



Tumen Triangle Tribulations

The Unfulfilled Promise of Chinese, Russian
and North Korean Cooperation

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US·KOREA
INSTITUTE AT SAIS

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Research assistance by Yon Soo April Cho

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Executive Summary

The Tumen Triangle region—where North Korea, China and Russia meet—is, in many ways, the story of regional integration being held back by the political concerns of Pyongyang, Beijing and Moscow.

There are long-term forces at work here, such as Moscow's concerns over Chinese dominance in the sparsely populated Russian Far East. This legacy of mistrust frames cross-border interactions and despite recent warm relations, major cross-border cooperation remains limited. There are also relatively recent roadblocks to cooperation, such as Beijing's opprobrium over North Korea's nuclear program. This has prevented the implementation of pre-2013 plans to link Rason—North Korea's northeastern special economic zone—to the electricity grid in Jilin Province, in Northeastern China.

Russia's commitment to its strategic priorities in Ukraine has led to sanctions and a recession that have also hurt prospective trade and investment relations in the Tumen region. So while Pyongyang has hoped to rebalance its economic relations away from China towards Russia, it has been frustrated by a general lack of interest from Russian companies as well as the recession that has limited their capacity to invest abroad. This is despite Moscow forgiving 90 percent of North Korea's \$11 billion Soviet-era debt. Russia, for its part, still seeks to broker cooperative projects that will link the Russian Far East with South Korea, through North Korea. Its dreams of a gas pipeline and cooperative rail projects have made little progress in the face of inter-Korean political concerns.

That said, trade and investment do occur despite the myriad of issues between the three countries. The single major cooperative project has been the refurbishment of part of a North Korean port and the rail line linking the pier to Russia. This project has yet to move significant volume, however, and its profitability remains in doubt for the time being. Significant investment by China and South Korea into Hunchun—China's southeastern most city in the region—suggest a hope that future connections through both Russian and North Korean ports will facilitate an increased flow of goods and people. These international linkages, however, remain limited.

For several years, rail development by Russia and road construction by China in Rason suggested that the region was beginning to knit together. Rason could be described as something of a hub for the region and it had concurrently been given more autonomy by Pyongyang and was engaging in a public relations campaign. Since North Korea's third nuclear test in 2013 and the purge of Kim Jong Un's uncle, Jang Song Thaek, late that same year, Rason appears to have less autonomy and has attracted less interest from its neighbors.

While the potential for integration in this region remains large, relationships and strategic concerns of faraway capitals have limited actual development. The future of the Tumen Triangle region depends very much on how these relations develop over time.

Introduction¹

Both the long-term and recent histories of the Tumen Triangle subregion—the area where Russia, China and North Korea meet—are the stories of regional aspirations being overwhelmed by the political and strategic concerns of distant capital cities.

The contemporary post-Cold War aspirations for the region are rooted in the Tumen River Area Development Project (TRADP), an attempt to facilitate increased economic collaboration among China, the two Koreas, Russia, Mongolia and Japan. Despite a Cold War history of cross-regional conflict, scholars and policymakers developed TRADP in the early 1990s in an attempt to foster greater cooperation.² Ultimately, the results have been underwhelming. Christopher Hughes cites the counteractive dual processes of regionalization and regionalism as the primary reason for the failure of TRADP and its successor, the Greater Tumen Initiative.

Increases in regionalization through organically formed ties have been counteracted by the persistent lack of regionalism rooted in political mistrust. Regionalization is the creation of organic economic ties among geographically close states, while regionalism is the “conscious attempt by nation state...or local government actors, as well as...non-state actors, to foster the principles and projects of regional integration.”³ A lack of regionalist thinking in the stakeholding political capitals has caused the Tumen River area to fail to develop and integrate in a way that would produce mutually reinforcing economic benefits to residents of the region and their governments.

