Xinjiang and Tibet can become a threat at any time (Hu, Weixing, 1995a: 127-8).

China's sensitivities to Yanbian where the Korean minority lives have been apparent in this dimension. For example, China was said to have been hesitant to permit South Korea to set up the Korean Consulate General in Shenyang, because the government was concerned that this would result in encouraging nationalist aspirations among the Korean minority in Yanbian. Thus China only agreed to allow the South to open a representative office and not a consulate there (*Chosun Ilbo*, 28 January 1999). China also protested at the South Korean government's attempt to introduce a 'Special Law for Overseas Koreans', which was based on *jus sanguinis*, contending that the law might give an impetus to Korean nationalism in Yanbian (Ibid., 11 October 1998).

Perhaps, Beijing's sensitivity to Yanbian, which Koreans claim, holds potential for territorial conflict. The first concern comes from the different interpretations over whether Yanbian was really inside or outside the traditional area of Chinese control. Historically, Koreans have not viewed Yanbian as a 'real' part of China but as an integral part of Korea. Oliver gives several arguments between the two sides. Yanbian was in fact referred to as Jiandao in Mandarin and Kando in Korean. There are several ways of reading Jiandao. The character jian means 'between', which posits that the Yanbian area was seen as an 'in-between' island (dao), surrounded by rivers. Alternatively, Jiandao could be taken to mean a neutral island, between China and Korea (originally constructed by Manchu isolationism). A third theory argues that Jiandao is a mispronunciation for Handong, 'east of Korea', or Jiangdong, Kangdong in Korean, 'east of the Tumen river'. Another explanation is that the so-called 'in-between' island would have been, at the beginning, a real island. It is said that about two hundred years ago, the Tumen River basin was flooded, that an island of river sands of about 300 hectares appeared, and that Koreans occupied it and brought it under cultivation. These river sands were called Jiajiang 'false river' or 'double-river' in Chinese, but Kendao 'reclaimed island', or Jiandao 'in-between island', in Korean. Both Jiandao and Kendao are pronounced Kando in Korean. This island was located in Longjing County (Oliver, 1993: 25-6, 29-30).

In addition, it is always possible that a reunified Korea might open up territorial claims in border areas with China, especially where Koreans consider to be the birth-place of the Korean nation. Claims of this sort have been voiced both by Kim Il Sung and by South Koreans (Lee, Chae-Jin, 1996: 173; Garret & Glaser, 1995: 541). Some Koreans still argue that in 1909 Japan transferred this territory to China, ignoring Korea's sovereignty. In September 1909, Tokyo signed an agreement with Qing government by which Japan recognised that the border between China and Korea was the Tumen River. The Japanese Joint Chiefs of Staff in Korea investigated the Baikdu (Changbai) stone monument, which was built in the three kingdom period in Korea in 1907 and confirmed that Gando was the territory as an eastern part of a line from the Tumen River through the Songhua River and Heilong River to the Sea of Okhotsk. But the Japanese reduced the scope of Gando's territory to the current Yanbian area, otherwise Korea's territory would have been extended to even the Maritime provinces of Siberia. It is told that Japan at that time was concerned that it would be harmful to its future interest, if the grand territory had been ceded to Korea, and Korea with a huge territory would be a strong competitor if one day it were liberated. Thus Japan gave up the Gando area for further interests in Manchuria (Lee, Ilgul, 1995: 198-9).

Some would further propose that negotiation between China and Korea on the Gando should be reopened. For example, in 1995 Kim Won-woong, MP, argued in the Korean Parliament 'Gando is a Korean territory'. This was followed in 1983 by Kim Young-kwang and other 54 MPs of South Korea, who submitted a resolution of Baikdu Mt. Dominion (Lee, Ilgul, 1995: 197). In the case of the dispute between China and a reunified Korea, the loyalty of the Korean minority in Yanbian will be an important factor.

## 2.5 Policy measures

The PRC has approached this sensitive situation with both hard and soft tactics. The government has pursued 'soft' measures such as promising and helping in the economic development of the region, while it pursues a 'hard line' by encouraging Han migration to the region and appointing Han people to highly responsible positions in the regional political organisations.

### *Hard line measures*

This Han migration can be seen simply as a solution to overcrowding in the main Han population centres, and as a way of bringing in the necessary manpower to better exploit Yanbian's natural resources. The result, however, is of course an erosion of the minority population's autonomy and cultural independence (Heberer, 1989: 97-8). Strategically, increasing Han presence in the region may strengthen the centre's influence over a border region which is important from a defence point of view, and it may also help to dilute any calls for nationalist moves towards a reunified Korea. According to Lee Hongwoo, President of Yanbian Prefecture Political Science Association and Professor of politics in Yanbian University, the proportion of Korean population in Yanbian has decreased from 60.1% in 1953, 45.3% in 1982, to 39.5% in 1990, and is estimated to fall to less than 20% in 2110, when 2 million Han population will have migrated there (*Heilongjiang Ribao*, 28 October 1995, in Lee, Ilgul, 1995: 196).

In a change to the initial policy many Han have now been appointed in high level official positions. The majority of cadre level positions had earlier been given to Koreans (78% in 1952) as a means of achieving local cooperation in the new order. However, by 1971 only 7 (27%) of 26 core positions (party secretaries and deputy secretaries of 8 cities and counties in Yanbian) were filled by Koreans. Since then the percentage of Korean cadres at all ends has



stabilised at 54.3% in 1982 and 51.0% in 1992 (Kim & Kim, 1994: 40-1). By putting Han cadres at the highest levels of both the local party and government organs, the CCP is attempting to prevent power slipping from the centralised control of the party.

### *Soft measures*

The Chinese leadership has also been encouraging economic development in Yanbian in order to soothe the Koreans' resentment in the so-called '*Lao-Shao-Bian-Cong*' - Old revolutionary base, Minority, Border, Poor region. Beijing realises that local economic and political circumstances need to be taken more seriously if they are to put forward policies that stand any chance of successful implementation in these areas. Encouraging economic development of the non-Han will help to diffuse ethnic tensions (Olivier, 1993: 261). This fits in with the leaders' view that prosperity will quiet discontent.

Economic development was given maximum priority, markets were liberalised, and export of local crafts were encouraged. These were strategies seen to have worked in the modernisation of Han regions (Dreyer, 1993: 378-9). Yanbian is more easily accessible to foreign countries than to major cities in China like Beijing and Shanghai, and cross-border trade was often both easier and more convenient in terms of procuring certain goods. Chinese Koreans have also been encouraged to seek foreign sources of investment. As Chinese provinces pursue local economic growth, Yanbian has sought to develop trade and attract investment from foreign countries, leading to increasing interdependence between Yanbian and its neighbouring countries. Different regions are thus being pulled in different directions by their foreign partners. The TRADP was chosen as a state level development project in the Ninth Five-Year Plan (1991-95), in view of its potential for increased border trade with neighbouring countries.

### **3. Concluding remarks**

China hopes to keep domestic political stability in the region with the above measures. The Chinese leadership authorised the Special Economic Zone (SEZ) in Yanbian. Jilin Province officials believe that development will greatly benefit the region, and has been very active in opening up its borders. However, from the viewpoint of the central government, the creation of a SEZ in Yanbian was motivated by political as much as economic considerations. It has been argued that ethnic Koreans' loyalty to Beijing will be weakened, if economic benefits

fail to materialise (Olivier, 1993: 261). The Chinese government was forced to seek a more balanced regional development within China, and, as a result, created the SEZ in the Tumen River in Jilin Province, to pacify local resentment against the centre.

## **II. Navigation to the East Sea through the Tumen River**

Both Beijing and Jilin Province have attempted to overcome the latter's land-locked status, but their objectives are not the same. While Jilin Province hoped that the access to the East Sea would permit the province to gain a trade route with neighbouring countries, Beijing's effort was made to restore the country's previous navigation rights. As seen in the significant role played by Beijing in the TRADP policy process in Chapter Five, the central government was crucial in restoring navigation right. Evidence is lacking, and limited sources providing only a chronology of the project have hindered this research. However, we might expect that such a diplomatically and militarily sensitive issue as China's navigation rights to the East Sea, which had been blocked since 1938 by the Soviet Union and North Korea so that China needed the two countries' agreements, cannot be considered only at a provincial or economic level. The outcome might have been manipulated at Beijing government level. Therefore, the provincial activities would only have been possible with Beijing's tacit agreement or direction. Therefore, Part II will describe how China attempted to realise its long-standing desire to gain access to the East Sea. It will first discuss China's legal and historical claims before assessing the economic aspects and security implications of navigation to the East Sea.

### **1. History of navigation attempts**

Olson and Morgan summarise the navigation history of the region. In 1860 Russia in the Treaty of Peking won from Qing China an area of land measuring 400,000 sq. km. This area included the final stretch of the Tumen River into the East Sea, blocking previously held Chinese access. In 1886 the Treaty of Hunchun restored some Chinese navigation rights and use was made of the river to connect Hunchun to coastal cities as far away as Shanghai. Trade increased so that by 1929 there were 1500 boats in Hunchun country. These boats could handle up to 25,000 tons between them, and Hunchun port was considered in studies done in the 1920s and 1930s to have an annual capacity of 500,000 to 800,000 tons. In 1938

this trade was brought to a halt by the presence of the naval build up in the East Sea, and with Japan's defeat at Zhang Gufeng this part of the river was closed completely. Further conflicts, first between KMT, then the Korean War, and finally the dispute between China and the Soviet Union meant that the potential of the river as part of the transport infrastructure remained untapped (Olson & Morgan, 1992: 69-71). With the outward-looking open door policy of China, the need for access to the East Sea has put the issue of navigation on the Tumen River back on the table.

China's renewed attempts to gain access to the East Sea started at the provincial level in the mid 1980s. In December 1986, the 'Study Group on Jilin Province's Trade With the Soviet Union' and the Geography Department of Northeast Normal University worked together and submitted to the Jilin provincial government the 'Report on the Use of Tumen River and the Development of Jilin Province's Coastal Area to Outside'. In the same month, the Hunchun People's Government published a report, concluding that 'Fangchuan near the Tumen is the best place in Jilin Province to open to Northeast Asia', referring to the exit to the East Sea. The Chinese Institute for Social Science of Jilin Province also suggested opening Tumen City to the outside. On 10 January of the following year, the then Jilin Province Governor Gao Dezhan encouraged a new speedy study (Chiao, 1994: 636-7).

In response to Jilin Province's active reports and suggestions, Beijing started to think seriously about the idea. Between 12 and 19 March 1987, Song Jian, the minister of the State Science and Technology Committee, sent the State Ocean Bureau examiners to the Province to investigate the possibility of exit to the Tumen River. The State Ocean Bureau proposed that a port should be built in Fangchuan. In April Gao Ditong, the then Provincial Secretary of the Chinese Communist Party (CCP) stated that the area must be developed in the national interest. The Jilin Provincial Government officially sent the letter, 'With Request to solve the right of the Province to exit to Tumen River', and further urged the State Council to place it high on all of the agendas in the Sino-Soviet border talks. On 21 July, Qian Qichen, the then foreign minister, told to the provincial representatives that the Ministry was very interested in the issue of exit to the Tumen River and would discuss it in the Sino-Soviet talks (Ibid.: 637-40). On 5 October 1988 Song Jian sent a letter to Chin Hongmu, the head of the State Ocean Bureau:

As you have also been informed of this project, I suggest your Ocean Bureau examine it in full and report to the Ministry of Foreign Affairs as soon as possible. We should not lose this golden opportunity, which comes rarely once in a hundred years, so that future generations can inherit national glory (Ibid.: 642).

Chin Hongmu reported to Song Jian that the bureau would set up the plan of the exit to the Tumen River and study Chinese interest in the exit to the East Sea on 19 December 1988. Four months later Song Jian transferred a report on 3 April 1989, 'From the Viewpoint of International Law in regard to Our Navigation Right to Tumen River', to Li Peng, the then premier, suggesting that the navigation issue should be placed on the diplomatic agenda with the Soviet Union. On 18 July the Ministry of Foreign Affairs sent the report, 'Current Situation on the restoration of Our Right to Navigation through Tumen River and Resolution of the Surrounding Difficulties' to the State Council. The report emphasised that 'We will continue our efforts and prove it is naturally our right'. On 26-29 July, some researchers from the Ministry of Transportation investigated the Tumen area, and later sent a report, 'Current Situation of the Tumen Navigation Route'. On 1 December some provincial middle ranking officials and scholars requested that a 'Leading Group of Tumen River Navigation' be established, and with plans to establish the 'Hunchun Economic Special Zone' in due course. They also suggested the Ministry of Foreign Affairs discuss with the Soviet Union and North Korea plans for coordinating Tumen River navigation (Ibid.: 642-5).

On February 18 1990, the Ministry of Foreign Affairs requested permission from the Soviet Union for China to undertake a scientific investigation of the Tumen area. During 18-20 March, the Beijing Bureau of Jilin Province People's Government convened the meeting on the navigation of the Tumen River, involving relevant organisations such as the Ministry of Foreign Affairs, General Staff Office, National Commission of Science, Ministry of Transport, State Ocean Bureau, Institute for Ocean Development Strategy, Yanbian Korean Autonomous Prefecture, and Hunchun city and so on. On March 28, the Soviet Union Embassy to Beijing agreed to a Chinese ship's inspection tour of the Tumen River. On March 29 the Ministry of Foreign Affairs also made the same request to North Korea for the same mission. The North Korea's Embassy to Beijing also agreed to this on April 7, and expressed on 22 May that there are 'no agreements impossible' between China and North Korea and that Chinese navigation would provide interest to the North as well. Having gained the permission of both countries, China's first navigation took place on 28 May. For the first time

since 1938, officials and scholars from Jilin Province and the State Ocean Bureau travelled to the mouth of the Tumen River (Ibid.: 645-648).

On 20 August 1990, Jilin Province established the Ocean Management Office under the provincial government. On 11 January 1992, the then Jilin Province Governor Wang Zongwu said that the province would concentrate on resolving the navigation issue in 1992. On February 9 the Ocean Development Office of Jilin Province produced a report, 'On Developing the Lower Stream of Tumen River', and explained what the project had achieved in 1991: i) enforced the capacity of the Ocean Development Office of Jilin Province; ii) gained the recognition of navigation rights by two neighbouring countries; iii) investigated the Tumen River successfully; iv) successfully hosted the Second Changchun international conferences on the project; v) produced two important reports, 'Report of the Lower Stream Tumen River Development' and 'Report of the Tumen Development and Our Policies'; vi) completed the report, 'The Tumen Area Development Plan'; vii) invested in the Hunchun area; 8) upgraded Hunchun into one of the national level open cities; 9) improvement in basic infrastructure in Hunchun; and x) took the Tumen project into a new stage (Ibid. 663-4). The second navigation activities took place between 20 May and 29 June 1992. This time the trip took much longer than the first navigation which lasted only one day. Officials from the province and the State Ocean Bureau pursued the inspection tour through the Tumen River and even to the East Sea. The tour even extended to Vladivostok, Niigata (Ibid.: 657). However, since then no reports of Chinese navigation on the river have been made.

**Figure 6-2. Tumen River**  
Source: (Cho & Valencia, 1992: 5)

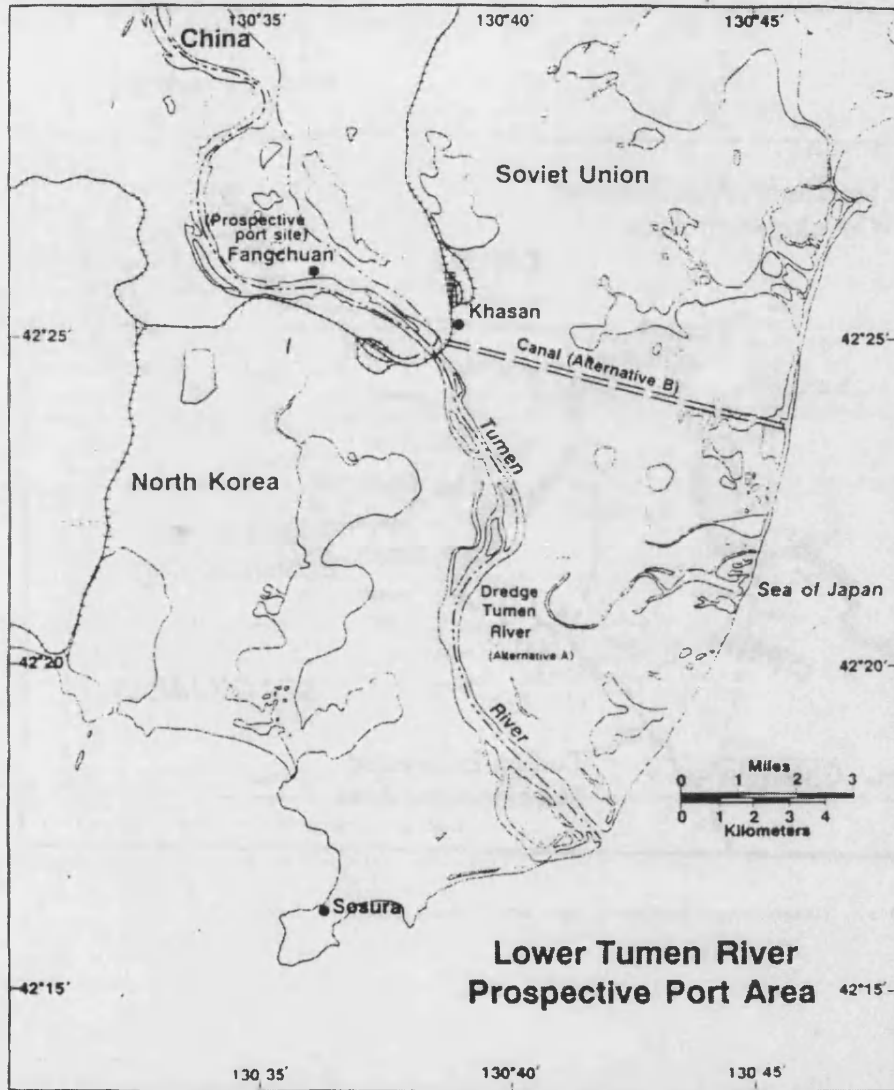


Figure 3. Lower Tumen River Prospective Port Area (Courtesy of Hal Olson).

## 2. China's position on the legal and historical claims of navigation

The three bordering countries of the Tumen River had concluded bilateral treaties amongst themselves in the nineteenth century. Olson and Morgan summarise the treaties which have been since the 19<sup>th</sup> century. In 1860 'the Peking Additional Treaty of Commerce, Navigation and Limits' between China and Russia, which was signed on 3 November 1860 in Peking and later ratified on 20 December 1860 in St. Petersburg, agreed that the Manchu-Russian border at its southern point was 13.2 miles from the Tumen mouth, with territory further east taken to be the Russian-Korean border. In 1886 the Treaty of Hunchun made modifications and this point between Russia and China was moved 3 miles east. Navigation of the Tumen River from there on to the mouth was regulated by the 1888 (Olson & Morgan, 1992: 69-70). Treaty of 'Regulations between Russia and Korea, respecting the Frontier Trade on the River Tumen', which stated that 'Russian and Korean coastal-vessels shall be free to navigate the River Tumen. For the control of intercourse between the two shores and of shipping on the river, the competent authorities of the two countries shall hereafter draw up special regulations for navigation'.<sup>14</sup> In the twentieth century a border agreement was reached between Moscow and Pyongyang in 1985.<sup>15</sup> This clarified the boundary between the two countries as the Tumen River, and their respective territorial waters and continental shelf were further defined in a 1986 treaty (Ibid.: 71). The upshot of all these bilateral agreements was that China had no direct access to the East Sea.

China is not a land-locked country, but the Chinese government thinks that Jilin Province should enjoy the privilege of land-locked countries or regions. The rights of land-locked states are dealt with Article 124 of the 1982 United Nations Convention on the Law of the Sea.<sup>16</sup> This article in fact probably does not apply at all to China, as it is plainly open to the Yellow, East China, and South China Seas, since it can by no means be considered to be 'land-locked', and lack of access to the sea at one point may not be such as to seriously

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<sup>14</sup> (The Korea-USSR Boundary, *The Geographer*, US Department of State, Washington, DC, 1965, cited in Olson & Morgan, 1992: 69-70).

<sup>15</sup> The agreement of 1985 consists of two parts: The Treaty between the Union of Soviet Socialist Republics and the DPRK on the Demarcation of the Soviet-Korean National Border, and Description of the Demarcation Line of the National Border between the USSR and the DPRK (Park, Choon-ho, 1993: 74-6).

<sup>16</sup> According to Olson and Morgan's interpretations: 'Part X, articles 124-132, of the 1982 Convention establish that land-locked states have right of access to and from the sea and shall enjoy freedom of transit through the territory of other states by all means of transport. The means for exercising this freedom of transit are to be the subject of bilateral, sub-regional or regional agreements' (Olson & Morgan, 1992: 71).

disadvantage China. In all likelihood, China has no rights under international law to access the Tumen River (Ibid.).

However, apart from the relatively new UN convention, customary international law and diplomatic practice have seen cases of countries which have long coastlines being granted rights of access via rivers.<sup>17</sup> In the case of the Tumen, the Chinese had indeed made use of it until 1938. Under the Russian-Qing boundary agreements in 1860 Russia took over Siberia, but China reserved access to the East Sea via the Tumen River. Thus access rights have been seen as important even where they are not a vital necessity, as in the case of a completely land-locked state. A foreign vessel enjoys a right of innocent passage through the territorial sea of the coastal state, as long as the passage is not prejudicial to the peace, good order, or security of the coastal state (Paik, Jin-hyun, 1995: 32). Some international law experts have accepted that extrapolating from a foreign vessel's rights of peaceful passage implies that an upstream state may use a river to access the sea for the purposes of trade and commerce (Pounds, 1959, in Olson & Morgan, 1992: 72). If a state is land-locked, then such rights are all the stronger, but even where a state does have other sea access, rights by an upstream state to navigate an international river may be part of international law (Ibid.). China has therefore argued that coastal states have the general duty not to hamper the innocent passage of foreign ships except in accordance with the Convention. Russia and North Korea should permit use of the river for Northeast China to which the Tumen River is the obvious solution to the East Sea (Li, Dehu, 1993).<sup>18</sup>

### 3. Implications

What benefits might China derive, if China navigates? Achieving navigation rights would provide the Chinese with a symbolic turning point in its quest to restore previous practice. In addition China would enjoy the additional benefits of securing the use of the Rajin port.

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<sup>17</sup> There are some notable examples: in 1920 Finland was permitted to retain the boundaries Russia possessed in the Treaty of Dorpat; In 1854 the Reciprocity Treaty between the Britain and the US guaranteed to American citizens 'the right to navigate the River Saint Lawrence' (Olson & Morgan, 1992: 72).

<sup>18</sup> After China is able to access the East Sea, with its own inland port, it can become a full member of the region and can make its own contribution to the region, says Li Dehu of China's State Ocean Bureau's Ocean Development Strategy Institute (Li, Dehu, 1993: 24).



### 3.1 International maritime aspect

The East Sea is a kind of multiple junction for both regional and global trade. Vessels on their way from North America to ports on the Sea normally pass through the Tsugaru Strait, or sometimes through the Soya Strait. Vessels from North America to the west coast of Korea and northern China use the Korea Strait (Olsen & Morgan, 1992: 60). All goods shipped to and from these countries may use the East Sea. For China the Sea, accessed via the Tumen River, would provide shorter trade routes to the three main trading partners there (Ibid.: 69).

### 3.2 Domestic economic aspect

For geographical reasons, there are not many north-south navigable rivers in China. The railroads and the road network are not sufficient (Song, Yann-huei, 1990: 56). A north-south shipping route would thus be extremely welcome. This would provide a channel, not only for international but also for domestic trade with the main commercial centres on the south and east coasts. The Tumen-Rajin route, if developed, would have the potential to relieve pressure on Dalian which is China's busiest port on the Yellow Sea. Rajin would also be particularly useful as a stopover port for international trade (Olson & Morgan, 1992: 69).

### 3.3 Possible maritime claims

Rights of navigation would not entail rights to sovereign territory or maritime exclusive zones. However, China's possible position on the sovereign and maritime claims of navigation is influenced more by its concern to expand its geopolitical sphere of influence than by international trade considerations. The East Sea has important sea resources. The exploitation of sea resources, especially oil and gas, depends on the delimitation of maritime boundaries. It would be able to use fisheries and sea lanes and carry out scientific research in the East Sea. This might force the coastal states 'to review the pending maritime boundary issues with reference to the 1982 Convention' (Park, Choon-Ho, 1993: 70).

### 3.4 Military value

The importance of the Rajin-Sonbong Free Trade Zone is rooted in Rajin port. The blockage of Chinese access to the East Sea not only contributes to the security of the Sea Lanes of Communication (SLOC) in the Northwest Pacific but also exerts a great effect on strategic positions in Northeast Asia. The three Northeastern Chinese provinces were a key part of Japan's Greater East Asia Prosperity Sphere in the 1930s and 1940s. In the 1930s Japan expanded Rajin port since it was of strategic importance for its expansion into Manchuria

(Kim, Yongsam, 1998: 167). Following the visit of Kim Il Sung to Moscow in 1984, the Soviet Union was permitted by North Korea to use its naval bases of Rajin with Chungjin and Wonsan on the east coast, and Nampo on the west coast, as well as to have legal and free use of North Korean home waters. This was the Soviet Union's way around its own strategic blockade of the Korea-Tsushima Straits which enabled it to gain access to the major sea-lanes in Northeast Asia (Lee, Kitaek, 1987: 50-2). By preventing Chinese access to the Tumen River, the Soviet Union was able to put a stop to China's ambitions in the East Sea and, by denying China further access into the Pacific Ocean, thwart its military strategic purposes. In this, the gaining of access to the Sea via the Tumen River would help to conduct military surveillance operations, according to an interim document, dated May 1987, in the 'Restoration of the Access to Tumen River Right Problem', provided by a 'Studying Group of Restoration of the Access Right to the Tumen River and Open-up to Outside under Jilin Province' (Chen & Yuan, 1996: 128).

### 3.5 Policy alternative

The paper 'On Navigation to the Tumen River and Jilin Province's Open-up to Outside' by a study group dated February 1989 put forward 'Advance to the Pacific Ocean' as an important goal for Jilin. Access to the East Sea is an important step in this greater goal. In this China should build a port at Fangchuan (Ibid.: 134-7). However, in 1992 Jilin recognised that building a port at Fangchuan was too expensive and would not be economical given the parallel development of port facilities in North Korea (Rajin-Sonbong). For China, nevertheless, Fangchuan is still a long-term option, in place of other foreign ports such as Zarubino, or Rajin. Alternatively, if China does gain access to the Tumen River, it may construct its own port (Chen & Yuan, 1996: 132-3).

## 4. Concluding remarks

One way China has attempted to regain and to reassert its historical claims of navigation to the East Sea through the Tumen River is by instituting the TRADP. Regaining navigation rights would not only be a psychological victory in the face of the historical loss of this area, but also would secure maritime and aid other various national interests.

### **III. Stability in the Korean Peninsula**

Instability in the Korean Peninsula would necessarily involve Northeast China in political confusion, and would damage Chinese prospects of continuing to enjoy peace and development. Stability there is thus vital. Part III will argue that the TRADP is an important component of China's policy towards the Korean Peninsula, as it requires the development of the economy of the North. That in turn necessitates the promotion of a peaceful environment in Northeast Asia. This part will review briefly China's relations with the two Koreas, and identify China's various interests in the Peninsula. Lastly, it will investigate how China has adopted the TRADP as a part of a new strategy towards North Korea.

#### **1. Evolution of China's Korea Peninsula policy**

China and Korea are neighbouring countries, sharing close cultural ties and a long history. As an empire, China required 'vassals' that would pay homage to it as the centre of the universe. For many centuries a hierarchical system of tributes operated between them. The Koreans, drawing upon Confucian ideas, accepted China's dominant position and were dependent on China's protection. The Chosun Dynasty was recognised by China and this assured dynastic stability for five centuries. Yet the influence of the overlord was resented in Korea (Lee, Chae-Jin, 1996: 1-2).

Chinese influence waned and was replaced by the Japanese in the late 19<sup>th</sup> century. From the 1870s, imperial Japan was already eyeing Korea, and between 1884 and 1895 China and Japan engaged in a power struggle over the Korean Peninsula (Cotton, 1995: 204-5). In the 1920s the Peninsula was a launch-pad for Japanese expansion into Manchuria and for outright war with China. After World War II, spheres of influence developed. The US backed the Republic of Korea (South Korea) and China (alongside the Soviet Union) sponsored the Democratic People's Republic of Korea (North Korea). However, the communist victory in China's civil war in 1949 helped to bolster the Kim Il Sung regime and, finally, the Korean War gave opportunity for China to regain direct influence on the Korean Peninsula (Lee, Chae-Jin, 1996: 3-4).

During the period of the Cold War and particularly after the Korean War China and North Korea enjoyed a working relationship, with China providing diplomatic, military, and economic support to North Korea. In 1961 the Treaty of Defence and Mutual Assistance was agreed upon with North Korea. During this time, generous grants and loans were given and there was some moderate trade conducted between the two countries (Ibid.: 133). China also backed North Korea's position on unification. On the other hand, the relations between China and South Korea were tense before and after their confrontation during the Korean War. China did not consider South Korea as a legitimate state and relations with it were subordinated to its overall policy towards North Korea.

From the end of the 1970s, however, relations with South Korea thawed somewhat and those with North Korea also changed. China was being forced to adopt more pragmatic approaches in the face of global realities. The Maoist economic model was superseded and economic achievements such as those in South Korea became less threatening (Ibid.). 1979 saw indirect trading with South Korea taking place. This process continued through the 1980s, and diplomatic relations were normalised in 1992. When Gorbachev's policy became more inclined towards the South, the PRC became only backer of North Korea. As a result of its dependence on China, North Korea was not going to turn against China to protest against this new openness to South Korea. China was in a good position to cultivate South Korea without losing North Korea (Ibid.: 134).

Establishing a formal relationship with South Korea also gave China a stronger position vis-à-vis the US, Russia, and Japan in the management of Korean Peninsula affairs (Ibid.: 5; Kim, Taeho, 1998: 36). Indeed, there seemed to be a great shift of interest towards the South and certainly in trade terms. This jumped from zero to US\$20 billion worth in the decade up to 1996. South Korean business investment in China has increased enormously, to more than US\$4 billion in 1996. On the other hand, China soon stopped seeing its involvement in North Korea in economic terms, due to the weakness of the North Korean economy. It should be noted that in the 1960s and early 1970s the economy of the North was in better shape than the South, and North Korea has benefited from the partnership. Trade with China comprised about 20% of North Korea's total foreign trade throughout the 1970s and 1980s. This was a large figure for North Korea, but made up a small and decreasing fraction of China's foreign trade, falling from 2.5% in 1970 and 1.7% in 1980s to 0.8% in 1985 and 0.6% in 1989 (Lee, Chae-Jin, 1996: 134). From 1990 to 1996, North Korea experienced negative growth rates of

about minus 4.4% annually, and its total trade volume went down (US\$4.7 billion in 1990, US\$2.6 billion in 1993, and US\$2 billion in 1996). Trade volume with China reached a peak in 1993, with US\$900 million, but this began to decline from 1994 - US\$570 million in 1996, and US\$660 million in 1997 (Kim, Taeho, 1998: 40-1).<sup>19</sup>

**Table 6-1. North Korea's trade with China (1990-1997) Unit: US\$ million**

| Year | Imports | Exports | Total  | Deficit |
|------|---------|---------|--------|---------|
| 1990 | 358.16  | 124.57  | 482.73 | 233.59  |
| 1991 | 524.78  | 85.67   | 610.45 | 466.11  |
| 1992 | 541.11  | 155.46  | 696.57 | 385.65  |
| 1993 | 602.35  | 297.29  | 899.64 | 305.06  |
| 1994 | 424.52  | 199.22  | 623.74 | 225.30  |
| 1995 | 486.04  | 63.61   | 549.65 | 422.43  |
| 1996 | 497.03  | 68.64   | 565.67 | 428.39  |
| 1997 | 534.68  | 121.61  | 656.29 | 413.07  |

Source: (*China Statistical Yearbook 1997*, p. 594, in Kim, Taeho, 1998: 41).

Therefore, although both countries still share many interests, since the 1990s there has been a gradual parting of ways in basic policy objectives. North Korea has stubbornly remained in its ideological backwater, while China has pragmatically shifted to become more in line with changing international economic realities (Lee, Chae-Jin, 1998: 194). National interest has proved stronger than the revolutionary solidarity in setting the path of Sino-North Korean relations. Indeed it seems that China would like relations with North Korea to become more 'normal', that is, less fraternal and more economically based (Garret & Glaser, 1995: 543). 1990 saw the abolition of a longstanding friendship price system between the countries, and this was replaced by normal international pricing systems. Since the death of Kim Il Sung in July 1994, relatively low level representatives have visited Pyongyang (Ding Guangen, Politburo member, and Luo Gan, Secretary General of the State Council). In contrast the likes of General Secretary Jiang Zemin, Premier Li Peng and Qiao Shi (Chairman of the NPC) have visited Seoul (Kim, Taeho, 1998: 47).

<sup>19</sup> Although the total amount decreased, the North's dependence actually increased greatly. See this Chapter, pp. 232-5.

## **2. China's interests in the Korean Peninsula**

Although the importance of North Korea in China's foreign relations has been reduced, it does not mean that China is about to abandon North Korea. Apart from the fact that there are still shared interests derived from the Cold War era, China also sees the medium term maintenance of the Korean Peninsula status quo to be of economic, political and strategic benefits.

### **2.1 Geostrategic importance**

Shared borders bring China and North Korea together geostrategically. North Korea is the closest foreign country to Beijing, as well as to the important heavy industries of the Northeast and the strong lower-Yangtze economic region. North Korea has been described as the 'lips and teeth' of China, that is, the Chinese see North Korea as a useful buffer zone (Cotton, 1995: 204-5). China intervened in the Korean War to stop American forces reaching the Chinese border and it opposes their presence in a projected united Korea. From a longer historical point of view, it is an important buffer against Japan. This is despite the fact that China regards the main immediate strategic threat to be from the south or southwest of China (Hu, Weixing, 1995b: 53).

### **2.2 Against 'peaceful evolution'**

Both countries remain committed to their one party political system. Post-1989, when East European socialism was toppled from within each state, it is increasingly difficult for China to maintain its system unchanged. The paradox is that while China would like to see reforms in North Korea, such reforms might lead to an ultimate collapse of its system. Another communist collapse so close to home would have severely demoralising consequences and increase the likelihood of radical change in China (Lee, Chae-Jin, 1998: 172).

### **2.3 Stability in Northeast China**

Instability in any part of the Korean Peninsula, especially in the North, carries the real threat of spill-over effects into China's Yanbian area (Hu, Weixing, 1995b: 54). As North Korea has become relatively poorer compared to the South, to the point of destitution, the threat becomes even more real. At a very basic level, there is the danger of tens of thousands of North Korean refugees crossing the border to find food. This could have knock on effects for the economy of the whole region.

## 2.4 The North Korea card

Of all the major powers in the region China still carries the most influence in North Korea through existing political and military ties. Russia's relations with North Korea have been strained throughout the 1990s. This has provided China with its 'North Korean card' which it has skilfully played, sometimes against the South (against the North, China now also has a South Korean card), or against the US and the wider international community. Here China's supposed influence over North Korea's nuclear politics is an extremely strong bargaining tool, although this must be balanced against the adverse implications to China of American and Japanese counter measures, including ballistic missile defence systems. Therefore, China will not give up this card lightly and thus it will continue to cultivate its relationship with North Korea.

## 2.5 Uncertainties in the wake of Korean unification

The reunification of Korea is now admitted by some Chinese affairs analysts to be a distinct though distant probability. With the seemingly irreversible decline of the North, it can be considered inevitable with South Korea emerging at some point as the unifying force (Manning & Przystup, 1998: 6-8). This is of great concern to the Chinese, who realise it would destabilise the regional balance of power. Not only that, but a unified Korea, in contrast to the reunification of Germany which integrated the German Democratic Republic into the EU and NATO, could become an independent free-standing entity, not necessarily friendly towards China. The US might win security arrangements with a unified Korea, thus destroying the wish of China to keep the Peninsula as a buffer in favour of its strategic interests (Lee, Chae-Jin, 1996: 173-4). The case of Vietnam is a good basis for such concerns. China found itself in 1979 facing armed hostility with a reunified Vietnam after having previously maintained close relations of comradeship. Thus a unified Korea is an unknown quantity and China's unwillingness to see a change in the status quo reflects this (Ibid.: 173), even though the Chinese anticipate enjoying closer relations with a unified Korea than Japan would.

## 2.6 'Two-Koreas' as a reflection of China's core interests

China thus maintains a two-Koreas policy, cultivating relationships with both Koreas, while at the same time working towards economic cooperation in the region which would promote political stability. This is in its security as well as its economic interests (Hu, Weixing,

1995b: 64). As Li Peng himself stressed, '[P]eace and stability in the Korean Peninsula serves the interests of China, which is in the midst of a massive economic modernisation programme'. China cannot afford any negative economic impact, let alone the costs of direct conflict, or indeed the consequences of relatively peaceful reunification (Kim, Ilpyung, 1998: 109).

In sum, China's Korean Peninsula policy is to establish what Ferdinand calls the ZOPPFAN (ZOPFAN in the ASEAN context), that is, a region of 'Zone of Peace, *Prosperity*, Freedom and Neutrality' (Ferdinand, 2000), at a time when China is concentrating on its domestic development.

### **3. Policy measures**

Being less inhibited by an ideological straightjacket, China's main worry in relation to a unified Korea is the stance that such a state might take towards China rather than the political system it might espouse. The support provided to the North is a strategically calculated move to keep in the good books of a united Korea in the light of the scenarios China foresees developing.

#### **3.1 Political and security support**

Political and security support for the North continues. Indeed, since the demise of the Soviet Union, China is now North Korea's only real sponsor. After Kim Il Sung's meeting with Deng Xiaoping in October 1991, a package of military aid was offered to North Korea, with the aim of maintaining at least a semblance of military balance on the Peninsula (Lee, Chae-Jin, 1998: 200). China has sought recognition of North Korea by the US and Japan, and the normalisation of relations. It achieved this through persuading the US and Japan, and giving advice and policy support to North Korea. In a wider arena, China has supported North Korea's actions in the UN (Ibid.: 170). Even on the North Korean nuclear issue, China has been supportive of North Korean military and diplomatic positions as demonstrated by their stance in the UN and the International Atomic Energy Agency (IAEA), although China had supported the Joint Declaration on the Denuclearisation of the Korean Peninsula, signed in December 1991 and the implementation of the US-North Korean Geneva agreement concluded in October 1994. The Chinese have certain security guarantees towards North



Korea in place and, as a matter of strategic policy, they will continue to honour these (Ibid.: 171).

### 3.2 Economic support

The economic chaos in North Korea is a major concern to China. Although North Korea has had very little buying power, its dependence on China has remained relatively high. This is due to the fact that much of the trade is in the form of barter along border areas, and oil and grain provided by China was more or less given as aid.<sup>20</sup> More than 70% of North Korea's trade in 1993 was conducted with China, Russia, Japan, and Hong Kong, and 40% of the total trade volume was with China and Hong Kong, its largest trading partner (Kim, Taeho, 1998: 45). In May 1996, a 'Sino-DPRK Economic and Technological Exchange Agreement' was signed. Under this China agreed to provide 0.5 million tonnes of grain, 1.2 million tonnes of crude oil, and 1.5 million of coal for 5 consecutive years. Half of this was aid and half sold at a friendship price. China also revived the friendly price which it had abolished earlier in 1993. It can be said that since 1996 China's North Korea policy has moved to a policy of considering long-term interests (Song, Munhong, 1997: 236-8). In addition some of North Korea's unpaid debts were rescheduled or cancelled (Lee, Chae-Jin, 1996: 140), despite the fact that many Chinese companies have suffered or gone bankrupt as a result of North Korea's mounting debt.

## 4. The TRADP: China's best means to lead the reform of North Korean system

In the short to medium term Beijing will continue to offer economic support to North Korea as a means of extending the present political status quo. But the Chinese supportive trade may not last long,<sup>21</sup> because China wants to reduce its economic burden vis-à-vis North Korea. China is seeking ways to minimise its costs and has already reduced financial support for the three Northeastern provinces which engage in below-cost trade with North Korea (Kim, Taeho, 1998: 52).<sup>22</sup> As the Korean proverb goes, China wants to teach North Korea 'how to fish' rather than simply knowing 'how to eat fish', by providing North Korea with a model

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<sup>20</sup> Over 40% of Sino-North Korean trade passes through the border between China's Jilin province and North Korea's Tumen River area (Kim, Samuel, 1994b: 19).

<sup>21</sup> The border trade volume between North Korea and China accounted for 21.1% (US\$129 million) of the total trade volume in 1996, and 32.2% (US\$218 million) in 1997 (9fn, Kim, Tae Ho, 1998: 42).

<sup>22</sup> But the costs of the Chinese Northeast provinces' collapse might be much more greater. As a result, it is its economic weakness that enables the North to exercise some influence over China.

for economic modernisation and encouragement.<sup>23</sup> Building on pre-existing border trade, the TRADP is not only an urgent measure that may help to keep North Korea afloat, but may even prove to be quite profitable while at the same time introducing concepts of market reform (Cotton, 1995: 206-7).<sup>24</sup> This would be an improvement over China's past short-term approach of economic rescue. China has encouraged the North to reform and it is also looking to the TRADP to function as a catalyst, in order to reduce the burden of supporting the North and to increase its prospects for survival.

#### 4.1 The process of political and economic reform

The only way to stabilise the Korean Peninsula might be to encourage economic development that would underpin political stability in the North. China has been encouraging North Korea to become more independent economically through growth and opening itself to the outside world (Lee, Hong Yung, 1994: 107). The South, increasingly strong, is now a major challenge to the North, militarily as well as economically. North Korea must follow the route of 'hard state and soft economy' as trod by China's reformers in its own way. In the past North Korea adopted aspects of the Chinese model such as the Great Leap Forward, in its *ch'ollima* (flying horse) movement and Mao's philosophy of self-reliance in its *juche* ideology. If North Korea continues and succeeds in this, the outcome will be significant. Reduced social, economic, and political differences between the two Koreas may help a transition to a more peaceful reunification that is not wholly driven by the South (Ibid.: 108-9).

Since the early 1980s China has been prevailing on North Korea to follow its steps in opening up cautiously to the outside world. In 1983 Kim Jong Il visited China between 2 and 12 June, 1981, and was encouraged to consider Chinese economic and political policies as a potentially beneficial model for North Korea. An editorial in *Nodong Shinmun* on 2 June 1984, one year after the visit, went into details of the trip and looked at how it affected North Korea's foreign policy. The Chinese model meant adopting new laws on joint ventures, opening free economic and trade zones, and inviting foreign investment through tax breaks. A more recent North Korea newspaper report dealt with the use of foreign capital for economic modernisation in North Korea (Kim, Ilpyong, 1998: 104-5). In November 1990, there were meetings with North Korean Premier, Yon Hyong Muk in China. The Deputy

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<sup>23</sup> For the Chinese perspective of North Korea's Rajin-Sonbong FEZ, see (Wu, Delie, 1996).

<sup>24</sup> Who will provide the massive infrastructure investment and technology remains unanswered.

Premier, Kim Tal Hyon, and the Chinese Vice Premier Wu Xueqian, signed an agreement on economic assistance to North Korea. Premier Yon went with Jiang Zemin to the Shenzhen Special Economic Zone (SEZ) to see the Chinese model of economic modernisation in operation, and this SEZ was used as a model in North Korea's Rajin-Sonbong Free Trade Zone. Jiang Zemin impressed on Yon that Shenzhen proved that an open-door economic policy was possible within a socialist system. He also made the point that socialist ideology led to economic reform and that socialism need not result in economic difficulties (Ibid.: 107).

#### 4.2 Preserving an economic buffer in a reunited Korea

The Korean Peninsula is central to future regional schemes of a political or economic nature, and this explains China's strong interest to be at the heart of the TRADP (Cotton, 1995: 206-7). The TRADP is an important strategic block in China's North Korea policy. China's long-term plan for Northeast Asian multilateral cooperation is based on the division of labour and mutual competitiveness within a free trade area. This kind of a relationship requires present good relations and strong economic cooperation with North Korea in advance of reunification. Any further opening of North Korea to regional trade will undoubtedly be in China's interests. The DPRK provides China with a useful economic buffer zone, which would disappear if the regime there were to fall apart. China may be able to limit the negative impact in strategic terms of a collapse of the North by investing now in the North, and building better trading relationships with the South (Snyder, 1996: 10).

Current tendencies suggest that Beijing favours economic development in the North. Chinese capital flow into North Korea is an important phenomenon. A major newspaper in South Korea ran the headline 'The Winds of Change in North Korea' and reported that up to 5,000 overseas Chinese were carrying out business there, with the accompanying capital investment that entailed (*Joongang Ilbo*, 29 July 1997, in Kim, Ilpyong, 1998: 109).<sup>25</sup> China itself has a 50 year concession to operate trains from Rajin and the three northeastern Chinese provinces. The Tyson Group from Hong Kong has invested in a motorway from Rajin to Wonjong, in the Rajin International Hotel, and in taxi services (Lee, Ilgul, 1995: 173-4). The Hong Kong-based Emperor Group had plans to build a casino and hotel complex in the zone. According to the Korea Trade Promotion Corporation (KOTRA), of the 56 foreign companies in Rajin-

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<sup>25</sup> For the report on commercial interest of overseas Chinese capital in Rajin-Sonbong FEZ, see (Ahn, Sangho, 1996: 52).

Sonbong in June 1996, 70% of them were from China and Hong Kong. One North Korean source says although it is small in scale, 100% of foreign capital in the Rajin-Sonbong free market is Chinese (Song, Munhong, 1997: 236-8). After the Rajin-Sonbong Investment Forum held in September 1996, US\$265 million of investment was pledged by five companies. Most investments have direct or indirect Chinese connections, that the Chinese government is supportive of the economic development that North Korea is tentatively taking (Snyder, 1996: 4).<sup>26</sup>

## **5. Concluding remarks**

Beijing has sought a pragmatic and balanced two Koreas policy in the interest of maintaining stability and the status quo. Within this approach, continued support to North Korea is a key component, with near term objectives being stability within North itself. Thus while building better official relations with South Korea, China is providing bilateral help as well as informal support through cross-border trade and barter to the North in order to prevent, for as long as possible, collapse of the North (Ibid.: 1-2). By doing so China is also positioning itself to be ready for reunification. Fostering relations with the South has long term payoffs in that the South is likely to be the leading player in the future reunification process.

## **IV. Taking the initiative in regional distribution of power**

East Asia is where China's vital interests remain. What kind of meaning and function does the TRADP have in Beijing's regional economic development and in the regional distribution of power? Part IV initially assesses the backdrop to the major changes in China's foreign policy in the 1990s. It then moves on to discuss how regionalism has developed as a pivot of China's omni-directional foreign policy and especially its good neighbourly diplomacy.

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<sup>26</sup> However, given the importance of these objectives, Beijing has not put more resource into the TRADP.

## 1. Asia-Pacific focused Omni-directional foreign policy

In the post-Cold War world order, China has become less of a large strategic player in the global balance of power and Beijing has had to rethink China's role in global affairs and to determine afresh what are its vital interest are. The result was a refocusing on the Asia-Pacific region. China has adopted an omni-dimensional policy which aims at capitalising on the adjacent centres of external Chinese communities, described by the Hong Kong Scholar Huang Zhilian as being a 'Greater South China Circle' centring on Hong Kong and Taiwan, a 'Yangtze Circle' around on Shanghai, a 'Bohai Circle' taking in Tianjin and Dalian to South Korea,<sup>27</sup> and a 'Southwest China Circle' connecting Sichuan and Yunnan to Southeast Asia (Huang, 1988, pp. 14-5, cited in Harding, 1995: 19).

Some scholars have discussed these new dimensions in Chinese foreign policy in the 1990s. Hsiung has defined it as 'rational pragmatism' or 'omni-directional diplomacy', or 'globalised *zhoubian* diplomacy' (Hsiung, 1995). The globalised good-neighbour policy campaign can be summed up in a few steps: i) strengthening existing ties in the Asia-Pacific; ii) mending fences in South Asia and West Asia; iii) exploring new frontiers in Central Asia; iv) cultivating closer ties with Europe; v) venturing into Latin America in search of new friends and better relations with existing ones; and vi) wooing the support of 'Business America'. *Zhoubian* diplomacy in the 1990s has been called 'a highly active and visible diplomatic offensive to recover China's international standing' (Ibid.: 573).

Liu and others (1996: 173-5) have stressed the importance of the Asia-Pacific in Chinese foreign policy with the three circles-pattern open model: The first circle (or inner circle) consists of China's closest neighbours. Apart from Japan, most of these are the Asian NIEs. They border directly or indirectly with Chinese border provinces. The second circle includes North America, Europe, Australia and New Zealand and the South Pacific region. These countries are economically developed states. South America and Africa make up the third circle of mainly developing countries, which are remote from China by distance, and thus connections with these have been minimal. The most important foundation for Chinese geopolitical strategy is to strengthen cooperation in all fields with states and territories in the Asia-Pacific in general and East Asia in particular.

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<sup>27</sup> 'The Bohai Circle' does not involve external Chinese communities.

China's circle-pattern directional diplomacy can be summarised by Huang's notion of 'triangular relationships'. In his view China faces a new configuration of three 'triangular relationships' - small, medium, and large in the Asia-Pacific region. These are the small triangle (mainland China, Taiwan, Hong Kong), the medium triangle (China, four NIEs, ASEAN), and the large triangle (China, Japan, the US). These three triangles are the main framework for China's economic strategy in the region. In the Asia-Pacific economy, therefore China's optimum strategy would be to base its strength on the 'small triangle', to reinforce the 'medium triangle', and from there to tackle the 'large triangle'. That is, it should develop the economic and trade relationship and cooperation between the mainland, Hong Kong, and Taiwan as its main source of trading. It should reinforce bilateral or multilateral sub-regional cooperation with ASEAN and South Korea, and promote mutually complementary relations with them. The resulting production for export can be targeted at overseas markets (Latin America, Australia, and Europe). Finally, China should deal in whatever way is appropriate with such developed countries as the US, Japan, Canada, and Australia in order to manipulate factors in the external environment to bring about economic prosperity in China (Huang, Fanzhang, 1994: 12-5).

## **2. Sub-regionalism as a pivot of Omni-directional foreign policy**

There are advantages to this strategy. A European model of a large single market would be difficult to follow due to major differences in the political and social systems in East Asia and Asia Pacific. However, sub-regional economic zones (SREZs) of a partial nature are feasible in that such SREZs between China's border provinces and the neighbouring regions will help economic development in China's northeast and southwest regions (Ibid.: 15-6).

China has taken some steps to organise and establish such SREZs to create an international division of labour (Goodman, 1994: 2-3). Without going back to a planned economy, Chinese economic policy-makers have allowed markets to allocate economic tasks to more 'smaller, geographically delimited, regional entities' (Simon & Lee, 1995: xii). The use of SREZs, from Beijing's point of view, is a 'manageable vehicle' (Segal, 1994b: 38). Beijing has been able to decentralise decision-making on some issues, especially economic ones. This has happened on a piecemeal basis resulting in the creation of different types of SREZs. Similarly, Beijing has been happy to see the development of SEZs (Ibid.: 55).

That sub-regionalism was an element of China's foreign policy was suggested by some Chinese scholars and institutes. Although these accounts do not necessarily represent official policy, we may get a hint of things to come from the Chinese ideas. An 'Internal Manuscript of Asia-Pacific 1993', for government consumption only and published by the Chinese Academy of Social Science (CASS), proposed a 'Segmental Omni-dimensional strategy', with three sub-dimensions. In the first dimension (A1-B1-C1-D1), the 'Northeast Asia Economic Circle', the aim was to bring together Japanese and South Korean technology with the cheaper labour of Northeast China, the Russian Far East, North Korea and Mongolia. The second (A2-B2-C2-D2) focuses on eastern China. The 'Yangzi River Circle' could be used to create a link with South Korea, through the western part of Japan (Kyushu, Guansai) to the rest of Japan and Taiwan, and finally NAFTA. The third 'South China Economic Circle' (A3-B3-C3-D3) proposes to make an economic link from the Southeast of China, Hong Kong, and Macao to Australia, New Zealand, and even the South Pacific Ocean (See Figure 6-3) (Lee, Hee Ok, 1994).

Similar ideas were supported in 'China's Regional Co-operative Development Plan', by the Chinese State Council in 1993. In this three economic circles are seen as having real potential: the 'Northeast Asia Economic Circle', 'South China Economic Circle', and 'Central Asia Economic Circle' (Bae, 1995: 18; Chen, Jiaqin, 1995). In this proposal the government planned the Yangzi River Area Circle with 'Central Asia Economic Circle' which covers the Chinese Northwest (Xinjiang, Yugur), five former Soviet countries in central Asia, Iran, Turkey, and Pakistan. China believes that it can move out from a strong triangular relationship between the PRC, Hong Kong, and Taiwan. There can then be better multilateral cooperation with ASEAN, South Korea, and Singapore, and finally the US, Japan, Canada, and Australia could be challenged (Huang, Fanzhang, 1994: 19).

### 2.1 South China Economic Circle (SCEC)

The 'South China Economic Circle' (SCEC), whose objective is to bring together comparative production advantages in a market economy, covers China, Hong Kong, Macao and Taiwan, and even reaches out to Australia, New Zealand and the South Pacific. It is conceived as part of China's open-door policy and has brought some wealth to each region. Within the whole there are two smaller spheres (Guangdong-Hong Kong-Macao economic sphere and the Fujian-Taiwan economic sphere) (Ji, Congwei, 1995: 28).

## 2.2 Central Asia Economic Circle (CAEC)

The 'Central Asia Economic Circle' (CAEC) includes the Chinese Northwest (Xinjiang, Yugur), the five former Soviet countries in central Asia, Iran, Turkey, and Pakistan. There is some local border trade and other economic and technological cooperation between Xinjiang Yugur Autonomous Region and the former Soviet Union and Pakistan. Economic relations and trade exist between Tibet, India, and Nepal; between Yunnan and countries like Myanmar; and between Yunnan-Guagxi and Vietnam-Laos (Friske, 1994: 120; See also *Beijing Review*, 1996; Zhang Xiaodong, 1992: 12-3; Wu, Youde, 1995; Xu, Chunxiu, 1995).

## 2.3 Northeast Economic Circle (NEEC)

The 'Northeast Asia Economic Circle' (NEEC) involves Japan and South Korea the one hand as wealthy centres of finance and know-how, with Northeast China, Russia, North Korea and Mongolia where natural resources are plentiful and labour cheap. In addition to the TRADP, this circle has four economic proposals, which use similar economic ideas but different names. Yet they are being discussed only among scholars, except for the Bohai Sea Rim area.

### *The Yellow Sea Economic Zone*

As its name suggests, this zone stretches along the northern coast of China from Liaoning down to Shanghai. It includes Korea's west coast and Kyushu in Japan. This region is one of the most heavily populated areas in Asia. Because of the size of the population and the already established markets in Japan and South Korea, there is a great potential for the goods and services markets, perhaps more so for non-tradable goods and services in the immediate future (Kim, Won Bae, 1990; Hwang, In-Joung, 1992).

### *The Sea of Japan Rim sphere*

This economic sphere is still in the early states of planning. It has support from the western prefectures of Japan which need to look west access to the East Sea for new relations. The sphere includes the eastern coast of the areas and the Siberian coastline up to Taiwan (Ji, Chongwei, 1995: 28-29).



### *The Bohai Sea Rim area*

The area covered by the Bohai Sea Rim is central to growth in the whole of Northeast Asia. Centred on Beijing and the sea port of Tianjin, there are well-established industries, both heavy and light and it has natural mineral and plentiful human resources. The area reaches out over Hebei, Liaoning and Shandong, and into north, central and western China. The East Sea gives access to the Korean Peninsula, and there are connections to the Russian Far East (Ibid.: 29).

### *The Heilongjiang economic sphere*

This is a smaller scale sphere between Heilongjiang, Inner Mongolia, Russia and Mongolia. It aims to develop border trade, labour cooperation and joint investment (Friske, 1994: 120).

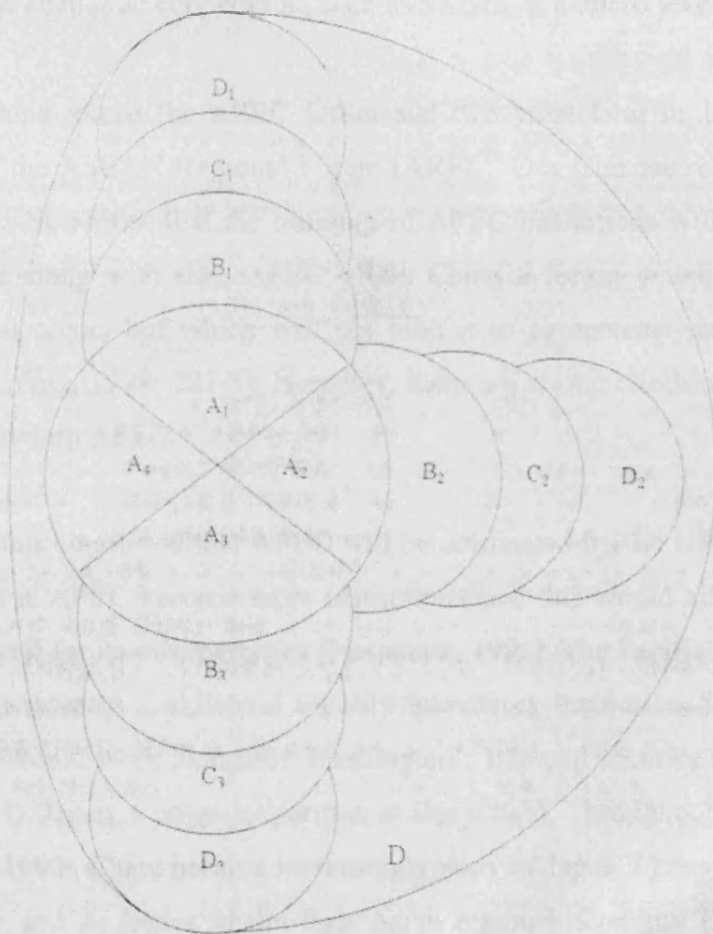
These new conceptions differ from earlier discussions of 'Greater China' in several ways. First, there are several economic centres, not only Hong Kong. Whether or not this makes economic sense, the SREZs are politically attractive, particularly since most of these smaller economic circles are not solely Chinese. For example, the NEEC foresees interaction with economies where ethnic Chinese are not the economic leaders (Harding, 1995: 19). In contrast to the early ideas for a Greater China, Russia and the NIEs, for example, are centrally involved.

Another difference is that these economic circles are fairly informally based, with little institutional structure or cross-over with existing institutional or state structure. This helps in reaching some kind of international cooperation, and avoids limits on sovereignty through multilateral agreements. Finally, a number of economic circles give China the flexibility to apply different policies for development to regions with different economic and resource conditions as appropriate (Christoffersen, 1996a: 1070).

**Figure 6-3. China's Segmental Omni-dimensional Cooperative Strategy**

Zhang Hai-ming, *Yatai Ziliao* (Neibu Ganwu), 1993-3, 18 January 1993, Yazhou

Taipingyang Yanjiusuo, The Chinese Institute of Social Science, Beijing, China, in (Lee Heek, 1994).



**A1** (Three Northeastern Chinese provinces, Beijing, Hebei, Tianjin, Shandong)  
**B1** (Korean Peninsula) **C1** (Japan) **D1** (Liaodong, Mongolia, Russian Far East)

**A2** (Changjiang Sanjiaozhou) **B2** (South Korea, Western part of Japan)  
**C2** (Entire Japan, Taiwan) **D2** (The United States, Canada)

**A3** (Hainan, Guangxi, Guangdong, Fujian) **B3** (Hong Kong, Macao, Taiwan)  
**C3** (ASEAN) **D3** (Australia, New Zeland)

**D** (Asia-Pacific region)

#### 2.4 Strategic objectives of China's sub-regionalism policy

The international situation has developed and is constantly changing, and China's global and regional diplomacy has become more active than ever. China has gradually moved from seeking unilateral advantage from what was offered by international institutions to participating in multilateral international bodies to promote its own ideas for international norms and regimes. It has pursued its policies at two levels. One is to actively participate in the international organizations, such as APEC, at a macro level. The other is to take part in sub-regional economic cooperation, such as SREZs, at a micro level.

In 1991 China joined the APEC forum and two years later in 1993 it became a founder member of the ASEAN Regional Forum (ARF).<sup>28</sup> One Chinese scholar explains how China sees APEC. He argues that the building of APEC institutions will go ahead and in general China goes along with this. APEC offers China a forum where it can participate in the international scene, but which will not bind it to agreements that are not in its interests (Zhang, Yunling, 1998: 221-3). However, there are strong checking powers, such as the US and Japan, within APEC.

China remains concerned that APEC will be dominated by the US (Ibid.: 220-1). There is a feeling that if APEC become more institutionalised this would allow the US to exert more influence on it for its own purposes (Nesadurai, 1996). The Pacific community idea relates to a US desire to see a multilateral security framework institutionalised in the region. Such a framework would work alongside Washington's bilateral security arrangements (Yamakage, 1997: 293-4). Japan, a potential partner, is also a rival. Throughout the 1980s and in the first half of the 1990s China became increasingly wary of Japan's growing status as an economic superpower and as leader in the East Asian regional economy (Mochizuki, 1995, also in Blachard, 2000: 281). The view of Chinese analysts remains that Japan sees a Pacific community as a place for a Japan-dominated economic sphere of influence (Deng, Yong, 1997: 375-6).<sup>29</sup> The Chinese think that the US and Japan have attempted to resist the rise of China, so that these countries can maintain their influence in the region.

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<sup>28</sup> Indeed China has become an important player in the ASEAN-led search for the right level of regionalism, a process which also involves political dialogue (Hu, Weixing, 1996b: 59).

<sup>29</sup> Concerns about Japan's objectives in regional cooperation were expressed by Huan Xiang, leading scholar-advisor of Chinese foreign policy: 'Japan is now gung-ho about extending its force in the Asia-Pacific region through investments and trade. It is an attempt to form a so-called East Asia economic ring led by Japan. The circle is supposed to encompass Hong Kong, Taiwan, Singapore, South Korea and the members of the Association of Southeast Asian Nations (ASEAN)... Japan aims to gradually set up and lead an East Asian

The strategy of China has been to divide the wider region into units that could be more easily influenced by China that is not strong enough to be considered the dominant regional power (Christoffersen, 1996a: 1081). China has thus made an effort to pursue its good-neighbourly policy through a number of sub-regional economic cooperation projects such as the TRADP and the Greater Mekong Sub-regional Development Project. There are some strategic motivations.

Basically, SREZs such as the TRADP would allow China to acquire foreign technology and capital in the face of existing Western restrictions on technology transfer to China. This would reduce its dependence on Japan (Blanchard, 2000: 282, 284). Then, a sub-regional economic grouping such as the TRADP serves China as a counter-balance, against Western protectionism and regional bloc formation in Western Europe and North America, although such groupings are not meant to replicate the functions of the EU or NAFTA. Some Chinese researchers have argued that 'the external pressure of competition implies all the countries in Northeast Asia to inevitably choose the path of jointly developing the international economic cooperation in this region' (Peng & Yang, 1995, p. 2, in Blanchard, 2000: 283).

Third, China sought to counteract the Japanese influence which they felt permeated the whole region. Blanchard argues that in the early 1990s when the project was actively discussed Japan was the 'lead goose' under the flying geese model of economic development. China did not want to be a follower and thus proposed the Tumen project. Beijing did not plan on excluding Japan from such projects, because Japan was a vital source of significant capital and technology and was the key to making the projects feasible. The framework of the TRADP, however, would allow China to take the lead from Japan in shaping economic cooperation in Northeast Asia. China could more effectively influence the Japanese, since it was an organisation initiated by the Chinese (Ibid.: 282).

Lastly, it advanced China's efforts to avoid international isolation and to maintain diplomatic clout. Previously, in the wake of the Tiananmen crisis, China had turned to Asia and regional cooperation initiatives in order to obtain allies that could help it withstand Western diplomatic and economic pressures (Ibid.: 284). Such sub-regional groupings in East Asia

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economic circle in preparation for further conquests in Australia, New Zealand and Latin America', (Huan Xiang, 1989, pp. 17-18, quoted in Deng, Yong, 1997: 377).

could also create a political front that would make it difficult for the US to deal with states in the region through bilateral arrangements. Although China has not committed to the geographical scope of APEC and despite its corresponding commitment to the open policy, such sub-regional groupings could be more 'advantageous' for China.<sup>30</sup> The SREZs could provide a means whereby Russia, the Newly Industrialised Economies (NIEs), and the ASEAN countries could join China against '*meiri kongzhi he liyong*' [US-Japan dominance and exploitation], also called the *Nichibei hegemon*, in the region (Jia Bei, 1989, pp. 46-52, cited in 17fn, Christoffersen, 1996a: 1073). China saw that the TRADP could bring the NIEs and Russia into a part of China's Northeast Economic Circle strategy. It sought to cultivate regional relationships to defend itself against American and Japanese strategies (Ibid.: 1079).

## Conclusion

Our starting point was that all economic activities have political motivations. Political purposes are an important factor in the case of the TRADP. This chapter was directed primarily towards investigating those political objectives at which China has aimed. There are four motivations for the project: i) to diffuse the resentment of the Korean minority being felt amid coastal development; ii) to access the East Sea through the Tumen River; iii) to add leverage to China's North Korea policy; and iv) to build a platform from which to compete with other major powers. China hoped that the Tumen project could help achieve its strategic objectives, in the words of one Korean proverb, 'killing *many* birds with one stone'. However, the Tumen project did not go in the direction China has planned. Problems at various levels both outside and inside China worked against the plan. The next two chapters will look at what kinds of obstacles lie ahead for the Chinese plans for the TRADP.

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<sup>30</sup> An interview in 1992 at the Asia-Pacific Studies Institute with Deputy Director Shi Min, cited in (Christoffersen, 1996a: 1079).

## **Chapter Seven. Economic and Institutional Constraints on the TRADP**

### **Introduction**

At the beginning of 1990s, the TRADP was seen as a great opportunity for promoting the regional economic development of the neighbouring countries. In theory, as shown in Chapter Three, the project was a great idea, with vision and goals. It promised to bring together a synergies and logical combination of advantages of member countries. It might have been a success, but now less than ten years later there is little hope of reviving enthusiasm for this project as each nation has begun to realise that its expectations will not be met. What were the chief obstacles that obstructed China's TRADP policy? As remarked earlier in Chapter Two, the deciding factors for the success or failure of such multinational economic projects are firstly sufficient economic incentives to the private sector, and more crucially, political commitment by the relevant governments. Chapters Seven and Eight intend to explain why China's TRADP policies have not been successful.

While Chapter Eight will comment on the political and security challenges that faced China at the domestic and international levels with regard to the project, Chapter Seven will analyse it on two different levels: a) The diverging national interests of the participants; and b) The economic and institutional constraints. Divided into three parts, Part I will summarise the evolution of the project at inter-governmental level, and review the progress that has been made since 1990. This will enable an understanding of the project from the time of inception and its subsequent development over the last decade (1990-2000), highlighting the complicated relationships between major players (governments, private sector, and international organisations). Based on the description of the zigzag evolution of the project, Part II will first evaluate the challenges to the project from the varying commitments of the five other TRADP countries (Russia, Mongolia, the two Koreas, and Japan), and Part III will then look at the formidable economic problems inherent in the project itself.

## **I. Evolution of the TRADP: An overview <sup>1</sup>**

Since the initial discussions began at the July 1990 Changchun First International Symposium on Economic and Technological Development in Northeast Asia, the TRADP was adopted at inter-governmental level. Despite some achievements, however, the development of the project has been limited, because the member countries have been cautious about taking risks. The project has gone through various phases. This section describes the last ten years in three different phases: desire (1990-94), practice (1995-97), and stagnation (1998-2000). These illustrate the difficulties as they emerged within the chronological evolution of the project.

### **1. Time of 'desire' (1990-94)**

From 1990 to 1994 there was a period of developing the goodwill for some form of cooperation. However, there were unresolved problems. The complex nature of the project was underestimated, a suitable model for cooperation was not agreed upon, and the role of the UNDP in dispute, in addition to the question of defining precise objectives.

Initially, the TRADP concept was first developed at the Northeast Asia Economic and Technology Cooperation Conference in Changchun, Jilin Province, China, sponsored by the East-West Centre, Hawaii, and the UNDP on 16-18 July 1990. At the conference, the Chinese representatives promoted the 'golden triangle' concept (contiguous areas known as the TREZ). The UNDP expressed its great interest in the concept. From July 6-7 1991 the UNDP called a Northeast Asia Sub-regional Programme meeting in Ulaanbaatar, Mongolia, with China, Mongolia and North and South Korea. The outcome was the UNDP's offer of funding for the TRADP for the initial period 1992-1996, and indeed the TRADP developed to be the UNDP's largest project. The UNDP found its role as a co-ordinator or facilitator between the four participating states, and was also requested to approach Russia and Japan to secure their investment. It also put together a team of expert advisors to develop feasibility studies, which produced the so-called 'Mission Report'. This report gave a strategic and conceptual basis to the discussions until then, and came up with the fundamental guidelines. It addressed the

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<sup>1</sup> Unless given a citation, this description is based on Annex I: Timeline for the Evolution of Regional Cooperation in the Tumen River Area and Northeast Asia Pertaining to UNDP, UN Agency, and other Donor and Private Sector Involvement and Support, 1990-1999, provided by ERINA, Japan; See also 'Tumen Programme Outline', *Tumen River Area Development Programme*, which is available at <http://tradp.org/textonly/history.htm>.

issues of what regional development should mean as a concept, how nations might perceive the process, what international agreements might be necessary, the infrastructure developments needed, human resources, industry, commerce and tourism development. A Tumen River development study was also proposed (Choi, Hoil, 1995: 278-9).

On 16-18 October 1991, at the Tumen Project Conference in Pyongyang, the UNDP established that the project would require a probable investment budget of US\$30 billion for the project. Six countries (the two Koreas, Mongolia and China and observers from the Soviet Union and Japan) decided to establish a Programme Management Committee (PMC) to consist of three representatives from each country and to be responsible for managing the TRADP activities. The UNDP would also be represented in the PMC, and would organise and chair its meetings (Ibid.: 279). As part of a preparatory assistance project the UNDP agreed to a budget of US\$3.5 million for 3 years 1992-1994 to finance a Programme Management Office (PMO) in New York. It was also decided that National Teams and Working Groups<sup>2</sup> would be set up to support the activities of the PMC. In November 12 the Soviet Union and Japan were invited to become full members of the TRADP. While the Soviet Union accepted membership, Japan declined and remained an observer. Also at the end of November, the UNDP published the TRADP feasibility study (the 'Mission Report'). Under the auspices and co-ordination of the UNDP, a series of conferences were held to discuss issues such as patterns of development, industrial structure, infrastructure constructions, communication and transportation systems, laws, and environment (Kim, Icksoo, 1994a: 27-30; See also Yuan, Shuren et al., 1995).

From the start of 1992, all TRADP participants were encouraged by the positive preliminary reports from the UNDP and their mutual understanding. Throughout the PMC discussions, a series of showcase or mega-projects were proposed. In February 1992, the first Tumen PMC meeting was held in Seoul, while the first TRADP Legal and Financial Workshop was in New York. The full members from China, Mongolia, and the two Koreas, as well as observers from Russia, Japan and the ADB attended the PMC. The members agreed that the TRADP should proceed step-by-step and adopt three different concepts of the development area: the TREZ, the TRED A, and the NEARDA. In April the first Director of the PMO in New York was appointed, and the TRADP Secretariat Office was established in New York in August. In October the second Tumen PMC meeting was held in Beijing. Priority objectives of the meeting were the

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<sup>2</sup> A total of five Working Groups (WG) are, namely Telecommunications WG, Infrastructure WG, Environment WG, Investment WG, and Co-ordination, Harmonisation & Promotion WG.



establishment of sector-specific workshops and discussion of the legal and institutional framework for regional cooperation. At the second PMC meeting, Russia officially joined as the fifth full member. Japan, Finland, the World Bank, and the ADB sent observers.<sup>3</sup> The five full members and the UNDP signed the Programme Document, approving the eighteen-month pre-investment phase of the TRADP and providing US\$4.5 million from the UNDP resources.<sup>4</sup> This fund was earmarked for work on the initial pre-feasibility studies on legal/institutional/financial issues, infrastructure, and foreign trade. All members agreed on the four basic principles resulting from the two Working Group meetings, which were held in April and July/August 1992: i) retention of sovereignty over all land leased to the TRADP;<sup>5</sup> ii) land leases to be negotiated according to the sovereign investment laws of individual countries; iii) international management; and iv) maximum attractiveness to international investment. Other important issues they settled on were the functions and composition of an inter-governmental body and international cooperation. Given the broad range of issues encompassing NEARDA, it was agreed that there should be an inter-governmental co-ordinating commission, similar to the existing PMC, including all members. There would also be a consulting committee consisting of the three riparian countries (North Korea, China and Russia) and other shareholders.

The discussions of such proposals were extended to the third TRADP PMC meeting, which was held in Pyongyang in May 9-11, 1993. Here legal and institutional issues for future regional cooperation were discussed, and concepts of integrated development explored, including the idea of a UN 'core city'. There were of course unresolved issues, but member countries agreed to explore the feasibility of a Tumen River Area Development Company (TRADCO),<sup>6</sup> which could be responsible for leasing land in the 'TREZ' (Yanji/Hunchun/Rajin/Khasan/Vladivostok triangle). Japan and Finland again sent observers (*FEER*, 27 May 1993: 71). Members agreed to set up two inter-governmental bodies: a committee to co-ordinate the activities of the riparian countries in the TREZ; and a commission which the participating

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<sup>3</sup> The ADB had approved major assistance to develop railroads in Northeast China. All members agreed that the Programme Manager consult regularly with the World Bank and ADB to review the TRADP master plan and financing strategies (Choi, Hoil, 1995: 283).

<sup>4</sup> The UNDP provided US\$3.5 million for the pre-investment phase of the TRADP. In November of 1992, soon after PMC II, Finland granted US\$1 million to the TRADP specifically for forestry research and studying a land bridge concept from Northeast Asia to Europe by trans-continental rail (*BBC Summary of World Broadcasts*, 19 October 1992).

<sup>5</sup> Land leases can be negotiated for periods of 40 to 70 years. China, Russia, and North Korea also agreed that land leasing did not mean a loss of sovereignty or ownership of land leased.

<sup>6</sup> According to the Tumen River Development Corporation Ltd., TRADCO 'enters into any arrangements with any government or authority or person and to obtain from any such government or authority or person any legislation, orders, rights, privileges, franchise and concessions and to carry out, exercise and comply with the same...' (Nimetz, 1993: 9).

governments could consult and which would coordinate development in Northeast Asia (*Beijing Review*, 1993). The chairman, Mr. Singh of the UNDP called it 'a most significant step' (Choi, Hoil, 1995: 283). The third meeting was given to legal and institutional matters coming out of the third Working Group. It was further agreed that the inter-governmental group of the three riparian governments should be established as soon as possible to consult and oversee socio-political matters and other common interests in the TREZ; that inter-governmental co-ordination and consultations should be held periodically for matters of common concern; and the 'Tumen Bank' would also be established (Ibid.: 286; *Chosun Ilbo*, 14 May 1993). In October the Tumen Project Industry Workshop met in Seoul to review the position of industry and investment promotion, and recommended coordination of economic, trade and construction plans. The UNIDO gave an assessment of industry in TRED. Several consultancy reports were presented on telecommunications, transport infrastructure, resources, land use, energy supplies, water resources, river management, urban/region planning, etc.

However, such showcases of mega-projects started to face serious blows when member countries questioned the economic rationalities of the project. At an informal meeting in New York in February 1994, member countries evaluated the UNDP's mid-term plans and agreed that those ideas were unrealistic, as declared by China and Russia (Ibid.: 286-7). Russia's main concerns were the potential erosion of sovereignty, the amount of capital expected from participating countries and the proposed system of land-leasing. Although there were benefits on offer in terms of capital flows, Russia opposed TRADCO (Davies, 2000: 11). The two other partners also began to consider the project to be of limited value. In their view concentrating only on TREZ might mean that the potential of the subregion would be missed. A more results focused and economically sound proposal was sought that would encourage foreign investment and deal better with infrastructure development and tourism. It was argued that the geographical scope should be widened to the TRED area. The geography of the project was discussed in Moscow on 15 July 1994, at a meeting where DPRK could not be represented due to the death of President Kim Il Sung. An area including China's Yanbian Korean Autonomous Prefecture, the south part of Primorsky in Russia and Rajin-Sonbong in DPRK was proposed with further strategic development, but due to the absence of the DPRK, no agreement could be reached (Ibid.: 12).

The fact that each member had different political and economic interests was proving a barrier to finding a real consensus. To address their divergence of opinions on the legal and

institutional framework and to avoid their unnecessary conflict of political issues, the UNDP adopted a 'progressive harmonisation' approach. Development needed to go at a speed agreed by all the governments. Harmonisation in the case of TRADP meant providing each member with an assurance that a balance of interests was being sought and that the development of the whole region would proceed with a view to national and local objectives. Harmonisation was thought to be progressive in that it did not set fixed master plan priorities for projects, but aimed to do what could be done in a non-contentious way to remove trade and investment barriers (Kim, Icksoo, 1995a: 81). It did not set priorities, which could prove to be stumbling blocks, but concentrated on resolving the more straightforward issues first. In a compromise the UNDP agreed to extend the formal coverage in Russia of TREDAs from Vladivostok to Vostochini and Nakhodka; and to shelve for the time being the establishment of TRADCO (Kim, Icksoo, 1995c: 218-9). The UNDP core city notion was finally abandoned, since it overlapped with the existing function of towns within TREZ and was found to be impractical. Eventually more realistic approaches were adopted. The UNDP realised that grandiose ideas for regionalism would not work, given the limited responses that member countries were able to make (Davies, 2000: 11-2).<sup>7</sup>

## **2. Time of 'practice' (1995-97)**

There was a significant change after 1995 following the Tumen inter-governmental agreements on the relationship between UN specialised agencies and the project. This time can be seen as 'practice'. The basic text for this period is the Regional Development Strategy (RDS), produced by a joint team of nationals and accepted as a framework for action at the Moscow meeting in July 1995. As the report pointed out, 'development of the region requires both the commitment of governments to an agreed, realistic cooperative development strategy and the support of outside agencies and investors'. The strategy agreed between the member countries contained four key elements, which had already been started and which would continue to be developed in parallel: the creation of an 'enabling' environment, improvement in services, facilitation of trade expansion, and attraction of investment (Underdown, 1995: 73).

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<sup>7</sup> In November, the Tumen PMO was transferred from New York to Beijing, where it commenced operations under the auspices of the UNDP Beijing Office.

At the Fifth PMC meeting in Beijing on 28-30 May 1995, the five members agreed to set up bodies: the 'Consultative Commission for the Tumen River Economic Development Area and Northeast Asia' (China, DPRK, Mongolia, ROK, and Russia), and the 'Tumen River Area Development Coordination Committee' (China, DPRK and Russia). They also agreed to provide a memorandum of environmental development and preservation. According to the agreement paper, the Commission was to focus on assistance arrangement and investment promotion, and the Committee was to focus on mediating mutual interests and sovereignty problems among the riparian countries. Furthermore, Michael Underdown, Director of the Interim Tumen Secretariat, described the role of the Committee as 'promoting', and the Commission as 'consultative, coordinating and advisory' (Underdown, 1996: 76-9).

The project which had been discussed since 1990 finally materialised after the member countries reached a consensus. At the Sixth PMC Meeting in New York on 4-6 December 1995, member countries signed up to the establishment of the Consultative Commission and Coordination Committee, and a Memorandum of Understanding (MOU) on Environmental Principles. They also upgraded the Tumen PMO to the Tumen Secretariat. The member countries decided that the meetings should consist of a vice-ministerial representative from each country;<sup>8</sup> that the Tumen Secretariat would be based in the Beijing UNDP office; that a general secretary should be elected at the next meeting; and that a TRADP master-plan and scheme of financial support would be drafted. The UNDP confirmed continued funding for the project and invited member states to take a part in decision making through their newly established intergovernmental bodies. All member countries made investment promotion and removal of barriers to cross-border trade high priorities (*Beijing Review*, 1995). Long Yongtu, assistant minister in China's Ministry of Foreign Trade and Economic Cooperation, described the agreements as forming the 'legal basis' for the further practical development of the area (Ding, Dou, 1996: 9-10).

Under the positive mood substantial efforts were made during this period in the areas of foreign investment and infrastructure. The UNIDO-sponsored International Investment forum for Yanbian was held in Yanji on 10-15 October 1996. The first ever cross-border foreign business missions were conducted from Yanbian (China) to Zarubino Port (Russia) and Rajin-Sonbong

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<sup>8</sup> According to *Chosun Ilbo* (7 January 1996), the South Korean government had already decided to send Lee Hwankyun, the vice-minister of Finance and Economics, as their representative. South Korean newspapers saw the setting up of the Council as the important point in accelerating full-scale development of the TRADP.

(DPRK). On 13-15 September, the Rajin-Sonbong Zone International Investment and Business Forum was held following UNIDO/UNDP sponsored Investment promotion missions to Japan, Hong Kong, Southeast Asia and Australia in the previous three months. Various activities took place during December. The Tumen Coordination Committee Meeting was held in Pyongyang followed by the Consultative Commission Meeting in Hunchun. Border crossing issues, harmonisation of customs procedures, and facilitation of border/transit trade were discussed. The countries also made an effort to learn from the successful cases of special economic zones abroad. China's State Planning Commission (SPC) sent Chinese officials from Jilin Province and the Beijing central government to Singapore to study the operation of the Singapore Development Corporation, the planning of Singapore industrial estates and the triangular economic relationship between Malaysia's Johore Export Processing Zone (EPZ), Singapore, and the Batam Island EPZ in Indonesia. Japan's Keidaren and Economic Research Institute for Northeast Asia (ERINA) embarked on a technical feasibility study into the major three-stage expansion plan for Russia's Zarubino Port associated with proposed loans of US\$212 million from the Export-Import Bank of Japan for the first stage of the project (1997-2010).

In June 20-25, 1997, the TRADP Tourism Industry/Services Workshop was held. The main focus was tourism accessibility e.g. the opening of new air routes to Yanji, and development of transit tourism and cargo services (Sokcho of ROK-Rajin of DPRK-Hunchun of China). Funded by the UNDP, during 17-28 July, the DPRK Rajin-Sonbong City Government leadership inspected EPZs, industrial estates and economic development institutions in Beijing, Shanghai, Singapore and Malaysia. In August, China's TRADP Team visited the US, Canada and Mexico in order to study the NAFTA, legislative support, free trade procedures for export processing business, customs arrangements, cargo and passenger border crossing procedures. The Tumen Secretariat and China's SPC funded the mission. In September and October, the self-funded Jilin Provincial Government investigated port, rail and road transport to Primorsky Territory (Khansan, Valadivostok, Nakhodka) and North Korea (Rajin-Sonbong, Chongjin, Namyang, Hoeryong). From October to November, the United Nations Office for Project Services (UNOPS) Swedish Trust Fund financed a pre-feasibility study into route options for a Sino-Eastern Mongolian Railway link between Choibalsan and Arxan/Ulanhot/Chanchun with the Tumen Port. Rajin-Sonbong Zone Investment Promotion was held in Italy and Finland during 1-10 November.

1996 to 1998 saw a period of increasing funding to over US\$10 million. UN agencies, multilateral and bilateral sources were tapped. Technical support was offered by other UN bodies such as the United Nations Conference on Trade and Development (UNCTAD), the United Nations Department of Economic and Social Affairs (UN/DESA), the Global Environment Facility (GEF), the World Tourism Organisation (WTO) and the UNOPS Nordic Funds and especially UNIDO, which worked closely with the governments and the secretariat, providing US\$2.44 million worth of support from 1996 to 1998, working especially to promote investment and build capacity. This compares with the US\$2.4 million provided by the UNDP for the TRADP from 1997 to 1999 (Davies, 2000: 26-7).

### 3. Time of 'stagnation' (1998-2000)

The years 1998 and 1999 saw some achievements. From January to 6 March 1998, Customs, Border Guards, and Public Security/Immigration officials from China, DPRK, Russia and Mongolia met on border crossing procedures. The first Primorsky International Investment and Business Forum, sponsored by UNIDO and funded by the UNDP, was held in Vladvostok, on 27-30 May. In June the Japan International Cooperation Agency (JICA) study on the transport corridor between Changchun and Tumen ports was completed. This was part of the Japanese Overseas Economic Cooperation Fund (JOECF) process of extending low interest loans for highway development in the eastern Jilin Province. The Mongolia Investment Conference on foreign investment was held in Ulaanbaatar from 24-26 June. From 25 July to 11 August, the UNIDO-sponsored Yanbian/Hunchun Investment and Forum Promotion Missions to Japan, Norway and Finland were conducted. The China Tumen River Area International Investment and Business Forum was held in Hunchun on 21-23 September. 1,600 people, including 500 foreigners, attended the forum. 87 contracts (in total worth US\$420 million, but only in contractual terms) were signed. The UNIDO-implemented Rajin Business Institute opened officially with financial assistance from the UNDP on 24 September. The following year, Tumen programme intergovernmental meetings were held in Ulaanbaatar on 10-11 June. The meeting discussed the 1999 Work Plan and again the concept of the Tumen Investment Corporation. There was an ADB/ESCAP (Economic and Social Commission for Asia and the Pacific) seminar on measures to facilitate land transport held in Beijing from Jilin, Heilongjiang and Inner Mongolia on 19-21 July. From 29 August to 9 September, there was a FIAS/ERINA/UNOPS (Foreign Investment Advisory Service/Economic Research Institute for Northeast Asia/United Nations Office for Project Services) mission to Yanbian, Rajin-

Sonbong and Primorsky Territory for the purpose of diagnostic studies on the investment environment in the region.

Despite progress, the results were not satisfactory to all. Foreign direct investment (FDI) had to be the driving force for the project, but investment was limited. The Secretariat and member states tried their best but made little progress: FDI in the Tumen area was still small compared to other SEZs in various parts of China. From 1990 to 1995, the total amount of foreign investment in the region only added up to US\$230 million, within which was not even 0.5% of the total foreign investment that China took in 1999 (Blanchard, 2000: 272). Wheels turned slowly and problems of bureaucracy, national interest conflicts, lack of political will, political sensitivities, funding delays and limits, all created obstacles to steady progress (Davies, 2000: 20-1).

Some efforts had been made to revive the TRADP by the UNDP and member countries. Leadership in both the UNDP and the Tumen Secretariat were replaced, and the Tumen Secretariat proposed a few regional initiatives from mid-1998 onwards. The new leadership put forward the idea that the TRADP should 'broaden its agenda' and 'widen its vision'; look at issues from a higher and wider regional dimension; and 're-focus' attention on 'regional economic cooperation initiatives and activities' rather than 'local development activities'. The new regional efforts were, a council of 'Eminent Persons' which is similar to that of APEC, and the 'Northeast Asia/Tumen Investment Corporation' (NEATIC), similar in concept to the Northeast Asia Development Bank. However, it was initiated by the UNDP and did not have the commitment of the member states neither at high, nor low level, nor with private interested parties. The Secretariat alienated member states from the policy process of the project (Ibid.: 39-42). Ultimately, the Secretariat management was losing support and the value of the programme undermined (Ibid.: 44-5).

#### **4. Concluding remarks**

All in all, the cooperation plans failed. The project was seen as unrealistic and lacking in substance, and unattractive to investors and donors. There was a tangible lack of interest in a stagnating programme that was not showing benefits. Not only did the UNDP state misleading directions, but also member countries were not prepared to put up finance and infrastructure for a commercial project that was not well defined, and had development goals

that were unlikely to be met. As a result, international organisations ceased funding to all local area plans in the riparian' territories in mid 1998 (Ibid.: 39). In Davies's term, 'No... project proposals had gone beyond the conceptual stage' (Ibid.: 40).

## **II. The TRADP and the five countries concerned**

Having shown how the conflicts of interest between the major players affected the uncertain development of the project, it is time to look more closely at the positions of the five countries other than China.

### **1. North Korea**

Prior to the 1970s North Korea's economic performance was better than that of South Korea. The North in fact achieved respectable annual growth figures (ERINA, 1996: 41). In 1990 GNP stood at US\$ 23.1 billion (US\$ 1,064) (Ibid.: 42). However, following that were seven consecutive years of negative growth, which brought the country to the point of collapse. There were food shortages from 1995 to 1997, compounded by floods and drought. The collapse of the former Soviet Union and termination of support from the Russian Federation added to the severe economic decline. And given the refusal of its leaders to follow the Chinese or Vietnamese route to market socialism, opportunities to escape the situation through trade were limited (ERINA, 1996: 45-6).

Yet, North Korea has made attempts to revitalise its dying economy and in that respect foreign capital and technology have been seen as vital. Plans were made to establish a free economic and trade zone in the Sonbong area (on the northeastern coast of North Korea). This was announced at the first Northeast Asia Sub-regional Programme Meeting of the UNDP held in July 1991 in Ulaanbatar, Mongolia. On 28 December of the same year, the Free Economic and Trade Zone (FETZ) in Rajin-Sonbong area (621 sq. km) was established as part of the TRADP (Decision No. 74 of the DPRK Administration Council).

The Rajin-Sonbong Zone borders Hunchun in China, and Khasan in Russia, and faces Japan across the East Sea. It is only 130 km by land and 485 miles by sea from Hunchun to Niigata



through the port of Rajin. The Hunchun-Rajin/Sonbong route offers Hunchun more rapid access to a port as compared with Dalian which was 1,300 km away (Kim, Munsong, 1996: 71; Li, Gimán, 1997: 71). Rajin was given city status under the central government, and the total area of the FETZ was increased to 746 sq. km through annexing Undok County to Sonbong County by the decree of the DPRK Central People's Committee issued on September 24, 1993 (*Investment Climate*, 1995: 11).

Under the 'Master Plan of the Committee for the Promotion of External Cooperation of DPRK', the Rajin-Sonbong area is to be developed as a centre for international cargo transit, finance, tourism, and manufacturing focusing on export processing. Manufacturing would draw on the natural and geographical advantages of the area. Development was planned in two phases: During Phase I (up to 2000), existing infrastructure would be utilised to the maximum and ports, railways, roads and telecommunications improved and upgraded to enhance the role of the zone as an international cargo transit centre. At the same time, efforts would be made to create and improve the investment climate. During Phase II (2001-2010), efforts would focus on continued improvement of the infrastructure network and manufacturing development as well as on the creation of a financial centre and an international tourist resort. The ultimate goal for the zone is to make it a first class international centre of economic exchanges and trade for the 21<sup>st</sup> century (Kim, Munsong, 1996: 72).

North Korea has identified advantages for Rajin-Sonbong over other free economic zones. First, the Russian ports are frozen for four months in the winter, which obviously limits their capacity. Second, the Sonbong route is short and economical for China's northern part (Imai, 1993: 16). The ports of Sonbong, Rajin and Chungjin (all within 90 km radius) are important for Chinese and Russian cargo, and the improvement of the existing facilities would increase the annual cargo handling capacity significantly (Kim, Soo Jin, 1993: 74). North Korea participated in the TRADP because of the benefits the project could offer.<sup>9</sup> It proffers the prospect of foreign capital and technology to help deal with its economic difficulties and a means of cooperation with China and the Western countries (Takata, 1999: 13). The interest generated by the TRADP in the UNDP, the ESCAP, and the ADB may also have contributed

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<sup>9</sup> The idea of the Rajin-Sonbong project was also driven by the need to respond to the Chinese Hunchun Project (Kim, Icksoo, 1994c: 19). There was a danger of North Korea falling behind. It might lose existing advantages and the TRADP might merely help China to gain access to the East Sea.

to the North's decision (Portiakov, 1998: 56). In addition the zone was seen as an opportunity for a controlled experiment with market economics.

Nevertheless, North Korea has met great problems in taking advantage of this opportunity. Very low credit ratings as well as unfavourable legal and institutional investment conditions have made the country an unattractive option. The main problem remains that of attracting finance, especially from South Korea and Japan. In addition to these financial problems, North Korea has been very cautious in promoting the TRADP since the potential for a radical effect on it as a closed country is greater than for the other players (Yang, Un-chul, 1998: 8). One of the reasons for establishing the economic zone in Rajin-Sonbong area, which is geographically located to the far north of Pyongyang, was to keep any political and ideological influence from the outside to a minimum.<sup>10</sup>

## **2. Russia**

Primorsky Krai is located in the southern part of the Russian Far East (RFE), bordered by the East Sea, China, and the DPRK. The area is the RFE's<sup>11</sup> largest economy with 40% of total RFE GDP. A strong military presence had encouraged relatively technologically advanced businesses to develop. More than half of Primorsky's output is created within the Tumen River Economic Development Area (TREDA), which is plentiful in natural resources, and processed for its income. There used to be large central government subsidies, but these dried up, leading to a 52% decline in industrial production between 1990 and 1997 (Wright, 2000: 7). Additionally, the RFE has yet to complete successfully the transition from being a privileged outpost of the Soviet Union to a region that must look outward to East Asia for more trade and investment opportunities.

In his Vladivostok speech of 1986, Mikhail Gorbachev recognised the potential for a more open environment. He announced regional development and investment programmes for the area which would help it to integrate its economy with the Asia-Pacific region. Also in 1986, the West Ryborg area near Moscow, and the Nakhodka area in the RFE were declared FEZs. Later 11 other areas became free zones. Four of these were in the RFE: i) Chita (a border area

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<sup>10</sup> For more details about the significance of the project in North Korea in terms of the Korean Peninsula political and security context, see Part II of Chapter Eight.

<sup>11</sup> For the chronology of development strategies for the region, see (Chen, Rishan, 1993: 1-5).

between East Siberia and Mongolia); ii) Birobaizhan, the Jewish Autonomous Region (near the border with China); iii) Sakhalin (nearest to Japan); and iv) the Primorsky area (adjacent to China, North Korea, Japan and South Korea) (Kim, Soo Jin, 1993: 72).

In 1992, with the advent of the TRADP, Russia initiated the Greater Vladivostok Free Economic Zone (GVFEZ) programme.<sup>12</sup> This zone makes up part of the northern section of Russia's portion of TREDAs. It has within it three distinct economic zones, with the port of Vladivostok at the centre, Nakhodka and Vostochny 80 km to the east, and Posyet/Troiza 100 km to the south (Kouriatchev, 1993: 21). The aim of the GVFEZ is to promote trade through the opening of an Asia-Pacific gateway. Promotional efforts highlighted its potential as a transport hub, and the availability of local resources. In keeping with other regional special economic zones, the GVFEZ aims to be an export-oriented processing trade zone, based on a free trade port. The Vladivostok region was planned to be the centre for administration, finance, and banking services of the GVFEZ. Nakhodka has potential for a land-intensive industry or commerce centre and Khasan should concentrate on light-industry, fishery, agriculture and food-processing, with neighbouring Chinese and North Korean labour. Development was envisaged to take place in three stages. The first was the preparatory period, building up infrastructure, focusing on intensive export-processing industry; the second stage (1996-2000) was to increase the import substitution industry, and the third (2001-2010) would nurture technology-intensive industry (Kim, Icksoo, 1994a: 95-6; Marton et al., 1994).

The reasons for Russia's participation in the project may be explained as follows. Exploitation of Primorsky region's raw materials and labour force would bring initial and easy gains. This exploitation could also extend to Siberian natural resources (Cho & Valencia, 1992: 13). Russia believes that the TRADP would be expected to provide Russia with an opportunity to develop the Primorsky Krai, contributing to the economic development of Vladivostok and the southern district of Khasan which extends from near Vladivostok to the Tumen River (PDP Australia, 1994). There are potential gains from a revitalisation of the Trans-Siberian Railway (TSR). It is the shortest route from East Asia to Europe and used to be a major route for Japanese transit cargo.<sup>13</sup> The TSR connects with the ports of Zarubino and Posyet in Russia

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<sup>12</sup> Initially, the GVFEZ plan was formulated in December 1991 by the Engineering Consulting Firms Association of Japan (ECFA) under the auspices of the UNIDO (Kobayashi, 1992: 126).

<sup>13</sup> At its height in 1983, the TSR handled 110,683 TEU from Japan. However, tariffs, and handling and security problems have reduced this traffic to 7,453 TEU in 1998 (Wright, 2000: 8).

and with China at Hunchun and Suifenhe (Whalen, 1995: 103). The TRADP also has the potential to attract foreign capital investments.

Russia would like to strengthen its position in the Northeast Asian economic cooperation (Minakir, 1998: 194), which would increase domestic stability and enable Russia to participate for the first time in the economic dynamism of East Asia. Increased economic cooperation and trade with the countries of Northeast Asia would also help maintain a better geopolitical balance in Russia's foreign policy (Toloraya, 1999: 53-4). Importantly, the TRADP is also seen as a way to increase involvement in the Asia-Pacific region's mainstream economic processes, including the APEC organisation to which it was admitted in November 1997. If Russia were to withdraw from the TRADP, it would jeopardise its position in the region and its chances for foreign investment in the RFE (Portiakov, 1998: 58-9).

In December 1992, Russian President Yeltsin and Chinese Premier Li Peng discussed Russia's active state-level participation in the TRADP as part of a strategy of improving economic relations between the two countries. On July 17, 1995 an official resolution on Russia's participation in the TRADP entitled 'Development Programme for the Tumenjiang Basin' was passed (Ibid.). Recently, at the Tumen Consultative Commission Meeting of June 1999, Vladimir Karasin, Deputy Minister of Trade, expressed a hope to meet with other member countries to discuss the planning and implementation of concrete projects (Tumen Consultative Commission Meeting, June 1999).

However, serious hurdles to progress in Russia's cooperation in the region remain. These include lack of infrastructure, unresolved questions of dispute settlement and earnings repatriation, and market uncertainties (Lee, Jae-You, 1992: 210-3). There was the impact of the Asian crisis, on top of the Russian defence cutbacks and the disappointing results for the TSR. In addition there are energy and administrative problems. Internal political problems have also been present, including different views of the project in Moscow and Primorsky and disputes centring on the role of the regional leader. Initially between 1990 to 1992, Primorsky's administration was decentralised, but this move was shortly after reversed due to subsequent opposition to the GVFEZ. Similarly, special treatment given to the Nakhodka Free Economic Zone in 1991 was removed in 1993, and then partly reawarded in May 1999 (Davies, 2000: 38). Locally there is real concern about an increasing and potentially disturbing Chinese

presence in the RFE.<sup>14</sup> The TRADP, with its focus on Zarubino, may detract from other territories. Furthermore, the downside of cooperation lies in ceding competitive advantage to rivals. In this case the North Korean ports may be developed and linked through China to the TSR while leaving out Primorsky, with a negative impact on the Russian ports of Vladivostok and Nakhodka (Cho & Valencia, 1992: 13).<sup>15</sup> Finally, security concerns have dominated Russian policy in the region, making cooperation a sensitive issue. From a geopolitical point of view, the dispute between Russia and Japan over the Northern Territories has remained unresolved.

### 3. South Korea

At the initial stages, South Korea was greatly interested in the TRADP. Many South Korean commentators argued enthusiastically for participation in the Northeast Asian regional cooperation schemes (Shin, 1996). The project could open access to cheap labour and natural resources, and would provide new and diversified export markets. These would provide a testing ground for new technology in a controlled environment leading to increased competitiveness. One scholar argued that by playing an active role in building the Northeast Asian economic circle, South Korea would gain significant competitive advantages (Valencia, 1991: 267). As a newly industrialised economy, South Korea could play a very important role in this project.

The Tumen project, too, was attractive from a political viewpoint. Increased inter-Korean cooperation would be of benefit to strengthen its position on reunification (Kim, Soo Jin, 1993: 86; Zhu, Yuchao, 1996: 109). Change in North Korea is a delicate issue, and a focus on economic cooperation could indirectly induce adjustment, making the process of unification less costly (Kim, Icksoo, 1994b: 20). The project would also provide links with ethnic Koreans in the former Soviet Union and China (Kim, Kookjin, 1994: 10).

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<sup>14</sup> It was reported in the Chinese press that there would be difficulties in reaching targets for population growth in Greater Vladivostok (up to 2.2 or 2.3 million people from 1.2 million over twenty years) if there were no migration from China. At the extreme, the population of the district of Khasan has recently been just 44,000 (1994) (Portiakov, 1998: 57).

<sup>15</sup> The TRADP was seen in the '1996-2005 Federal Target Programme for Economic and Social Development in the Far East and Transbaikalia' (which was adopted in April 1996) as a factor that might detract from the development of good traffic on the TSR (Portiakov, 1998: 59-60).

Officially, the South Korean government has taken a positive stance towards the project. At a Tumen Consultative Commission Meeting in June 1999, Uhm Rak-Yong, Vice Minister of Finance and Economy, noted that South Korea supported such efforts to enhance regional peace and stability. He urged participating countries to focus on attaining international standards in investment and production, suggesting that member countries should share technical skills within the region and strengthen regional institutions. Financial support for the Tumen Region Investor Services (TRIS) Network project has been provided by South Korea and an injection of US\$1 million was given to the ROK Tumen Trust Fund ('Tumen Consultative Commission Meeting, June 1999').

Nevertheless, South Korea was hit hard by the Asian financial crisis. The chaebols in particular were no longer in a position to make foreign investments and this was a real setback for the TRADP, especially as trade, investment and tourism in the Tumen region was being fuelled mainly from South Korea. At the same time, the South Korean government has had less risky and more profitable opportunities to invest overseas, such as in China (the Yellow Sea coast) and in Russia (the Khabarovsk Territory and Sakhalin). Moreover, a new prospect has emerged in Seoul concerning the development of another economic zone nearer its border with North Korea.

#### **4. Mongolia**

As a land-locked country, Mongolia needs as many points of access to the sea as possible and support for the economic cooperation in the Tumen region is a means of achieving this (Husband, 1998: 167). Tianjin is one of the main ports to which it has access at the moment. The Ulaanbatar-Tianjin route (1,700 km) is shorter, but more congested and expensive than the Ulaanbatar-Vladivostok route (3,200 km) (Wright, 2000: 7). A new route to the sea via Tumen would thus be welcome. Mongolia is particularly interested in the potential of a 'land bridge' which would pass through Mongolia to connect the Tumen River and Europe (Imai, 1993: 17; Olzvoy, 1996: 45-9; Li, Haibo, 1992: 6). Such a project would enhance Mongolia's transport infrastructure.

Mongolia's policy is to 'Look to the Northeast' (Olzvoy, 1996: 48). It is keen to participate in such multilateral efforts as the TRADP in order to integrate its economy into the regional economy. It is seeking ways to maximize use of internal resources and develop its roads and

transport systems. The cultivation of better bilateral relations with Japan, South Korea, and the ADB is important in terms of attracting investments from them to carry out development. It is therefore participating actively in ongoing negotiations related to the TRADP, and it is willing to supply all information to the Consultative Commission on the TRADP (Demberel, 1995: 83-4), and join and promote multilateral organizations such as Northeast Asia Economic Forum (NEAEF). Above all Mongolia seeks more international links so as to avoid being contained by its two gigantic neighbours.

Mongolia will benefit most from the project by exploiting the mineral resources in the east of the country. It can afford to be enthusiastic about the project, and to hope for an enlargement of the TRADP to reach into its geographically remote territories. However, Mongolia is not a main strategic player in the region, and is less concerned about the particular version of the project selected. It is not a strong power politically and economically and thus its leverage to influence the TRADP is minimal.

## **5. Japan**

Like the other participants, Japan is also mindful of changing global economic trends. The complementarities of the region have been identified as being of possible benefit to Japan. Its capital and expertise can be combined with Russian and Mongolian natural resources, using cheap Russian, Chinese, and North Korean labour and energy. For Japan, the area could also become a new sea and land bridge to Asia. The trans-Siberian route is an alternative route to Europe (*Chosun Ilbo*, 12 August 1995). In one way Japan is the most important participant in the TRADP because of its financial power and technological capacity. However, it currently only has observer status.

Japan has not been an active participant and there are reasons for this. One problem is a difference in enthusiasm between the central and local governments in Japan (Takata, 1999: 15). One goal of the Sea of Japan Rim Circle is to narrow the economic differences between *omote nihon* (Pacific coast) and the relatively underdeveloped *ura nihon* (Japan sea coast) (Touma, 1992: 295). Local governments and communities in the East Sea Rim area feel that the TRADP could help the West of Japan, and have become very active in seeking development opportunities. Up to 15 research institutes have been investigating the East Sea region, including the Economic Research Institute for Northeast Asia (ERINA), the think-tank of the Niigata

Prefectural government, which has been doing research and consulting work on the region since 1993, and is the central presence of the Zarubino harbour development plan. The Tottori Prefectural Government also participates in the TRADP and is exchanging researchers with Jilin Province. This region participated in forums held in the UN and Rajin-Sonbong Zone in 1995 and 1996 (Takata, 1999: 15).

In contrast, the attitude of the central government is more ambiguous. It seems more interested in cooperating with a large economic community such as APEC, rather than the relatively small, Northeast Asia Economic Circle (NEAEC) preferred by prefectural governments. Tokyo seems hesitant about joining in the project for various reasons: the unpromising economic situation remains bleak, and basic infrastructure underdeveloped. North Korea remains politically unstable, and competing views on development approaches to the project make progress complicated. In addition to this, there are other competitive projects such as Mekong area development, which might provide a better investment opportunity. Japan still has ongoing territorial disputes with Russia and indeed its historical involvement in the area as occupier has made its relationships with both the Koreas and China particularly sensitive.

Japan has thus argued that the improvement of political relations is vital for future cooperation in the region (Zhu, Yunchao, 1996: 110). In sum, Japan does not see the TRADP as something it can join in the short-term, but it envisages that economic and political benefits can accrue in the longer-term. Thus Japan has been involved only hesitantly and selectively, carefully weighing up what would be in its interests. For the time being Japan cultivates bilateral relationships rather than multilateral ones through direct investment or economic assistance.



**Table 7-1. Foreign direct investment in the Tumen region**

|           | To 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | Total |
|-----------|---------|------|------|------|------|------|-------|
| Yanbian   | 42      | 61   | 78   | 134  | 95   | 47   | 457   |
| RSFEZ     | 1       | 1    | 4    | 31   | 26   | 25   | 88    |
| Primorsky | 205     | 2    | 53   | 93   | 95   | 56   | 504   |
| Mongolia  | 10      | 29   | 46   | 53   | 31   | 39   | 208   |
| Total     | 258     | 93   | 181  | 311  | 247  | 167  | 1,257 |

(US\$ million)

Source: (ERINA &amp; FIAS, 2000: Statistical Annex, p. 1)

**Table 7-2. Trend of foreign investment in Yanbian**

|                | Until 1994 | 1995  | 1996  | 1997 | 1998 | Jan-Sep<br>1999 | Total |
|----------------|------------|-------|-------|------|------|-----------------|-------|
| Contract basis | 125.4      | 167.1 | 110.3 | 87.3 | 64.1 | 60.0            | 580   |
| Arrival basis  | 103.8      | 78.3  | 133.9 | 94.5 | 46.3 | 25.0            | 480   |

(US\$ million)

Source: (ERINA &amp; FIAS, 2000: Statistical Annex, p. 2)

**Table 7-3. Source of foreign investment in Primorsky territory**

|             | Until 1997 | 1998  | Total sum until 1998 | Proportion |
|-------------|------------|-------|----------------------|------------|
| USA         | 113.74     | 3.44  | 117.18               | 26.6       |
| ROK         | 87.98      | 23.27 | 111.25               | 25.3       |
| Japan       | 69.30      | 13.19 | 82.49                | 18.7       |
| Singapore   | 35.25      | 6.99  | 42.24                | 9.6        |
| Switzerland | 20.39      | 0.03  | 20.42                | 4.6        |
| Australia   | 18.66      | -     | 18.66                | 4.2        |
| UK          | 8.02       | 1.18  | 9.20                 | 2.1        |
| China       | 6.63       | 0.08  | 6.81                 | 1.5        |
| Norway      | 3.17       | -     | 3.17                 | 0.7        |
| Canada      | 3.98       | 0.004 | 3.98                 | 0.9        |
| Total       | 383.86     | 56.34 | 440.20               | 100.00     |

(US\$ million)

Source: (ERINA &amp; FIAS, 2000: Statistical Annex, p. 3)

**Table 7-4. Foreign investment in Rajin-Sonbong zone until 1997**

|                   | Contract | Actual investment |
|-------------------|----------|-------------------|
| China             | 28,160   | 1,328             |
| Japan             | 7,822    | 539               |
| Hong Kong         | 31,854   | 1,845             |
| UK                | 2,000    | 34                |
| Netherlands       | 1,536    | 786               |
| Thailand          | 2,800    | 1,000             |
| Singapore         | 127      | 76                |
| Vietnam           | 46       | 3                 |
| Australia         | 120      | 0                 |
| Koreans in the US | 500      | 61                |
| Russia            | 120      | 120               |
| Total             | 75,085   | 5,792             |

(US\$ million)

Source: (ERINA &amp; FIAS, 2000: Statistical Annex, p. 3)

### **III. Constraints in and/or around the project itself**

Part III examines the particular kinds of economic issues and problems that developed between the participating governments and the UNDP (as the major force of the project) that have made it difficult to move the TRADP forward. The views of the private sector as the investment source will be also examined.

#### **1. Limits of the role of the UNDP**

##### **1.1 Unrealistic plans**

As shown in Part I, the time of 'desire' (1990-94) worked on the basis that it was possible to prescribe the best form of government for the region and that sufficient funds and investment would become available when needed. However, the project in the 'time of desire' was too large-scale and idealistic. According to Davies, there were a number of sub-projects proposed under the TRADP such as a Eurasian land/sea bridge, the establishment of a new 'United Nations Core City', and the establishment of a 'Tumen River Area Development Corporation' (TRADCO). These received extensive publicity among the relevant research and business communities worldwide, and especially in Northeast Asia. They were the UNDP-generated projects and, from 1992, a lot of time and energy was put into them by the UNDP and TRADP states. However, by the end of 1994 most of the projects had been dropped, as the enthusiasm of the participating countries did not match the scale of the proposals, which were either unrealistic or simply lacked support (Davies, 2000: 10-12). Nevertheless, the UNDP still failed to draw appropriate lessons from this, and it proposed other ambitious projects. It tried to set up a Tumen Region Development Finance Facility in 1997, which was similar to TRADCO. The Finance Facility in mid-1999 switched to a proposal for 'Northeast Asia/Tumen Investment Corporation' (NEATIC), not dissimilar to the 1990 proposal for a Northeast Asia Development Bank (NEADB) (Ibid.: 41). Unrealistic plans were once again attempted, even though plans of such kinds had previously proved unsuccessful.

## 1.2 Neutrality doubt

Additional problems emerged. The relevant countries suspected that the UNDP was acting on behalf of China's interest rather than as an impartial entity. Indeed, the UNDP's TRADP feasibility study was based on the Chinese concept and it favoured the important concepts of the TREZ, TRED, NEARDA, with the idea of leased lands and so on (Imai, 1991: 20; Marton et al., 1995: 30). As a result some member states lost confidence in the UNDP's ability to remain neutral.

## 1.3 Member countries' disappointment at UNDP inefficiency

Due to the lack of obvious beneficial outcomes of the various participating countries, belief in the value of the TRADP began to wane, and opinion of the Tumen Secretariat fell. No agreement was reached on the best model of cooperation to be used. South Korea began to back off somewhat. The project faced communication problems, and lack of preparation of schedules and budgets lead to a lack of progress and disenchantment. North Korea found sector workshops to be ineffective, and was disappointed by the lack of response to its requests for funding. North Korea did not attend the inter-governmental meetings during 1998 and 1999, and in March 2000 threatened to pull out completely if technical help for its own projects was not forthcoming. Russia too was not satisfied. It felt that the TRADP would not offer sufficient benefits to its Far Eastern region, which had a lot more capacity to offer. Even China, in the latter part of 1999, agreed that stagnation had set in, and discussed calling a half to the whole project if there were no changes in the direction that the Secretariat was moving in (Davies, 2000: 44-5).

## 1.4 Oversized bureaucracy

The Tumen Secretariat became less and less active in the project mainly through stoppage of technical assistance. Its activities and business declined by two-thirds in 1999 as compared with 1997. However, staff numbers increased, which was a drain on the TRADP budget. With a staff of 14 in 1999 (up 100% on 1997), salaries, administration and support costs consumed 85% of the UNDP TRADP budget (Ibid.: 44).<sup>16</sup>

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<sup>16</sup> Accordingly, staff reductions at the Secretariat were initiated in the first quarter of 2000, partly as there was a lack of activities, and partly in readiness for changes to the programme. A new director was sought (Davies, 2000: 45).

## 1.5 Funding limits

The growing disenchantment with the UNDP may be seen from the fall-off in investments. Yet, from 1998 to 2000 less than US\$100,000 in funds were committed to the project by the UNDP, even though the TRADP envisaged large scale resource mobilisation. In 1996 to 1998 the equivalent resources reached over US\$10 million. US\$5.25 million of this was Tumen Global Environment Facility (GEF) related, US\$2.44 million was from or through the UNIDO, and over US\$3.3 million came from the UNDP trust funds, the Nordic Fund or other UNDP funds (mainly through UNDP Seoul and Pyongyang). In 1999 to 2000 there were no positive results from funding missions to Europe, Japan and South Korea (Ibid.). Consequently, the TRADP is facing its biggest ever challenge as its long term survival is now in doubt.

## 2. The view of the private sector

### 2.1 Geological and natural constraints of the project

Although the location of the Hunchun area and its flat topography are suitable for a special economic zone, there are some geographical problems. First, the corridor of the Tumen River downstream, where the three riparian countries meet, is very narrow and difficult to develop. Unlike the Yangtze, the 324 mile-long Tumen River can only be navigated far about 30 miles from its north. Second, the area is sandy, so the possibility of flooding is high, since sand moves with the wind from the river and sea and there is instability. Floodgates and stabilisation mean additional cost. Third, the area experiences a severe winter with temperatures falling below -20C for a four month period, making the manufacturing of machines that could withstand the temperature costly. On top of that the river freezes during this period, halting marine transport. Alternative transport such as railways or roadways would have to be constructed. Thus, it can be said that the natural environment is not as advantageous for an economic zone as it should be (Li, Kiseok et al., 1994: 2, 56).

## 2.2 Exaggerated value of the project

As Davies has pointed out, the scale and value of the TRADP has been overblown. The project started in 1992 with huge expectations generated by preliminary reports drawn up by the UNDP consultants. These suggested that opening up the Tumen area and providing a transport network from eastern Mongolia and northeast China to the East Sea would require financing to the tune of US\$30 billion. In fact these figures were inflated and the conclusion of the report had not taken account of the riparian countries' existing capacities and development plans, nor of the real trade potential of the project. Instead it focused on large-scale infrastructure projects, including risky plans for significant state investment in airports at an early stage (Davies, 2000: 9). Therefore, the little that has been accomplished to date seems disappointingly insignificant, and saps remaining enthusiasm in the project.

## 2.3 Poor infrastructure

There are differences between the TRADP and similar sub-regional economic zones. One of these is that the focus is on infrastructure projects rather than on production and trade (Chung, Jinyoung, 1995: 95-6). This is because a good infrastructure is a prerequisite to further economic development and from there to international trade and further foreign investment. As Campbell explains, the need for low cost telecommunications and an accessible and modern international airport is clear if the Tumen River area is to be made attractive to outside investors. There must be adequate rail and highway transport and container handling sea ports for moving goods to the rest of Northeast Asia Regional Development Area (NEARDA) and beyond (Campbell, 1995b: 199-200).

## 2.4 Insufficient co-ordination among countries

According to Kim, much of the infrastructural work is directed towards new constructions rather than for the improvement or modernisation of existing facilities. For such work to be feasible, it is vital to have accurate notions of projected growth of cargo volume, costs, and profitability. Uncoordinated expansion by competitive riparian countries would have caused waste or misallocation of scarce capital through overlapping projects. For example, the DPRK is trying to build Sonbong Airport, while China and Russia are holding out for their own international airports, in Jingxin and Khraskino. Such infrastructure-focused work would need to be carefully considered as a whole, along rational and cooperative lines, the growth of the regional economy, intra-regional and border trade, as well as changes in industrial

structure. Otherwise it would end up jeopardising the prospects for future financing and eventual profits (Kim, Icksoo, 1995a: 91-2).

## 2.5 The legacy of the socialist economic system

Amongst other obstacles to the development of a stronger trading ties is the lingering influence of socialism. The ideology of centralised control and a poor legal system have made it difficult for foreign investors and traders to know where they stand (Campbell, 1995a: 22-3). Where liberalisation has taken place, the outcome has often been tainted by local officials exercising their positions to their own advantage. The North Korean command economy is completely unable to deal with economic cooperation. Mongolia and Russia have introduced reforms towards a freer market but still lag far behind in their understanding of market mechanisms (Kim Icksoo, 1995a: 77). There have been major reforms in China too, moving towards establishing the basic requirements and freedoms for a market system and for engagement in the global economy. However, there are regional variations, and Northeast China lags behind the rest of the country. There is no unity of policy and rules regarding economic matters, pricing, availability of goods and services between the various countries. Clearly, too, the view of and response to the opportunities presented by a regional free trade zone may also prove to lack common ground (Campbell, 1995a: 31).

## 2.6 Irrational price and incentive structures

The disadvantage of international trade is the pressure domestic prices face in responding to cheaper imports. For example, although port fees are kept low as an incentive, railway freight price is still high. The China Northeast Asia Railway & Ports Group Co. set US\$5 per ton as a realistic price, but this is already higher than the US\$3 charged on the state railway. This has left potential investors unable to predict with sufficient clarity their return on investment, making it difficult to assess the break even levels (Kim, Icksoo, 1995a: 92).

## 2.7 Bureaucratic structures

Bureaucratic problems had a real impact on the TRADP, as a result of poor communication and cooperation between relevant ministries and with local authorities. Inter-departmental rivalry was evident, and lack of coordination meant that the Tumen project was less discussed at national level in bilateral talks than it should have been (Davies, 2000: 34). For example, the Chinese national team from 1992 to 1998 was made up entirely of middle level officials from the planning and science and technology commissions and from Jilin province. Local

authorities in Yanbian were rarely consulted because they were at the bottom of the hierarchical ladder (Ibid.: 36).

#### 2.8 Different administrative levels: unclear players in the project

Until now, the Tumen project has been promoted by inter-governmental organisations, namely the Tumen Secretariat. In order to be a free trade zone, legislation regarding tax, customs, entrance and exit management, and capital transit needs to be passed by authorities at the state level. For the two Koreas and Mongolia, this presents no problem since they joined the project in the name of central government. However, because the TRADP is pursued at provincial level for China and Russia, this creates tensions (KDI, 1997: 139). This is because issues that arise between them may lead to situations that need diplomatic resolutions. In this case there is no role for local government or the private sector (Yang & Lew, 1994: 8-9). Things are made even more difficult by the fact that the World Bank and ADB as well as other international financial institutions normally get involved at state level for state-wide projects rather than sub-regional or trans-border projects.

#### 2.9 Weak trade mechanism

Trade and investment in the region has in fact grown, but this is more as a result of growth by the East Asian economies as a whole rather than due to significant local change (Akaha, 1993: 28). The six countries that make up Northeast Asia have around 15% of world exports and 13% of imports and this has remained fairly steady. In terms of trade among the six countries of the region, Japan has the largest share with 62% of exports and 53% of imports and South Korea is the second strongest with 14% and 18% respectively (ERINA, 1996: 29-31). 11.0% of total Japan's exports and 17.4% of imports go to or come from Russia, China and the Koreas. 51.2% of exports to Russia from Japan come from prefectures on the East Sea. Only small amounts (6%) of trade from these prefectures go to China and the Koreas. Imports to Japan show the same trend. Only 6% of imports from China come via the East Sea prefectures, compared to 20% of imports from Russia and the Koreas (Yoshida, 1993: 141-3).

#### 2.10 Financial supply constraints

Another concern is the shortage of financial resources within the region. Several of the most promising sectors such as liquid natural gas, coal, and non-ferrous metal extraction and infrastructure require huge amounts of capital. How to raise the estimated US\$30 billion proposed by the UNDP remains a big question. It is hoped that cash will come from

multilateral bodies (such as the ADB), corporate sources and from Japanese and South Korean banks. However, not surprisingly, Japanese and South Korean responses have been cautious. Moreover, the Asian financial crisis has had a negative impact and Japan is constrained by the need to restructure its bubble economy. The South Korea's financial crisis has also put any major South Korean business investment backing on hold for several years.

### 2.11 Limited support from the public sector

The Korea Development Institute (KDI) reports on the difficulties of attracting foreign direct investment. Initially, the TRADP has looked to various sources for funding. The first sources are the international development banks such as the World Bank, ADB, and European Bank for Reconstruction and Development (EBRD). However these banks are already committed variously in the region with Russia benefiting from support from the World Bank and the EBRD, and China and Mongolia benefiting from World Bank and ADB funds. Further funding to these countries will therefore be limited. North Korea would be a possible target for ADB funds if it were a member, but it is not one yet. The US Agency for International Development (USAID), the Japan International Cooperation Agency (JICA) and the Overseas Economic Cooperation Fund (OECF), and South Korea's Economic Development Cooperation Fund (EDCF) are possible sources from among national development funds. However, the budgets of such funds are being squeezed as governments are forced to control public spending. The USAID is already committed in the former Soviet Union and East European countries and so can provide only limited help to Northeast Asia. The JICA was cut by 35% from US\$9.6 billion in 1995, and belts are being tightened as a result of the domestic banking crisis (KDI, 1997: 152-159). Therefore, public sector funding is in fact limited. In view of these limitations in public sector funding, private sector FDI becomes the key to further investment.



## 2.12 Skepticism of the private sector

The region is not yet an attractive target for the private sector, especially if compared with the economic hotspots of Southeast Asia and South China (Kobayashi, 1995: 113). What is needed to attract private sector investment is a favourable tax regime and secure commercial and economic conditions (KDI, 1997: 152-159). All private investment in such sub-regional projects, particularly in infrastructure-related investment where returns may be longer-term, involves high risk. Although some degree of risk is unavoidable, the risk here is compounded by lack of information and lack of control regarding the project environment, which is in the hands of governmental authorities. Risk management decision-making means that an investor may not invest if the most likely outcomes are too costly and outweigh potential benefits (Abonyi, 1996: 18-9). Credit ratings of the riparian countries are very low, so they cannot expect easy financial supply from the international capital market. In 1995, the total amount of private sector investment in developing countries was US\$100 billion globally, one third of total private investment. Of this, US\$64 billion went to Asian developing countries. Only US\$27 billion flowed into the rest of Asia. China remained the main investment area with US\$38 billion. Private investment in social infrastructure in Northeast Asia was just US\$500 million (0.5%) (KDI, 1997: 152-159).

Japan and South Korea are seen as the leaders in private investment for the region. However, South Korea has been less well positioned to be a major capital exporter, leaving Japan to shoulder the larger part of the burden. But Japan has shown little interest. By 1993 Japan had invested almost US\$60 billion across Asia as a whole, still only a third of the total Japanese investment in the US (US\$170 billion). Only one sixth of this total was in Northeast Asia, that is, South Korea (US\$4.6 billion) and China (US\$4.5 billion). Southeast Asia attracted the bulk of investment, especially Indonesia (US\$14.4 billion), Hong Kong (US\$11.5 billion), Singapore (US\$7.8 billion), and Thailand (US\$5.9 billion) (Calder, 1995: 80-1). In China, Japanese enterprises have so far preferred to develop the eastern and southeastern coastal provinces, rather than Northeast China (KOTRA, 1996: 195).

According to a 1994 Japan External Trade Organisation (JETRO) survey on the Pan Japan Sea Economic Cooperation (PJSEC), which was conducted with 23 companies and prefectural governments, the Japanese private sector's view of the Tumen area was not positive. 16 companies thought some progress might take place in the near future. The medium to long term prospects (10 years) of the PJSEC would be slightly better, but the focus will be on China, not Russia. 10 companies predicted that Northeast China has some positive prospect of development, but the future for the Russian Far East remains pessimistic. Geographical closeness alone cannot promise a rosy future for regional cooperation. The general mood was dominated by more passive and negative predictions. While 6 companies said that the PJSEC would not progress or would stand still, only one took the future of the project seriously. 12 felt that the PJSEC as an integrated regional economy may not be possible and were concerned by the large differences in the interests among the participating countries (Kobayashi, 1995: 107-8). Business confidence in any kind of progress for the PJSEC seemed to be draining away.

The US commercial interest in the region lies mainly in the communication sector. AT&T, MCI, and Columbia Communication are making contacts in the Rajin-Sonbong area. Another possible investment area would be North Korea's untapped gold, iron, manganese, zinc, lead, and other mineral resources, and here investment could consist of technological payment in kind. Consulting, energy and banking sectors might also be interested in the area (Lee, Chando, 1996: 49).<sup>17</sup> However, it is not likely that the US will develop a sudden interest in the TRADP. There are many other alternative investment regions which can offer the benefit of cheap labour and land, which means that the TRADP has global competitors. So a US dash to the TRADP is still a distant possibility.

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<sup>17</sup> American companies' move to enter North Korea as a base for assembling products for export elsewhere is being led by the American Chamber of Commerce (AMCHAM) in Korea. In his interview with *Chosun Ilbo* on December 8, 1999, AMCHAM President Jeffrey D. Jones mentioned the plan to send an investment mission consisting of 12 companies, including Motorola (Communications), Ralston Purina (pet products), P&G (consumer goods), Allied Signal, Goldman Sachs, GE Capital, Siemens Westinghouse Power Corp., BBMS (textile exporter), and four other companies, in January 2000 (2fn, Bae, Chong-Ryel, 2000: 33).

## **Conclusion**

Underlying the various visions for the TRADP of the member countries were and continue to be differing perceptions of the new regional cooperation. North Korea, for example, sees such project as a force that could potentially undermine its political system, and as a weapon that could be used against it by capitalist countries. South Korea sees the project as a way to engage the North and to work towards unification. Russia is beset by internal political problems which have meant differences between central and local government resulting in contradictory approaches to the TRADP. Japan can afford to keep a low profile for the time being, but like South Korea, sees the TRADP as a means of engagement in the region, particularly with Russia, with which it has territorial disputes.

Some progress has been made until very recently, but a lot of plans have not reached their targets or lived up to expectations, mainly due to national level hesitancy revolving around concerns about national interests and political sensitivity, but also the problems of complex and slow-moving bureaucracy. The political will necessary for effective regional cooperation was not really in place. In addition funding limitations and delays were hindrances. Coordination over legal, financing and transport infrastructure still falls woefully short of what is necessary. Thus the project is up against adverse conditions.

## **Chapter Eight. Political and Strategic Constraints on China's TRADP Policy**

### **Introduction**

Following on from Chapter Seven, which focused on the economic issues around the project itself and many diverging economic issues between the membership counties, Chapter Eight will explain why Beijing's TRADP policies have been adversely affected by considerations of international political and security. At the domestic level, the TRADP has nevertheless had low priority in China's national development plan, as this project was devised to placate an inland minority region without due consideration being given to the economic viability of the project. Beijing paid lip service to the inland provinces in order to win them over. The project became the pawn in the game of inter-provincial rivalry and the centre's juggling with the interests of the provinces. At the international level, Beijing's relations with other countries can be depicted as one of 'having different dreams while sleeping in the same bed'. As a result, these countries could not have behaved in a way that China would have wanted. Reading the Chinese mind, other countries had been joining and withdrawing at various stages of the relative advantage of cooperating with the Chinese according to their own assessments. Accordingly, the TRADP has become hijacked by an inter-state political game.

### **I. Inter-provincial rivalry and centre's response: Domestic level**

This part argues that the TRADP arose out of play-offs in China between both the centre and the provinces and also between the provinces themselves, rather than out of real economic considerations. Thus the priority of the TRADP in Beijing's national development order is not high in terms of economic efficiency, even though it is still listed one of the top ten national-level development projects.

## **1. The compromise between the three northeast provinces**

Because the three Northeast provinces (Heilongjiang, Liaoning and Jilin) had been centres of heavy industry, certain privileges were extended to them during the Maoist period. For example, Liaoning Province became a centre of the PRC industrial policy and accordingly benefited from state support subsidies (Postel-Vinay, 1996: 497). But with the launch of economic reforms in the late 1970s the provinces soon came to see that as the suppliers of government-priced cheap supplies of vital materials they were in effect subsidising the economic development of the southeastern coastal regions. In the mid 1990s resentment grew among the three provinces that they were receiving only weak support from the central government (Rozman, 1998a: 11-2). The provinces felt that the region was being sacrificed for the benefit of other provinces. They demanded and later obtained similar treatment for their cities and river ports as was given to the Southeast coastal provinces (Yahuda, 1994: 259). Various types of horizontal economic organisation and regional economic relations were encouraged by the central government hoping to win over local feeling (Zheng, 1994: 313). However, due to the fact that the three provinces and Beijing had rather different interests, it was difficult to find agreement about goals and suitable policies for the region.

The differing positions of the three provinces are well researched by Christofferson's articles. The initial idea that emanated from Beijing for Northeast Asian economic cooperation was to place Jilin at the centre of China's activity in the Tumen project. The TRADP started as a Chinese-Korean strategy which sought to maximise the potential of Jilin's large community of ethnic Koreans to promote trade between Koreans in China, North Korea, and South Korea (Christoffersen, 1996b: 270). This strategy was welcomed by the Jilin provincial officials who were already strong supporters of efforts to create a regional development zone based on the Tumen River area, as it coincided with their own economic reform efforts.

However, other models were considered that focused on Heilongjiang or Liaoning rather than Jilin. For Liaoning, its relationship with the two provinces (Heilongjiang and Jilin) is a complex mixture of divergence and interdependence that has led to different relations with Beijing (Imai, 1991: 19-20). Liaoning Province preferred the Yellow Bohai Sea Rim project (YBSR) to the TRADP. This included all the same countries as the TRADP apart from Mongolia, but put the focus on Bohai and not the Tumen area, which then appeared to give advantages to Liaoning Province and not Jilin. As a result Liaoning had promoted the YBSR as the best gateway to Northeast China, hoping for an increased use of its own industrial base, technological strengths, and ports in Northeast Asian economic development and regionalisation. The province reorganised its state-owned enterprises (SOEs) into improving its global competitiveness. There was significant Japanese investment in the YBSR – 71% of total Japanese investment in China in 1987 and 44% in 1991. This economic cooperation with Japan strengthened the argument that Liaoning should be singled out as leading in Northeast Asian regionalism (Christoffersen, 2001: 9-10). Liaoning supporters also pointed out its greater economic complementarity with the Russian Far East, which challenged Heilongjiang's first position in Sino-Russian trade. The advantages Liaoning offered for Russian trade were better-quality consumer goods and a more advanced scientific and technological base (Christoffersen, 1996b: 274). They further argued that a wider Northeast economic sphere should include both the East Sea Rim and the Yellow Sea Rim spheres (Imai, 1991: 19-20).

Heilongjiang Province had different priorities. It sought a three-way trading partnership between China, the Soviet Union/Russia, and Japan. The link to the East Sea would have to be either by rail through Tumen to Chongjin in North Korea, or by the Hechuan River and by the Amur river in Russia and then the East Sea (Ibid.). Thus Heilongjiang raised objections to the privileged position accorded to Jilin in the Tumen project by Beijing. The Heilongjiang Academy of Social Sciences held a conference in Harbin in parallel to the Northeast Asia Economic Forum's (NEAEF) first meeting in Changchun, and argued that Heilongjiang should be a 'northern gateway' to the world economy along the 'golden border' area, and Harbin the 'Paris of the East' (Christoffersen, 1996b: 273). It was envisaged that there would be so-called 'growth points' (*zengchang dian*) along the Heilongjiang border and further through the province. The idea of these would be to harness regional strengths in a kind of horizontal division of labour to replace an over-structured vertical division. Heilongjiang wanted to expand the number of special economic zones and border openings from four to

twenty-one to create a fairer and wider distribution of trade benefits (Ibid.: 274-5). While both South and North Korea were happy to give some backing to Jilin, and Japan to Liaoning with regard to the Sea of Japan Rim Project, however, Heilongjiang did not manage to attract as positive a response from Russia as it had hoped for in its policy of creating an economic strip along the Sino-Russian border. Low quality products and the fear of illicit Chinese migration were disincentives that made Russia reluctant to cooperate in envisaged transnational alliance of Heilongjiang with the Russian Far East (Ibid.: 267). The province was not able to achieve its aims in Beijing without securing support from Russia. Heilongjiang's short-term trade gains policy may have led to some hostility at regional level. It would also have had to some negative impact on Beijing's good neighbour policy toward Moscow (Christoffersen, 2001: 21-22). The development of the TRADP was affected by the stance taken by Heilongjiang. China had to satisfy the resentment of the Russian side, and the Russian response to Heilongjiang ultimately took on the form of the wider Tumen River Economic Development Area (TREDA) (not the small sized TREZ) (Ibid.).

The notion of more widely dispersed benefits was accepted within the Tumen project, and in this one can see that the regional competition of the three provinces affected the nature of the TRADP and the character of Chinese participation in it (Ibid.: 265-6). Christoffersen describes how the Tumen project became a springboard for economic cooperation of the three provinces. The vision was to develop 'growth points' in the zone. When enough of these points were established they would become 'growth lines' which would reach across provincial and also national borders. Railways, roads and gas pipelines would also provide lines on which to base development projects. The central growth line or 'growth axis' would be the 'Harbin-Dalian axis'. The final aim was to see a whole network of these lines across Northeast Asia, centring on Northeast China. The aim of Beijing was changed to promote development of the regional economy as a whole from not just the three provincial economies separately. For infrastructure projects especially, this approach was much more logical, and it would also help to avoid inter-provincial competition and dispersed benefits throughout Northeast China (Christoffersen, 2001: 11). In considering all three Northeast provinces' interests, the Tumen project 'look[ed] like a compromise between the three provinces', and Beijing had designated the Hunchun project as the centre of Northeast China's participation (Christoffersen, 1996b: 290).

## **2. Beijing's response**

The work towards economic growth also produced political change. This came about as a result of the decentralisation of political power and the development of a new strategy for the regions, providing, from 1978, new relationships between the centre and provinces and between provinces. Poorer provinces had sought to gain economic and political advantages from the central government, and negotiated hard, both on their own or collectively in order to increase bargaining power. As a result of their lobbying, various regional projects were granted.

Nevertheless, most have been unsuccessful. Guangdong was the exception which became the leading spot of development in Southeast China, but other provinces failed to realise their ambitions. These other provinces had large geographical scope, a strong dependence on primary industries, and few local enterprises. Yunnan province hoped to benefit from access to seaports in neighbouring countries and to establish new export centres of regional trade in Kunming. But trade declined amidst suspicions of dumping of low quality products and fears of criminal activity along the border (Rozman, 1998a: 5). Xinjiang too had opportunities for trade with the Soviet Union/Russia. Prospective energy pipelines were mentioned but resulted in no concrete projects. One reason was that uncontrolled movement across the borders did not help relations between the regions. Further, there is a danger of tension in Central Asia which does not bode well for development in Xinjiang (Ibid.: 6; See also Ferdinand, 1994).



With such considerations in mind, it has been argued that Northeast China has some potential. As Rozman explains: First, Northeast China has the greatest military-industrial and political strength of the inland regions because it was the industrial heartland of China from the 1950s until the 1980s. Second, its geographical position in relation to the powerhouses of South Korea and Japan and its traditional and ethnic linkages to them should allow some of the dynamism of East Asia to rub off on it. Third, the area has all the advantages that come with being a coastal region. Although it is not actually part of the three Northeast provinces, the Liaoning Peninsula of the Yellow and Bohai Sea sub-region, is often grouped with them. Jilin and Heilongjiang are separated from the ports on the horizon only by a narrow strip of land, and there is a good network of railroads and rivers. It seems to have potential as a gateway to the outside. Finally, the overlapping dreams of Northeast Asian regionalism and Sino-Russian strategic partnership have served to lift the prospects of Northeast China. Geopolitical reasons are important here. After the Tiananmen crisis in 1989 and the resulting sanctions, Beijing needed to work on relations with South Korea. Beijing hoped that attracting South Korean investment into projects involving native Koreans in the Northeast would help building better diplomatic links with South Korea. China was also keen to develop cross-border trade with Russia to give Russia a reason to stop looking westward. Sub-regionalism was thus a tool to achieve geopolitical advantages (Rozman, 1997b: 32-3).

Despite the very real economic potential of Northeast China, however, it was not at the top of Beijing's list in its approach to China's development. In Rozman's view, the top priority in Beijing's development plan was the Southeast coast of China in the 1980s; Shanghai and the Yangtze delta triangle as the core with the Yellow Sea and the Bohai rim reaching into southern Liaoning province in the early 1990s. The rest was not of significance (Rozman, 1997b: 31).

The development of Shanghai and the Yangtze delta hinterland received top priority. The decision was taken in 1990 to build Pudong into a significant new international central business district and develop Shanghai into an international economic, financial and trade centre as soon as possible, stimulating economic development of the Yangtze Delta Area (Ibid.). The Yangtze Delta Area is situated on the middle of China's eastern coastline, including 100,000 sq. km and contains approximately 71 million inhabitants. It consists of 14 cities (Shanghai, Nanjing, Zhejiang, Yangzhou, Suzhou, Wuxi, Changzhou and Nantong in Jiangsu Province, and Hangzhou, Jiaxing, Huzhou, Ningbo, Shaoxing and Zhoushan in Zhejiang Province) and 74 counties. In 1996 GDP in Pudong reached RMB51 billion yuan with 4,260 foreign-invested enterprises located there (*China's Ten Economic Hot Spots*).

Second in the central government's list of priorities is the Bohai Gulf and Yellow Sea rim, aiming to develop the Shandong Peninsula and the port of Dalian, and even reach to Tianjin and Beijing itself. This area may be regarded as part of a broader Northeast China region, but it has been treated differently. Although Dalian and the Liaodong Peninsula are part of Liaoning Province in Northeast China, in fact they have been treated as part of seacoast (*yanhai*) China, rather than as border area (*yanbian*) China like the rest of Northeast China (Rozman, 1998b: 12-3). The Bohai Bay Area originally included the Beijing and Tianjin centrally administrated municipalities, and the Liaoning, Hebei and Shandong Provinces. In 1994 the Chinese government reformulated the 'Programme for Economic Development of the Bohai Bay Area', extending the area to Shanxi Province and the Inner Mongolia Autonomous Region. In total this covers an area of 1.86 million sq. km (19.4% of the nation's total area) and, a population of 270 million (22% of the nation's total). The area is the centre of the Northeast Asian economic sphere, and the convergence of the three regions of Northeast China, North China and Northwest China (*China's Ten Economic Hot Spots*).

The third priority for central government in terms of development is the *Sanxia* (Three Gorges) mega-project (Rozman, 1998b: 12-3). This is a massive hydroelectric power plant, which also has as its aims to control river flooding and to improve navigation. US\$740 million of foreign investment will be put in to provide 14 energy generating sets (Li, Yongan, 1996; *Beijing Review*, 1999). This middle and upper Yangtze are regarded as the 'preferred route inland'. It seems that the Northeast ranks behind all these projects in terms of the importance attached to it by the central government (Rozman, 1998b: 12-3).

This relegation of Northeast China results not only from inability at local level to take advantage of opportunities, but also from the failure of Beijing to use multilateral regionalism to address the cross-trade hangovers from socialism. There is still a lack of business experience and entrepreneurial skills and ingrained corruption at official levels, which means that local areas have failed to take hold of opportunities presented to them. In the discussions on how to promote regionalism, these two weak points in Northeast China are often overlooked (Rozman, 1998a: 5-6). In 1994 Beijing agreed to lower trade barriers of its domestic market in order to obtain most-favoured-nation trading status in the US and admission to the World Trade Organisation (WTO). This hit border areas the most, since the recently given benefits had not yet yielded enough investment or technology to be self-sustaining. When Beijing finally allowed some privileges to border areas, they were short-lived (Ibid.: 11). Thus Northeast China has not taken the opportunity to embrace decentralisation and openness, and this has slowed the process of regionalism and of finding new models of cooperation (Ibid.: 5-6).

In addition, the difficulties faced by the TRADP were representative of fundamental structural problems within Beijing's policy-making process. Ian Davies, former investment advisor of Tumen Secretariat who had been closely working with the Chinese counterparts says: The Chinese team was led by a vice-minister from the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). He could only give two or three days a year to the TRADP, as most of his time was taken up by far more important international issues such as China's entry into WTO, APEC, and foreign and UN aid to China. Communication with the Tumen Secretariat was delegated to the sub-ministerial MOFTEC agency responsible for the UNDP technical assistance to China, but it lacked footing with other ministries and government bodies such as the State Planning Commission. Furthermore, while some political leaders had visited the Tumen area in the early 1990s, there was now no Chinese State Council member who was actively interested in the TRADP (Davies, 2000: 36).

Another problem was that the Chinese national team from 1992 to 1998 consisted of a narrow group of individuals – middle ranking officials from the planning and science and technology commissions, and Jilin Province. The local authorities in the Tumen River area (Yanbian), which had a real interest in the project's success, were rarely consulted. It also meant that the interests of other government agencies did not factor strongly in the national consideration, apart from the planning and science technology commissions. In 1998-1999 there was a

reshuffle in government, and in May 1999 a new China Tumen River Area Ministerial Group was set up. This body of 14 different ministerial-level organisations plus Jilin Province and coordinated by the SPC, was designed to resolve the previous failure. However, since its first meeting in June 1999, there have been no further meetings (Ibid.).

### **3. Concluding remarks**

The provinces did not help themselves or their cause by having very high expectations and approaching the matter without careful planning and organisation (Rozman, 1998a: 10-11). At the same time the central government focused too much on national interests, and did not provide the area opportunities such as full legal authorisation for genuine free economic zones (Ibid.: 11). In fact Beijing made some efforts, in that they replaced some obstructive local leaders, tried to move the project away from state-sector dominance, and tackled a pricing system that was unfair to local producers and local products, but not nearly enough was done (Zheng, 1994: 313). Beijing did not allow enough capital accumulation, and it also failed to encourage investment in new technology. China is apparently not yet willing to undertake the full extent of commitment necessary to such a big project.

## **II. The TRADP as one issue in North Korea problem: The Korean Peninsula level**

Just as the Rajin-Sonbong Free Economic and Trade Zone (the North Korean part of the TRADP) can be seen as an economic breakthrough and a necessary component of a plan for the long-term survival of North Korea, the TRADP was seen by the other countries not only as a multilateral economic project, but also as an element in their policies of dealing with North Korea. This part looks at how the major powers were trying to assert what power and influence they could muster in the Korean Peninsula and how the TRADP was reduced to a political pawn between them.

## **1. Importance of North Korea in the international strategic balance**

1991 signaled the end of Cold War polarity, an overriding political balance that brought all international politics within its scope. This end allowed regional tensions to take on their own meanings, including the Korean conflict. But the Korean Peninsula has remained on the international agenda for three reasons.

First, efforts at arms reduction in the 1990s did not succeed and the existence of nuclear capabilities has been a destabilising factor for the whole Pacific region (Zarubin, 2000: 210). The tensions have been exacerbated by the prospect of the development of nuclear weapons in North Korea. The major powers' involvement shows that it is a conflict of not only local significance (Yahuda, 1996: 256).

Second, the Koreas are important in geopolitical terms mainly because they are located between Russia, China and Japan, and hence are of significance to the US. Any changes in the Korean Peninsula could produce a new balance of power in East Asia. Thus great powers continue to see North Korea as a pivotal nation and realise that they cannot play an important role in any new security establishment without proper relations with North Korea.

Third, the geo-economic importance of the Korean Peninsula is significant. Industrial development in Manchuria before 1939 resulted in the North being the more industrialised part of Korea. Communications lines opened it to Manchuria and the Russian Far East (RFE). By 1957 the border between North Korea and Manchuria had the highest number of railway lines in relation to area in all of East Asia. With the closure of North Korea, many routes to the Far East were blocked, and this had a negative impact on regional development. In this, the potential remains and a foothold in North Korea is an attractive goal (Maxwell, 1996).

Given the presence of two separate states in an area of geopolitical, geo-economic and geo-security significance to four of the world's greatest powers (the US, China, Japan, Russia), it is hardly surprising that there is unresolved debate on the shifting international alliances and alignments.

## 2. North Korea's survival game

The end of the Cold War did not cause North Korea to change its military priorities, but made it recognise the need to develop its economy. It became isolated from the economic support of its previous allies (Garrett & Glaser, 1995: 535), and the precariousness of its economy became apparent due to a number of factors: low levels of energy resources, fuel, and raw materials; an abrupt decline in the volume of trade with foreign countries; excessive military spending; and an inefficient utilisation of whatever resulting financial and material resources were available (Andrianov, 2000: 42). The country suffered six years of negative growth,<sup>1</sup> resulting in food shortages<sup>2</sup> exacerbated by floods and drought from 1995 to 1997. Economic concerns rose in the agenda of leadership, since not only was South Korea becoming an economic threat, but its property also threatened to undermine North Korean ideology (Garrett & Glaser, 1995: 535-6). Ultimately, this has even led to questions about the state's political legitimacy.<sup>3</sup>

In order to survive, even long before the end of the Cold War, North Korea introduced a law on joint ventures in September 1984 as part of its attempt to open itself to the outside world. It also tried to attract foreign capital and technology, although this was a gesture, or at best an experiment. Few joint ventures were established even after seven years, and over 80% of them were by ethnic Koreans from Japan. Being such, they were limited in scope and capital (Miyatsuka, 1992: 15). The establishment of a special economic zone (SEZ) in Rajin-Sonbong designed to generate foreign investment. However, as we can see the location of the SEZ, which is in the far northeast of the country, represents the regime's cautious response. It was in no way a capitulation to a reformed system. Rather it was emerging first aid to keep the economy alive for the moment (Bazhanova, 2000a: 73-4).

On the other hand, North Korea attempted a rapprochement with Japan to strengthen its diplomatic relations with Japan for the purpose of bolstering its international status and position vis-à-vis South Korea. More importantly, this new approach was clearly related to

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<sup>1</sup> The DPRK economy underwent the deepest economic crisis in its history. Beginning in the late 1980s, North Korea's GDP began to fall, by -3.0% in 1991, -7.6 in 1992, -5.4 in 1993, -1.7 in 1994, -2.0 in 1995, -2.1 in 1996, and -6.8 in 1997 (Andrianov, 2000: 41-2).

<sup>2</sup> North Korea has suffered annual grain shortages in the region of two million tonnes since 1992 and produced only 60-70% of total demand even before the great flood of 1995 and 1996 (Kim, Philo, 1999: 210).

<sup>3</sup> China and Vietnam managed, despite Marxist ideologies, to come up with a rationale for market-oriented reforms. However, such a side step will be less easy in North Korea (Noland, 1997: 112).

the hope of gaining economic assistance from Japan in the face of a widening gap between North and South Korea. In return for some normalisation of relations between the two countries, North Korea hoped for a payback of Japanese capital and technological inflows (Kim, Hong Nack, 1998: 134).<sup>4</sup>

However, North Korea failed in its intentions. It became clear that the US was insisting on nuclear inspection access and that normalisation talks with Japan were not going to make headway (Ibid.: 121). The US was seen by the North Korean leadership as leading a US-ROK-Japanese conspiracy against them, particularly on the nuclear issue (Manning, 1998: 146). North Korea had always regarded the US as an enemy, but after the end of the Cold War relations became more complex. Apart from being a threat, it came to feature more and more in North Korea strategic geopolitical thinking, as it took over the role previously played by the Soviet Union and China of providing economic support and security guarantee. The US was seen as the key to enhancing regime legitimacy, to gaining economic aid, trade and investment, as well as a means of political leverage in the stand-off with South Korea (Ibid.: 140-1).

North Korea sought both to hold back US interference and to achieve economic advantages by using military blackmail with its missile and nuclear potential as a lever. North Korea succeeded in manufacturing ballistic missiles. The *Nodong-1* was first tested over the East Sea on May 29 and 30, 1993. In August 1998 North Korea shocked the world by reneging on the test moratorium in place since 1993. It shot a three-stage *Taepodong-1* missile across the East Sea and over the Japanese main island of Honshu (Bazhanov, 2000a: 102-5). In the summer of 1999, Pyongyang threatened to test fire a more advanced ballistic missile, *Taepodong-2*, with the range of 4,000 km to 6,500 km.

The nuclear weapons was its trump card in negotiations with Washington. In March 1993, Pyongyang withdrew from the Treaty on the Non-Proliferation of Nuclear Weapons after the International Atomic Energy Agency (IAEA) was refused access to inspect Yongbyon. Then having won some concessions from the US, the DPRK signed the Agreed Framework with the US in October 1994. Manning describes the scope and content of the 1994 Framework:

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<sup>4</sup> In 1965, as part of the normalisation process with South Korea, Japan made a reparations payment of US\$800 million. The 1994 equivalent would have been US\$3.76 billion. North Korea, however, argued for a much larger sum of US\$5 billion to US\$10 billion to be made (Harrison, 1998: 66).

This was seen by North Korea as a way of establishing more beneficial relations with the US. A commitment was made to freeze further nuclear development. In return the US promised to make efforts to secure two light-water reactors (LWRs) with about 2000 MW power-generating capacity by 2003 and to provide 500,000 tons of heavy oil per year. The US also gave security assurances, and promised to begin moves to normalise political and economic relations. Section III of the Agreement also committed North Korea and the US to 'work together for peace and security on a nuclear-free Korean Peninsula'. The US agreed to give North Korea formal assurances that it would not use or threaten use of nuclear weapons against it. The agreement also made commitments to removing trade barriers, particularly the trade embargo against North Korea. The accord explicitly committed both sides to reducing trade barriers, which to Pyongyang meant ending the trade embargo (Manning, 1998: 155-6).

In addition, North Korea has attempted to increase foreign aid. Since the US-DPRK Geneva Agreed Framework in October 1994, US aid has grown and this has alleviated the domestic situation somewhat. There have also been efforts to cultivate South Korean businesses. One project was the Mt. Kumgang tour project, which was set up with the Hyundai group in November 1998. Hyundai agreed to pay monthly installments of US\$8 million for 78 months to a sum total of US\$942 million and in return were given the right to bring tour groups to Mt. Kumgang. Other collaborations were in offshore oil exploration, a project for a 100,000 KW thermal power plant in Pyongyang, and a major industrial complex on North Korea's west coast near Haeju (Kim, Hong Nack, 1999: 532). In 1998 there was talk that a bonded processing area would be set up in Nampo and Wonsan, possibly including the Sinuiju and Mt. Kumgang sites. The widening of such designated processing areas would be one way in which the North could attract more foreign capital, and such multilateral economic cooperation is expected to be important in the future (Jo, Eun-ho, 1999: 104-5).

In sum, North Korea has used brinkmanship diplomacy to apply pressure in order to maintain its regime. It aims to squeeze economic gains from the West. Thus North Korea has achieved political recognition by the US through the Agreed Framework, KEDO, and Four-Party Talks. To address its food crisis and economic recovery, it has pressured the US into lifting economic sanctions and giving more economic aid. It has also looked to economic cooperation on the Korean Peninsula itself. However, North Korea still maintains still suspicions against the US, and military blackmail was used again, heightening tensions in the late 1990s. The 1999 Berlin Accord between the US and North Korea finally looked towards



a full scale removal of economic sanctions. In light of these events the importance of the Rajin-Sonbong area as the only special economic zone has been lost among the many Korean issues.<sup>5</sup>

### 3. South Korea's North Korea policy

The 1980s saw some major international and domestic changes in the South Korean environment and its foreign policy evolved accordingly. South Korea's '*nordpolitik*', by which the country put new emphasis on better relations with the Soviet Union and China, its northern neighbours, was cultivated in conditions of new found economic and political confidence. The result was that China and the Soviet Union, both long time associates of North Korea, formally recognised South Korea by the early 1990s. During the Roh Tae Woo period, South Korea began to contemplate a co-existence of two different political systems within some kind of federal framework (Harrison, 1998: 77). In mid-December 1991, North and South Korea signed an 'Agreement on Reconciliation, Non-Aggression and Exchange and cooperation', followed by 'a joint denuclearisation declaration' on 31 December. However, things changed again under President Kim Young Sam, who seemed to move back to a position where political and economic liberalisation would have to be put and parcel of any moves toward reconciliation. This position, which was seen by North Korea as unmasking South Korea's plans to absorb North Korea, may have been influenced by the US's emphasis, under President Clinton, on encouraging market democracy and human right (Ibid.).

The new President Kim Dae-jung, in contrast to his predecessors, made it clear that his government would renounce unification as a key policy, but would seek to develop peaceful coexistence. He accepted the prospect of Pyongyang normalising relations with Washington and Tokyo and the political recognition this would bring. It was clear that unification would be hugely costly especially after the 1997 financial crisis. President Kim embarked on a rapprochement with North Korea, calling for direct talks, an exchange of special envoys, and the easing of restrictions on business and other private contacts – the so-called 'sunshine policy'. Under the principle of separating economics from politics, the government used both

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<sup>5</sup> North Korean sources say that there are 111 projects in the Rajin-Sonbong zone, having an estimated value of US\$750 million. Actual investments, however, have been made in only 77 of these projects and total investment capital has reached just US\$57.92 million (Andrianov, 2000: 46).

formal and informal channels to explore and foster the possibility of promoting economic cooperation (Kim, Hong Nack, 1999: 531). This was designed to encourage North Korea to adopt reformist and more open policies. There were times of tension, including the incursion of a North Korean submarine into South Korean waters, the test-launch of missiles, and the naval confrontation between the two Koreas in the West Sea. However, by late 1998, Kim developed a 'package deal', working closely with William Perry, the Clinton administration's North Korea policy co-ordinator. By spring 1999, even the US and Japan as well as China and Russia were persuaded to adopt a policy of engagement towards North Korea (Ibid.: 536-8).

The TRADP was one of the limited official inter-Korean dialogue corridors in the early 1990s. South Korea took the view that economic cooperation would lead to improved political relations with North Korea. Such a multilateral forum could be used for freer discussions and for encouraging a gradual opening of its closed economy (Kim, Icksoo, 1995a: 90). However, the importance of the TRADP in this regard has been reduced following the opening of other avenues by the two Koreas such as the KEDO, Four-Party Talks, and the Mt. Kumgang project, as well as the possible opening of other special economic zones in Sinuiju and Nampo. ROK officials have been involved in all KEDO meetings with the DPRK. The result of the LWRs is that a large number of South Koreans will have the opportunity for the first time to visit the North and have contact with the thousands of North Korean workers in the construction activity (Cossa, 1999: 52-3).

Furthermore, the position of the TRADP in inter-Korean relations may have serious flaws when looked at from the context of a unified Korea. As Olsen points out, the reunification of Korea is estimated variously to cost somewhere in the range of US\$200-500 billion, and possibly even higher still if the North Korean economy deteriorated further prior to unification. That would be a huge amount of money for South Korea to bear. It must be asked whether a unified Korea will be able to sustain the Tumen Project (Olsen, 1995: 64-5). This is one real problem. The other is that a united Korea might have new priorities and would question the strategic value of supporting a special economic zone which will mainly benefit its dominant neighbours, China and Russia (Ibid.). Therefore, the TRADP has become one piece among many in the possible outcomes of the jigsaw puzzle of inter-Korean dialogues.

#### **4. Russia's North Korea policy**

After World War II Moscow supported North Korea, and signed a Treaty of Mutual Friendship and Support with Pyongyang in 1961, steadfastly refusing to recognise the South. Its links with the North consisted mainly of providing subsidised oil and goods on concessionary terms, together with military equipment and training. North Korea was a key ally in Northeast Asia during tense Sino-Soviet relations in the Breznev era. Under Gorbachev (1985-91), Moscow gradually shifted away from unconditional support and began to question the domestic and foreign policies of the North Korean leadership. By 1988, trade links with South Korea had begun and 30 September 1990 saw the establishment of diplomatic relations in the face of protests by the North Koreans (Ziegler, 1996: 4-6). After 1991 this approach was continued by Yeltsin. Russia's stance on the nuclear question, which was the main problem in North Korean foreign relations from 1991 to 1994, adversely affected Russian-North Korean relations (Bazhanov, 2000b: 219-220). The North felt a sense of betrayal.

However, Russia's foreign policy strategy began to change since 1994. Russia was noticeable by its absence at the multilateral meetings set up on the subject of North Korean nuclear development and changes to the existing peace mechanism on the Korean Peninsula. This accentuated Russia's feeling of isolation and led to a renewal of relations with North Korea after the summer of 1994. Moscow has since sought to cultivate a more balanced policy towards North and South on the Peninsula.

Economic considerations too have prompted Moscow to improve relations with the North. Some large-scale economic projects, such as the construction of a gas pipeline from Yakutiya to the southern part of the Korean Peninsula are dependent on North Korea's cooperation. The development of North Korean nuclear industry within the KEDO framework is also of interest to Russia (Ibid.: 220-1). Nevertheless, political considerations are more important. Alexander Torkunov, president of the Moscow State Institute of International Relations (MGIMO), has said Moscow needs to keep exercising some kind of influence on both Korean states in order to 'remain in the game' and retain a solid position with a future reunified Korea. Tense relations with the DPRK would not help Russia to influence future developments (Ibid.).

Thus North Korea is still a central part of Russia's East Asia foreign policy. In the past, the Soviet Union made its presence felt in the region as a military power (Meyer, 1994-1995: 511). Since its withdrawal from Vietnam and Mongolia, this influence remains only in Northeast Asia. However, despite improved Russo-Chinese relations, tensions may arise again if China develops its military capacity there. North Korea remains the most obvious way for Russia to continue to build a stronger role in Northeast Asia.

Moscow can exert an influence on the Korean Peninsula, but only through a renewal of its ties with North Korea. The TRADP has provided at least one of these ties, keeping alive relations with North Korea and making up for an obvious weakening of Russia's position on the Korean Peninsula (Portiakov, 1998: 61). For Russia, the TRADP will be an important part of future Northeast Asian Economic Circle framework. It also lays foundations for new strategic alignments in the event of Korean reunification.

## **5. Japan's North Korea policy**

Until 1990, Japan recognised the ROK as the only legitimate government of Korea. This position had been strengthened by the 1965 treaty that normalised relations between Japan and South Korea. However, following the thawing of relations between the US and China in the early 1970s, the informal contacts between Japan and North Korea increased. Furthermore, the fall of South Vietnam, the Soviet Union invasion of Afghanistan, and several North Korea terrorist attacks on South Koreans soon put an end to any new hopes especially since North Korea defaulted on its international debts in the mid-1980s. In addition, Pyongyang still owes Japan around US\$700 million (Halloran, 1998: 215-6).

Nevertheless, South Korean President Roh Tae Woo's '*nordpolitik*' foreign policy provided a new impetus for Japan to improve relations with North Korea (Kim, Hong Nack, 1994: 113). From 1990 North Korea and Japan have held talks to discuss normalising diplomatic relations. Despite initial progress, these were suspended in November 1992. Pyongyang had turned down requests for international inspection of its nuclear facilities and no agreement could be reached regarding Japanese compensation to North Korea. Since Kim Il Sung's death in 1994, North Korea has shown itself more willing to reopen dialogue (Ibid.: 116). Talks resumed in August 1997 after a five year gap, but again there were setbacks caused notably by the launch of a *Taepodong* missile over Japan's main island on August 31, 1998.

Despite many blows to their troubled relationship, why has Japan still made an effort to rebuild its relations with the North? One argument suggests that it is a question of establishing a role in the reconstruction of a new international order in East Asia (Ibid.: 125). Normalisation of relations would yield political gains for Japan and it would provide a stronger Japanese influence upon the Korean Peninsula. Historically, Japan has had to compete with the US, China and Russia for influence on the Peninsula, and has generally been the weaker player (Lee, Won-deog, 1999: 30). Japan still remembers the ‘Nixon Shock’ which occurred when it was left behind in the wake of US-China normalisation in the 1970s.

Accordingly, Japan is anxious to establish a foothold in North Korea. Japan’s participation in the KEDO and its humanitarian aid can be understood in this context.<sup>6</sup> Subject to the North refraining from provocative actions, Japan wants to make as many links with the North as possible. This will help Japan maintain its influence in the region. Japan may not be interested in the TRADP at this stage because the future of the project is still uncertain, and participation means a heavy financial burden. However, Japan regards the TRADP as one of many links with North Korea.

## **6. The United States’ North Korea policy**

After World War II the US replaced Japan as the decisive power in the region. For the US, the Pacific War and the Cold War that followed conferred an importance on the Korean Peninsula that it had previously lacked (Patterson & Conry, 1999: 6-9). North Korea remained unrecognised by the US until 1994 when moves towards normalisation of relations were initiated.

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<sup>6</sup> No summit-level talks were held during that period, but moves to restart negotiations were conducted at other levels. In March 1995, a delegation of the ruling three-party coalition of Japan visited Pyongyang to adopt an agreement on the resumption of negotiations on the normalisation of relations. In that year, Japan sent 600,000 tonnes of grains to North Korea (Lee, Won-deog, 1999: 28).

The US's North Korea policy can be said to have two objectives. Its first objective is to prevent North Korea from using actual aggression, to halt the proliferation of nuclear and other weapons of mass destruction (WMD), and generally to reduce tensions in the region (Manning & Przystup, 1998: 2). The nuclear threat by the North has made the issue global rather than regional, since it had implications for other states that were pushing to develop nuclear capabilities (Yahuda, 1996: 150). The second objective of the US is to encourage the North to engage in a process of reconciliation and reunification with the South (Manning & Przystup, 1998: 2). A challenge to the peace and security of the Korean Peninsula would undermine the status quo in the region. A collapse of the North Korean regime might lead to intervention by China, fearing the negative fallout on its own regime. The US, Japan and South Korea would see China's engagement as expansionism. Japan would be pressed to strengthen its military. Such outcomes would certainly be unfavourable to the national interest of the US with its historical involvement there and its growing economic interests in East Asia (Yun, Dukmin, 1999: 5).

The approach known as the Agreed Framework signalled a US change in policy from containment to engagement. It sought to keep dialogue open on the question of nuclear weapons and to prepare North Korea for a soft landing into the international community, should that ever be possible (Ibid.: 4). In the framework North Korea was to halt its nuclear and missile development programmes, a new peace treaty replacing the 1953 armistice agreement was to be agreed upon, and reconciliation with South Korea to be sought. In return, the US promised to work towards normalisation of diplomatic relations with itself and Japan, as well as to provide economic assistance (Kim, Hong Nack, 1999: 537). On September 17, 1999, a number of restrictions on trade, travel and banking were lifted by the US as a result of 'the Berlin Accord'. The real aim was to lay the groundwork for a fundamental change in North Korea's external relations (Ibid.: 539).

For the US, the questions surrounding political and practical TRADP have not been a matter of urgency, since regional security is the priority. US policy is focused on stopping the development and sale of missiles and the WMD.<sup>7</sup> The US is keener to provide broader economic aid to North Korea, rather than uncertain investment in a single economic project

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<sup>7</sup> Unlike the Clinton approach, the Bush Administration takes a different view. The US current position may be seen as based on a dilemma between accepting or rejecting 'blackmail diplomacy'.

in a special economic zone.<sup>8</sup> In this regard, the TRADP is seen by the US as one of the few and small opportunities to involve North Korea in the system of international agreements and accords, which may lead to greater openness (Portiakov, 1998: 54). Taking into account these considerations, the US will find it difficult to stay out of such regional development, even though the project itself is seen as fairly insignificant in economic terms.

### **III. A conflict between major powers' strategies towards the regional distribution of power: The Northeast Asia level**

East Asia has been given geo-political and geo-economic shape by the tension of interests between America, Russia, Japan and China. These countries have continually had to readjust their foreign and security policies towards the region to keep up with changes in global international relations.

#### **1. Russia**

Russia thinks that its involvement in any regional groupings should serve strategic as well as economic ends. Moscow tends to view the region in broader terms as encompassing the Asia-Pacific, rather than just looking at a geographically limited economic zone. It hopes that by being involved, it would be recognised as a major regional power. It does not want to be left out of any consolidation process and the project is seen as a main way for Russia to be economically integrated in the Asia-Pacific region. Thus any form of regional development needs to be considered in light of the wider moves to cooperation within APEC (Toloraya, 1996: 1-2, also cited in Christoffersen, 1996b: 292).

Since the break-up of the Soviet Union, Russia has not had a strong presence globally as well as in this particular region. Suspicious of Japanese economic power and Chinese political manoeuvring, Russia has played a cautious game. Proposals by Japan for the Greater Vladivostok Free Economic Zone Project were not warmly embraced, and the Russians have always seen Japanese claims to the Kurile Islands as provocative and a hindrance to

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<sup>8</sup> There are several options open to it. The first is to aid the North through international organisations such as the World Bank, and the IMF. The second is to create a more stable environment in North Korea as a whole so as to make it more attractive to foreign investment, by reducing or removing economic sanctions.

cooperation. Altogether, the previous close cooperation with China has also come to an end. Russia had never really taken great economic advantages from the relationship, and China was considered to be pushing over Russia for geopolitical gains (Rozman, 1997a: 562-3). Some Russian writers such as Alexander Nemets have claimed that China intends to integrate the Russian Far East into Northeast China's economic system and recreate the geopolitical structure around a Chinese 'heartland' surrounded by a hinterland (Nemets, 1996, pp. 43, 49, 64, 78, 98, in *Ibid.*).

Perhaps, Russia is not ready support to such a multinational regional cooperation as the TRADP, because it is not clear where it would fit into a regional division of labour, apart from being a source of raw materials (Toloraya, 1996: 27, 31). Furthermore, Russia does not yet have a concrete agenda of regional cooperation. Thus, Russia has co-operated with each side on a case-by-case basis and is keen to be involved in the regional projects on a wait-and-see basis.

## **2. Japan**

Japan has publicly stated that it identifies itself with the rest of East Asia. However, when it comes to developing institutions to reflect any feelings of common identity, Japan has been slow off the mark. It had long relied on the American market as a destination for its manufactured exports, consequently, its regional trade interdependence remained low until the mid-1980s. Nevertheless, Japan was active in creating regional groupings, although it preferred engagement on a more discursive private and scholarly level to officially institutionalising them. Japan's initial interest in Asia-Pacific cooperation began as early as the 1960s. A Pacific Free Trade Area (PAFTA), the Pacific Trade and Development Conference (PAFTAD) and the Pacific Basin Economic Council (PBEC) were proposed. In 1980 Japan attempted to form the Pacific Economic Cooperation Council (PECC) and APEC in 1988/89 (Deng, Yong, 1997: 373-4; Wang, Shaoqin, 1994; Jin, Weixing, 1994; Tan, Chunlan, 1993). In 1994 a Japanese political and security initiative became the ARF, the first multilateral meeting to discuss security in the Asia-Pacific region.

In contrast to Japan's active participation at the macro level such as APEC and the ARF, Tokyo seemed unenthusiastic about smaller regional groupings such as SREZs. Ever since



the concept of regional cooperation first came to the fore in Japan in 1988,<sup>9</sup> Tokyo's interest in the Sea of Japan economic rim<sup>10</sup> has been rather cool (Rozman, 1997b: 38). Japanese usually play the TRADP as one element within a framework of economic cooperation in the Sea of Japan rim (*KanNihonkaiken*). This is rather a narrow view of regionalism within a context in which Japanese private sector is moving across borders to stimulate trade and new economic divisions of labour (Ibid.: 30). For Japan, the TRADP is only one piece of a larger jigsaw. The pattern of Japan's strategic and cooperative action seems to be one that moves from small steps to wider geographic involvement, from bilateral to multilateral arrangements, and from a focus on parts of a geographical area, to a focus on the whole of a regional cooperation zone.

In this, the aspect of Japan's regionalism policy objectives can be explained with two reasons. First, it recognised that China was a challenger in regional dominance (Maswood, 2001: 17). The rise of Chinese economic power mainly combined with mainland China, Hong Kong, and Taiwan, in the 1990s has caused the fear that the Greater China will dominate the region (Deng, Yong, 1997: 389). Thus Japan actively participated in the development of macro level regional groupings such as APEC and the ARF in the hope that these new frameworks would be able to work to restrain China (Hook, 1996: 193).

Second, institutionalised regionalism does not serve Japanese foreign policy objectives. The relations with the US has been the core of Japanese policy objectives of East Asian regionalism. In accordance to Washington, the Japanese are to refrain from initiating policies that might result in a tightly organised regional structure or an economic alliance, without consultation with the US (Maswood, 2001: 7). The US-Japan relationship continues to be the most important influence in Japan's foreign policy in the post-war period, as underpinned by the US-Japan Security Treaty and by their economic linkages. If Japan wants to be a player in Northeast Asia, it will have to do so in partnership with the US (Rozman, 1997b: 38).

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<sup>9</sup> Hisao Kanamori chose to construe it narrowly as 'an economic sphere around the rim of the Sea of Japan' (*kan Nihonkai keizai ken*), p. 1, cited in (Rozman, 2000: 11-2).

<sup>10</sup> For the Chinese perspectives on concepts the Sea of Japan Rim in chronological order and Japan's national interest, see (Lin, Shaoguang, 1993).

### 3. The United States

Even during the Cold War when the US was primarily concerned with containing the Soviet Union and establishing a geostrategic presence in the region, the economic significance of Northeast Asia did not go unnoticed.<sup>11</sup> In April 1978 Senator John Glenn, Chairman of the Sub-committee on East Asian and Pacific Affairs, Committee on Foreign Relations of the US Senate, proposed a feasibility study for regional economic development. The resulting report 'Evaluation of a Proposed Asia-Pacific Regional Economic Organisation' in May 1979, considered gains to US interests from joining the OPTAD, which was later given serious consideration at the US policy level (Soesastro, 1994: 82-3). In the early 1980s Michael Mansfield, the former US ambassador to Japan, highlighted the significance of trade across the Pacific compared with trade across the Atlantic. In 1984 President Reagan stated that 'the Pacific is where the future of the world lies' (Both are cited in Berger, 1999: 1015).

Since the end of the Cold War, the US began to consider what would be the regional consequences of a change in US strategy. The US turned its attention to the Asia-Pacific region after it had constructed the basic framework for post-Cold War Europe (Chen, Jun, 1995). The US strategy can be looked at as a 'fan-shaped structure' with the US as the axis, joined by a series of agreements to China, Japan, South Korea, ASEAN, and Australia (Christoffersen, 1996a: 1069-70) and, at the same time, it began to play an active role in APEC. APEC was established in 1989, and in 1993 President Clinton emphasised that US policy in the Asia-Pacific was in accordance with APEC principles, an extension of PECC to ministerial level, and talked about a 'new Pacific community'. Clinton's 'New Asia-Pacific Community' can be illustrated as a means to marketisation and democratisation in the region through APEC (Ibid.: 1081), as a forum where US power can be maintained. It may also hinder the creation of a regional identity with East Asian capitalist values - i.e. East Asia Economic Caucus (EAEC). The US further hoped that APEC would be replaced by more formal and binding commitments with scheduled liberal, multilateral international economic order, including eventually China. It has been boosted by American led attempts since 1993 to enlarge its scope to promote an Asia-Pacific community committed to a free trade area (Yamakage, 1997: 293-4).

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<sup>11</sup> For the Chinese perspectives on the security importance of Northeast Asia in the US's Asia-Pacific strategies and its policies towards the region, see (Chang, Xin, 1994; Xu & Xiao, 1995: 15-17).

Despite the US's obvious interests at the macro level, at present the US's position in the kinds of sub-regionalism is not apparent. Nevertheless, one can safely assume that if the development of sub-regionalism should lead to the diminution of the role of the US, the latter may have no option other than to insist on new forms of regionalism (Portiakov, 1998: 54). The US never neglected to pay attention to such activities, as we can see the US's federal institute's active role in shaping the TRADP. The idea of the TRADP was conceived in a discussion by Lee-Jay Cho, director of the East-West Centre in Honolulu, with Chairman Song Jian of China's State Science and Technology Commission (1fn, Choi, Hoil, 1995: 271). In addition, the US' strategic interests should be clear. First, there is their direct involvement in the North Korean problem, second, it is their concern on the military manufacturing capabilities of the Russian Far East (Campbell, 1995b: 214). Third, there is the rise of China and the challenge to Japan's regional economic and political influence in the region.

#### **4. China**

While the major countries (China, Russia, Japan and, to some extent, the US) continued to pay lip service to regionalism in the 1990s, economic ties across the region's borders were not a high priority. Efforts to create regionalism were politically motivated and came through central directives from the major countries (Rozman, 2000: 19). China's complex relations with the other three powers has led to conflict in their perceptions and rejoinder strategies towards the regionalism and regional international politics of Northeast Asia.

China has constantly sought to undermine Russo-American, Russo-Japanese, and Japanese-American relations and turn them to its advantage (Rozman, 1997c: 159-60). China aimed to alienate Russia from the West and Japan. In building their new strategic partnership, Beijing urged Moscow to raise trade levels sharply while gaining its cooperation in achieving China's political priorities and providing China with military technology. However, the Russian Far East continued to be suspicious of China, which led to a severe downturn in trade and border crossings in 1994 (Rozman, 1997b: 34-5). Russia's distrust of China's long-term intentions for the region meant regionalism was much harder to achieve.

In addition, Japan would not accept any regionalism dominated by China in Northeast Asia. Beijing has identified three reasons why Japan was reluctant to participate in the TRADP. First, Japan's strategy was to be a regional leader and would only support regionalism as such. Second, fearing that it might stimulate the rise of China, Japanese support is limited to promoting stability and steady growth. Third, under Washington's guidance, Tokyo is withholding technology and other benefits in order to undermine the communist party leadership (Blanchard, 2000: 284; See also Rozman, 1998a: 10). The Chinese noticed that Japan's regional-based economic groupings such as the 'Sea of Japan Rim Economic Circle' were an important component in Japan's overall national security strategy which would balance China (Gao, Yu, 1985: 8-14; Xu, Yong, 1988: 6-11; Song, Shaoying, 1990: 5-9; Gao, Zhonglu, 1990: 18-24; Xu & Wang, 1997).

For China, the key issue is its relationship with the US, the only global economic and military power that China 'respects' (Bracken, 1998: 420). Despite their great commitment in trade and investment, their relations have been volatile. Shambaugh calls them 'strategic competitors' and there is between them 'an ambiguous relationship with elements of conflict, coexistence and cooperation', although of very unequal strengths.<sup>12</sup> This ambiguity runs deep and reflects the contrast between the deeper historical and cultural forces that have shaped the two states. This is despite the fact that the presidents of the two countries in 1998 publicly stated an aim to 'build towards a constructive, strategic partnership for the 21<sup>st</sup> century'. The Chinese think that the US has attempted to resist the rise of China, so that Washington can maintain its initiative in the region (Lin, Hongyu, 1997).

Thus, the four major powers are all repositioning and adopting new policies to accord with new developments. The essential nature of their geo-strategic relationship means that economic initiatives are subordinated to political considerations. The strategic objectives of the three major powers (Japan, Russia, the US), whether considered independently or in alliance, have been effectively blocked the success of China's regionalism strategy.

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<sup>12</sup> At the same time, Shambaugh also recognises that 'strategic competitors' are not the same as, and need not become, 'strategic adversaries' (Shambaugh, 2000: 99).

## Conclusion

The TRADP suffered not only from the economic problems of lack of private sector enthusiasm and investment. It was also weakened by the Chinese government's essential view of it as a pawn in the game between the centre and the provinces and between provinces themselves. However, the most significant obstacle to the further TRADP development was the fact the Chinese and other major powers have regarded it as a strategic-political vehicle rather than an economic one. The major powers have not been interested in uncertain investment in a single economic project, but have treated it as one of many political and economic links to remain engaged in North Korean issues, fearing that any changes in North Korea would threaten the current alignment of power. Furthermore the project has been functioning as a constituent in the strategic mapping of each country of Northeast Asia. The political *game-nisation* of the TRADP has been the major obstacle to a pure multinational regional economic development project.

## Chapter Nine. Conclusion

This thesis has analysed the TRADP with emphasis on the theory of 'relative gains', while the concept of absolute gains has been found to be of little use. A crucial consideration was the comparative impact of relative versus absolute gains in deciding a state's preference for cooperation. Liberals' proposition is that states cooperate so as to achieve absolute gains. Through further cooperation and agreement, states can make up for any relative disadvantages by other means, and then cooperate to get the benefits, the absolute gains (APSR, 1993: 730-1). However, as this thesis examined, cooperation is much more difficult even when all sides can reap absolute gains, because states are not willing to realise fewer absolute gains than others. In a game where friends can become enemies, concern about relative gains will be always a fact (Grieco, 1988, p. 499, cited in Matthews, 1996: 119). The power struggle nature of the anarchic system encourages relative gains. Where relative shifts in gains are a central concern, states must be prepared to take into account the choices of other states. This concern for relative gains turns cooperation into a zero-sum game, thereby squandering cooperation opportunities between members.

Along with the study of relative gains, this thesis illustrated how relative gains influenced cooperation between neighbouring countries, using the example of the sub-regional economic zones (SREZs). Beyond the economic aspects of cooperation between the countries, SREZ was a useful tool for international relations and foreign policy fields. How national state actors have been involved in making them and have used them for their national interest has already had enough political implications (Weatherbee, 1995). Therefore, by focusing on the processes and roles of SREZs as an instrument of a state's foreign policy, this thesis has explored the value of SREZs in a state's foreign policy. The value of SREZs depends on 'the congruence of foreign policy with domestic interests and policies' that 'will be pursued as long as it does not conflict with or undermine other policies deemed more effective or threaten interests viewed as more vital' (Ibid.: 425).

Bearing these two important assumptions in mind, this final chapter of the thesis seems sensible to conclude with a discussion of the Chinese approach first, as China has been the principal initiator and driver of the TRADP and related measures. The first section

summarises China's TRADP policy objectives and the reasons for policy failures within the context of relative gains between China and its neighbouring countries. The second section looks again at the TRADP within the context of regionalism. The main implication shows the reasons for its failure to achieve workable regionalism drawing from the lessons of other cases of regionalism in the world.

### **1. China's TRADP policy dilemma**

Each state has a number of national objectives in pursuing its foreign policy. Major changes in both its domestic and international environments made China rethink where its national interest lay. Faced with these new circumstances, China focused the direction of its foreign policy on the Asia-Pacific region as well as on the pursuit of the status of a global power. Since the Asia-Pacific has become central to Chinese security concerns and to its economic development, China's leaders believe that the Asia-Pacific in general, and East Asia in particular was becoming a more critical arena within which to find supporters with sufficient influence to enable it to achieve independence in the post-Cold War era. It is with this in mind that regional cooperation with bordering countries has been advocated in the guise of China's 'good neighbourly diplomacy'. Regional cooperation with adjacent neighbouring countries has had a significant impact on every aspect of omni-directional foreign policy in the 1990s.

However, there is much concern about the real intentions behind China's more cooperative foreign policy, as the end of the Cold War has also created a sense of insecurity and uncertainty in Asia. Both schools of 'engagement' and 'containment' have differing views of Chinese cooperative behaviour that are pertinent to the analysis of the nature of the Chinese foreign policy problem. In one view, its active participation in sub-regional economic cooperation can be understood as 'strategic' interdependence, which has an effect on China's tactical thinking about how to achieve long-term goals. In order to achieve national goals (great power status and regime stability), China has had to develop a flexible and cautious strategy, despite the ruling party's generally negative views on interdependence derived from its interpretation of recent history. Its broader strategy has been pursued in a form so as not to give rise to suspicions and misconceptions by stronger powers and neighbours. It is also essential for China to satisfy two short-term goals (domestic economic development and a peaceful security environment). Sub-regional economic cooperation in the various parts of

China has been thus seen as a means of realising its goals. Careful and flexible management of foreign economic relations should therefore have promoted China's foreign policy goals.

### 1.1 China's TRADP policy objectives

In the TRADP, China's self-interest maximum approach was developed with several national considerations in mind. As reviewed in Chapters Five and Six, China was concerned with the Korean minority living in the Yanbian Korean Autonomous Prefecture, which borders North Korea. The authorities thought that the provision of opportunities for economic development would placate widespread complaints and discontent from Yanbian, related to the growing economic disparities between the coastal and interior regions since the inception of the open-door policy in 1978. In particular, the 1989 Tiananmen crisis followed by the collapse of communist regimes in Eastern Europe and the Soviet Union made China's leaders feel insecure about the political cohesion of the country. Traditionally, domestic unrest has been seen as especially dangerous for China when unstable elements with links outside the country, give rise to a serious external security threat (*neiluan waihuan*) (Hu, Weixing, 1995a: 127-8). The Chinese government was forced to seek a more balanced regional development within China and, as a result, created the special economic zone in the Tumen River area in Jilin Province.

However, China's self-interested approach was of more international politico-strategic importance. Once China has access to the East Sea via the Tumen River as part of the TRADP, China might reassert its legal claims to rights of navigation to the East Sea through the Tumen River. Customary international law and diplomatic practice have seen cases of countries which have long coastlines being granted rights of access via rivers. China has therefore argued that coastal states have the general duty not to hamper the innocent passage of foreign ships in accordance with the Convention. In this Russia and North Korea should permit use of the river (Li, Dehu, 1993). Moreover, regaining navigation rights would be confer a psychological victory in the face of the historical loss of this area. China had ceded a 400,000 sq. km. territory to Russia under the Sino-Russian Treaty of Peking. Access to the East Sea through the Tumen River would also provide maritime and military outlet to the Sea that was hitherto dominated by Russia and Japan. China did not want to lose this opportunity, which resulted from rapid changes in the Northeast Asian political atmosphere in the post-Cold War era.



Another important strategic aim was to maintain stability in the Korean Peninsula. This serves the interests of China, in the midst of its own economic modernisation. Beijing would like to provide North Korea with a model for economic modernisation and with political encouragement. Building on existing border trade, the TRADP is not only an urgent measure that may help to keep the North Korea afloat, it may even prove quite profitable, while at the same time introducing concepts of market reform (Cotton, 1995: 206-7). Furthermore, the TRADP is an important strategic block in China's long term Korean policy. The Korean Peninsula is central to future regional schemes of a political or economic nature, and this explains China's strong interest to be at the heart of the TRADP (Ibid.).

Finally, in the Chinese view, the US and Japan have attempted to resist the rise of China, so that the countries can maintain their influence in the region through their manipulation of macro regional level entities such as APEC. The strategy of China has been to divide the wider region into units that could be more easily influenced by China that is not strong enough to be considered the dominant regional power (Christoffersen, 1996a: 1081). Such sub-regional groupings in East Asia could also create a political front that would make it difficult for Japan and the US to deal with states in the region through bilateral arrangements. Although China is committed to the geographical scope of APEC and despite its corresponding commitment to the open policy, such sub-regional groupings were more 'advantageous' for China (Ibid.: 1079). China saw that the TRADP could bring the NIEs and Russia into a part of China's Northeast Economic Circle strategy. It sought to cultivate regional relationships to defend itself against American and Japanese strategies (Ibid.).

## 1.2 China's TRADP policy failures

China hoped that the TRADP could help achieve its strategic objectives, in the words of one Chinese proverb, 'killing *many* birds with one stone'. However, the project has not reached targets or lived up to expectations, although some progress has been made. China's TRADP policies have encountered various challenges, as assessed in Chapters Seven and Eight. In addition to the institutional and economic problems in and around the project, the political *game-nisation* of the TRADP has become the most crucial obstacle for the TRADP development.

Domestically, the project was the product of conflicts of interest between both the centre and provinces and between provinces themselves, based on domestic political considerations

without regard for economic realities. The project became a springboard for economic cooperation of the three provinces of the regional economy as a whole and not just the three provincial economies separately (Christoffersen, 2001: 9-11). Liaoning Province preferred the Yellow Bohai Sea Rim project (YBSR) to the TRADP. Heilongjiang also wanted to expand the number of economic zones and border openings from four to twenty-one to create trade benefits. In Rozman's view, the top priority in Beijing's development plan was the Southeast coast of China in the 1980s; Shanghai and the Yangtze delta triangle as the core with the Yellow Sea and the Bohai rim reaching into southern Liaoning province in the early 1990s. The rest was not of significance (Rozman, 1997b: 31). The project was a large-scale one needing more resources and commitment than China was now able to supply. China was not willing to pay the price to develop the project, to make the necessary political commitments, or to put in place much needed economic incentives. China has regarded the TRADP as a *jile* (this is a Chinese phrase meaning a chicken's rib – a part that is difficult to eat, but which we do not want to throw away) rather than a vitally important economic project for the region. The Chinese attitude could be described as 'a fox waiting for a grape to fall'.

Internationally, such cooperation as a transnational phenomenon gives rise to political and security problems of various kinds. As China has managed the project for its own national interest, the other major powers have also treated it in broader terms as encompassing their regional strategies, rather than just looking at a geographically limited economic zone. China's initiative in Northeast Asian economic cooperation has taken place in a context where the major powers differ over the appropriate regional distribution of power as well as about the desirable form of regional economic development. Different forms of regional development affected relations between the major powers differently and that constrained cooperation as each side sought to guard its own interests. The other powers saw the rise of China as threatening their national interests, and they wanted a model of economic cooperation that would secure their interests better. It was the concern of other countries in the region to check China's political and economic ambitions and ease Chinese pressure in the region. Thus China-centred regional cooperation that seemed to diminish their influence in the region necessarily entails resistance. In this, the Korean Peninsula, which is located at the centre of the TRADP, had become a battlefield for great power competition in Northeast Asia. Any changes in the Korean Peninsula could produce a new balance of power in the region. The TRADP as the only

transnational economic zone in North Korea, provided a link with which to engage North Korea, and was therefore regarded as a political ploy.

In sum, China is the key player (*jujiao*), at the Asia-Pacific level, and in particular in Northeast Asia (Ferdinand, 2000). Given China's size, economic dynamics, cultural influence, and political power as well as military potential, we cannot understand East Asian affairs without understanding the role of China. China's strategy toward the region aspires to leadership in determining the future of the region. Since China opened the door to the outside world in 1978, its foreign policy has gradually become more very open, cooperative and interdependent. However, there has been a dispute in analysing the nature of Chinese foreign policy after the Tiananmen crisis. The core of the dispute is the argument that China is not constrained by concerns that it might damage its economic interdependence. This thesis has not sought to examine the dispute, but it has instead examined the nature of the new economic interdependence, which has become the kernel of China's external relations since then. One of the things this thesis set out to do was to describe how China managed its regional economic cooperation with neighbours and how China has used economic cooperation as an instrument in pursuing its broader foreign policy concerns. The TRADP could be seen as one test of China's foreign policy of interdependence with neighbours. The thesis explored why China had embarked on the project, showing that China wanted to maximise economic and non-economic interests, using the opportunity to develop the TRADP, not only for domestic, but also for international reasons in and outside China. We have seen how the ambiguity and fragility of the interdependent relations with China of those countries was shaped by having uncomfortable political and historical memories and how China's TRADP policy was affected by the response and reaction of its neighbouring countries.

## **2. The TRADP at the crossroads of East Asian regionalism**

Another significant dimension of the TRADP may be seen in the context of regionalism. This is relevant not just to regionalism in the Asia-Pacific, but also more widely as one of many examples of regionalism worldwide. The study of the TRADP as regionalism is significant to test the four IR questions that were stated in Chapter One: a) illumination of the pattern of development of regionalism in East Asia; b) assessment of the likely success of institutional regionalism in East Asia; c) the implications of this case study for the future of North-South cooperation; and d) assessment of the relative significance of market and state in creating

regionalism. Answering these four questions can cast light on the preconditions necessary for the success of regionalism. A leading country (or countries) within a region should provide public goods, and/or less powerful states should accept the leader(s). Furthermore, rival powers should accommodate each other. In this case China was too self-interested to allow for the concerns of others and thus provided insufficient leadership. Moreover regional rivalries were not accommodated.

## 2.1 Regionalism under the comparative perspective

The economic, political, and security significance of regionalism has largely been based on consideration of the formation of particular sets of institutions including the EU, NAFTA, APEC, and ARF (Payne & Gamble, 1996: 1, 17).<sup>1</sup> With the end of the Cold War, such regional arrangements can be seen as leading to increasing regional economic and political integration. Kenichi Ohmae, in his book *Borderless World* (1990), went so far as to suggest that governments 'become invisible' in the era of globalisation (p. 183). 'Today's global corporations are nationality-less, because consumers have become less nationalistic' (p. 195). This trend thus 'made traditional national borders almost disappear' (p. xi).

Among examples of regionalism, the most successful cases are the EU and NAFTA. In particular, these two successful regionalisms present a working model of rule-making that is highly institutionalized. They are based on formal consensus, with economic integration led by strong institutional traditions. Their national borders are blurring in the process of regionalisation. The source of their success can be drawn from Coleman and Underhill's perspective. European countries had shared a common history, and economic and security interests, along with the consensus on the US as the security guarantor against the Soviet threat. More importantly, power struggles among Germany, France and Great Britain had been accommodated. In North America the US and Canada and the US and Mexico also shared economic interests, and above all, neither Canada nor Mexico had objections to US leadership (Coleman & Underhill, 1998: 1-2).

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<sup>1</sup> For more regionalism movements in various parts of the world, see the special issue of (*Third World Quarterly*, Vol. 20, No. 5, 1999).

In contrast to the two successful regionalisms, many in the Third World have not been so successful. Regional organisations such as Mercosur and SICA in South and Central America are highly institutionalised which can be compared with one of the EU and NAFTA, but their economic and trade liberalisation remain weak, due to institutional inefficiency, economic competition and political distrust. From their experience, we can see economic cooperation does not depend on the degree of institutionalization only. Central American states sought unilateral actions to maximise their national interests, and sacrificed mutual trust; the rivalry between Argentina and Brazil has not waned. Other parts of the world are not exempt from such problems. More importantly, history does not stand by regionalism. In South Asia, India does not feel the need to make a regional grouping, and prefers bilateral deals with small states such as Nepal or Sri Lanka. India is aware of its clout in dealing with smaller partners. Why should it give up this easy way of control? The rivalry and hatred between India and Pakistan is another strong concern. In the cases of North Africa and Middle East political and historical rivalry were so crucial. Violence and conflict had halted all talk of regional cooperation.

Keeping in mind the worldwide patterns of regionalism, we can carefully evaluate the TRADP in the context of characteristics and patterns of regionalism that may be seen in the Asia-Pacific. Regionalism in Northeast Asia is more or less unique. There are two streams of regionalism there. APEC and ARF cooperation are at the macro level. However, wide range of geographical distance and differences in political systems and levels of economic development mean that they are not same as EU and NAFTA-style regional integration. ASEAN has been regarded as most advanced version of regionalism in East Asia, but the substance of cooperation is still open to many questions. Although they have dynamic trade and economic relationships, regional organisations have remained minimally institutionalised. The preferred approach of Asian governments has been more in tune with non-binding agreements and informal consensus. The regional cooperation process of the region has to date proceeded in a loose and pragmatic way. By virtue of that approach, or perhaps despite it, major issues of 'bargaining and reciprocity' have not been placed in the countries' policy making-process. The regional countries mainly see such regionalisms as simply an economic mechanism, and desire a process of consensual dialogue and socialisation (Harris, 1994: 267-8).

Apart from the examples of the loose forms of cooperation at the macro-level provided by APEC, ARF and ASEAN, the more dynamic economic interaction across ideological and political boundaries in East Asia have been promoted by sub-regional economic zones (SREZs), involving links between segments of neighbouring states, at the micro level. The SREZs, which do not necessarily involve whole states, emerged as a regional cooperation model in contrast to the Western approach. However, although SREZs were seen as a great opportunity for promoting mutual regional economic development and seemed to suit the Asian way of thinking and approaches avoiding maximal institutionalisation, most projects have failed to perform. Only two SREZs (SIJORI and GSCEZ) can be considered successful in the region, even these two SREZs developed without close relations to the end of the Cold War and the continuing trend towards globalisation.

The answer as to why SREZs on the whole have been unsuccessful can be found in the significant role of the state in creating regionalism in East Asia. Perhaps, we are not really living in a *borderless* world, as Ohmae claimed. People, as he represents them, 'are global [only] *when [acting] as consumers*' (my emphasis) (Ibid.: xiii). They may not be 'less nationalistic', when they are not consumers, at least in East Asia. Economic realities are not only created by and for consumers, but more importantly, they are also influenced by the state's political and security interests. Cross-border economic interactions still raise questions of jurisdiction and challenges sovereignty. Although the Cold War was over, regional cooperation that included the socialist and capitalist countries crossing over different ideologies and political systems has not been easy. Thus it can be said that the significance of the state has *not necessarily declined*, even though its role is *evolving*.<sup>2</sup>

Such a state-centric approach may come from the regional countries' historical experience. In addition to their experience of colonialism, there remain several issues such as North-South issues, suspicion of the West, sovereignty concern, and the fears of hegemonic influence, etc. still dominate in the region (Harris, 1994: 260). As a result, there was little mutual understanding among them, and the possibility of mutual and international cooperation was limited. Of many reasons that can be blamed, conflict between the two potential leaders of the region, Japan and China, is the most important factor. As well as the other two greater powers in the region, the US and Russia, are crucial. At the time when Russia is suffering the

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<sup>2</sup> For a discussion on the role of the state, see (Clark, 1998; Yoshimatsu, 2000).

setback from the collapse of the Soviet Union, Japan is struggling with economic re-structuring, and the US is showing more isolation tendencies, a more serious issue to debate is the security dilemma that China poses. The economic development of China is mostly seen as good news in the region, in part because it is believed to lead China to concentrate on domestic development, so that it makes an effort to cultivate better foreign relationships with its neighbours. However, in the long term, a dilemma arises because economic growth can increase the Chinese military capabilities, so that China will increasingly aspire to the position of regional leadership, which can threaten the current regional status quo. Therefore, both weaker neighbours and stronger powers are suspicious of China's moves to interdependence. In this regard, bringing together the regional countries into one economic equation is a very difficult matter, with serious implication for the future political and economic landscape of Northeast Asia (Rozman, 1998b: 1-2).

## 2.2 The ways to revive the TRADP

When considering economics, the region is not yet an attractive target for the private sector. The project is constrained by many intractable problems in or around the project itself: the geological and natural environmental problem, the lack of infrastructure, the aftermath of centralised command economy, and a poor legal system, etc. Furthermore, capital is vital especially for an infrastructure development project such as the TRADP. This foreign direct investment (FDI) is needed to release the region's potential. Key considerations for potential investors include excellent location in terms of access to markets, low property and labour costs, and the supply of skilled workers for any particular industry. Rules and legal procedures affecting FDI need to be created and applied and they must be readily understandable and transparent (Campbell, 1995a: 32). If these major obstacles are not addressed, the TRADP will remain a half-completed exercise in multilateral cooperation.

In addition to the above theoretical and principal suggestions, some practical lessons can be learned from the Singapore-Johore-Riau Growth Triangle (SIJORI). Recently, it has been expanded, adding Johore, Negeri Sembilan, Melaka and Pahang in Malaysia in 1996; and West Sumatra, Jambi, Bengkulu, Lampung and South Sumatra in Indonesia in 1997. In fact, the success of SIJORI is such that it has developed into the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT) (Thambipillai, 1998: 254). Nevertheless, it is important to note that SIJORI countries were not eager to move to over-institutionalise the successful close economic ties between them. The trilateral government agreement that was initially expected never in fact materialised (Vatikiotis, 1993b). The most that was achieved was a Memorandum of Understanding (MOU) on economic cooperation within the triangle signed by representatives of the three countries in Johore as late as December 1994, even though it started from the early 1980s. Moreover, there is still an understanding between the three countries that any two of them may take joint action without approval from the third (Thambipillai, 1998: 255). More crucially, the rivalry between them has been muted or has not been regarded seriously as a threat. Indonesia is an important power, but not a dominant power. As is Malaysia. Singapore is the driving force of the SREZ, but is not in position as a threat.

Another good example is the Greater South China Economic Zone (GSCEZ). Sub-regional economic zone does not always follow institutionalised regionalism. The existence of geographic and cultural proximity and economic interdependence does not guarantee institutionalised regionalism, especially when sovereignty and national security are at stake (Zhao, Suisheng, 1998: 115). In sovereignty disputes with Taiwan, Beijing was not keen on any formal institutional arrangement in the GSCEZ. It is unlikely that formal structures will be introduced as long as neither China nor Taiwan recognise each other on the diplomatic level. But the sub-regionalism approach has allowed Beijing to take advantage of economic interdependence with Taiwan without addressing the issue of sovereignty (Ibid.: 120). Taiwan has also benefited via trade and economic interest from the sub-regional economic cooperation approach which can avoid political conflict.

Lessons from the two cases can be applied to the TRADP. The conditions around the TRADP were not ready for the many attempts at institutionalisation, but the countries institutionalised first before creating a conducive climate for cooperation. The degree of mutual trust is key. However, these regional countries do not have a sense of community, and the issue of



distribution of power has not been settled. As Chapters One and Two of this thesis argued out of the key factors that could make regionalism in East Asia work, the political commitment of governments is the more crucial facilitating factor for regionalism, by which to induce the private sector. In order to revive the opportunity of the TRADP's future development, political commitment of the TRADP membership countries is needed to identify the common interest of the countries involved to enhance mutual benefits. Successful sub-regional cooperation needs more flexible planning by all the interested parties to balance their national interests. Such a capacity to adapt according to partners' national interests with equality and mutual benefit in mind is an important condition for successful cooperation to create a suitable circumstance. In order to avoid the politically sensitive issues between members which impede cooperation, the TRADP would do better to move together after developing its own area first (Aldrich, 1997: 326), even though the time and cost would be higher than in a cooperative and coordinative project. Such an approach is necessary for the time being.

If this project has had a measure of success, it will probably have stimulated other regionalisms struggling for survival. Since the Second World War the gap between North and South has widened with the aftermath of colonisation. The issue became more problematic when it combined with the hostility of East-West confrontation (Adams, 1993: 215-7, 239). Historical economic underdevelopment reflected the inability of the South to catch the mainstream of the world's economic development. For the continuing economic stagnation in the South and the widening gap with the North, the South needed an opportunity to cooperate with the North, which could provide technology and capital. In the process of post-Cold War economic order, international political economic environment was improving. Many countries in the South adopted a new, open economic policy, which aimed to open their strictly controlled borders to their rivals regardless of their differences.

However, in spite of their efforts to create economic opportunities, most regionalisms have failed and disparity in incomes between the rich and poor countries are rapidly growing. At the time when regionalism has a great difficulty to stand as a test case of narrowing gaps in North-South divide, the success or failure of the unique cooperative model presented by the TRADP will challenge the uncertainty of future North-South cooperation. If South Korea's and Japan's financial and economic support to these socialist economies should prove positive, the 'trickle-down effect' could bring hope to a new model of division of labour. It might also contribute to overcoming political and ideological differences and historical tensions between the North and the South. It could bring hope for those who are interested in curing the aftermath of East-West confrontation and in reducing the gap of the North-South divide to have a belief that it will be possible to improve North-South relations in a way that would foster peace and prosperity to the region.

### **3. Concluding remarks**

The TRADP was regarded as an experiment in regional cooperation that would benefit member countries, Northeast Asia, and beyond that the wider world. A regionalism which combines local needs with national interests and global forces is one of the best possibilities to achieve positive development (Rozman, 1998b: 4). However, the consensus among the commentators is that the TRADP's current status is not good and that there are many challenges that need to be faced. There have been many plans and few achievements, and the realities do not correspond to the ideal. Each country in the region has a different design for the TRADP. Member countries see the potential benefits very differently. Some have looked to immediate economic benefit, whilst others have looked for long-term strategic benefit. Levels of enthusiasm and involvement vary greatly and this is reflected in the uneven process of institutional building for the TRADP. Perhaps, as may be seen from an article in *The Asian Wall Street Journal* (March 29, 2001) entitled: 'The UN is extending the life of a highly publicised but disappointing project to create a special economic zone', the TRADP 'is too high-profile for the UNDP to let it die'. However, as even a former UNDP TRADP officer takes the pessimistic view, the TRADP might not survive into 21<sup>st</sup> century (Davies, 2000: 46). The project may be close to dying.

To repeat the argument which runs throughout this thesis, economic incentives and free market forces may be important in the formation of successful regional cross border

initiatives in East Asia, but the commitment of governments is the precondition necessary to induce the private sector. Among many factors, we have seen the key rests with China. Relating to the theme of this thesis, China, as the principal initiator of the Tumen project, has sought to use the TRADP for its own purposes. China intended to manipulate interdependence for its own strategic purposes, but its intentions may not have been as successful as wished. As Keohane points out, cooperation at governmental level occurs only when players adapt 'their behaviour to the actual or anticipated preferences of others, through a process of policy coordination' (Keohane, 1984: 51). China has hoped that other countries would adapt their behaviour to its own preferences, but they did not behave that way. When the others anticipated China meeting their standards, the Chinese did not respond the way. China has retained a mindset that is rather focused on a narrow definition of self interest. Therefore, both weaker neighbours and stronger powers are suspicious of China's moves to interdependence. The former are vulnerable, the latter sensitive to growing interdependence. Tensions still remain and there has been no real change in the substance of their interdependence.

Northeast Asia is a difficult area for trans-national cooperation or developing common economic interests and opportunities. At present we cannot tell if any of the players will actually 'pull the plug', but the survival of the TRADP will now depend on the way the political and economic geography of Northeast Asia will change in the future. At the time of writing in 2002, the Chinese government can either wait until its growing economic and political power is sufficient for them to get their way on the TRADP or it can seek to build trust and confidence with the other TRADP countries. This raises broader issues about Chinese foreign policy and the rise of China in world affairs. The TRADP problem may either help push China into exploring new ways of consensus-building, or raise the 'China threat' theory to prominence again. Without China's efforts to resolve other countries' suspicions of China's intentions and to provide incentives to erase the relative gains concerns of neighbouring countries, the future prospects of the TRADP will continue to be bleak. The realisation of the goal of maintaining and strengthening stability in Northeast Asia is still in the distant future.

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