A cynic might point out that these are regions where the three countries used to send internal troublemakers to be as far as possible from their political heartlands: a nexus of exile. A more positive onlooker might argue that in the 21st century, energy, access and infrastructure can transform erstwhile backwaters into economically important regions. Nonetheless, despite significant developments in some of these areas, the Tumen Triangle’s promise goes unfulfilled, with eager local residents in large part frustrated by the restraints their governments place upon them.

In order to understand the region, we will first give an overview of the current geopolitical and economic relations among China, Russia and North Korea before focusing on the interactions on the ground in the Tumen region, with particular attention to how the Yanbian Korean Autonomous Prefecture and Primorsky Krai interact with and affect Rason Special City, the center of the Rason Special Economic Zone (SEZ).⁴

¹ The author would like to thank Yon Soo April Cho for her research assistance on this paper. Ms. Cho is a student at Columbia University studying Economics and East Asian Studies. She was a 2015 intern for the Choson Exchange.

² Daniel Aldrich, “If You Build It, They Will Come: A Cautionary Tale About the Tumen River Projects,” *Journal of East Asian Affairs* 11, no. 1 (1997): 305–06.

³ Christopher W. Hughes, “Tumen River Area Development Programme: Frustrated Micro-Regionalism as a Microcosm of Political Rivalries,” CSGR working paper no. 57/00, August 2000, 5–6.

⁴ This zone was formerly called the Rajin-Sonbong Special Economic Zone.

A Troublesome Trilateral: Big-Picture Politics

A closer Russia-DPRK political relationship over the past several years has perhaps culminated in the North Korean government designating 2015 a “year of friendship” with Moscow. Both governments have found solidarity in what they perceive as unfair treatment by Western countries.⁵ Concurrently, Russian President Vladimir Putin and his economy minister, Alexey Ulyukaev, have made clear their intention to “Look East” and rebalance economically and politically toward Asian nations, in part due to the fallout over Russia’s involvement in the Ukraine crisis.⁶ Despite these friendly relations, Kim Jong Un reneged on his apparent promise to attend the Victory Day celebrations held in Moscow that commemorated the 70th anniversary of end of the Second World War.⁷ Though other factors also contributed to the decision, his absence suggested that much still separates the two countries.

A source of frustration on both sides stems from a lack of progress in their economic relations. Despite Russia’s forgiving 90 percent of North Korea’s \$11 billion Soviet-era debt, the remainder is slated for reinvestment projects. Still, grand proposals remain unrealized: Russia’s longstanding dream of a gas pipeline linking Siberia to South Korea continues to go nowhere.

More recently, plans have emerged for a comprehensive reconstruction of North Korea’s decrepit railway system, to be paid for in large part by rather complex mining concessions for Moscow.⁸ However, it is unclear how quickly this project is progressing. An article titled “DPRK-Russia Economic Ties Make Significant Headway” in the fall issue of the DPRK’s *Foreign Trade* magazine could point only to the formation of a DPRK-Russia Business Society as a concrete outcome of this “headway.”⁹ (Though interestingly, one of Rason’s most important companies, the Taehung Corporation, was present at the meeting.)

Complex projects such as those apparently on the table between Russia and North Korea face challenges anywhere, though the sense of frustration is compounded on the Korean side both in Rason and at large because hoped-for organically formed ties between smaller North Korean and Russian corporations have also failed to appear.

Sino-Russian relations have warmed considerably of late, though they still face a lengthy legacy of mistrust. Diplomatic and economic cooperation are best symbolized by a \$400 billion gas pipeline agreement and Chinese President Xi Jinping’s presence in Moscow for the anniversary of the Second World War. Xi was seated next to Putin and was the only major world leader to attend.¹⁰ Beijing returned the favor to Moscow at its own parade on September 3. However, a

⁵ Georgy Toloraya, “Russia-North Korea Economic Ties Gain Traction,” *38 North*, November 6, 2014, <http://38north.org/2014/11/toloraya110614/>.

⁶ “Russia Looks East as It Seeks to Rebalance Trade Interests,” *Financial Times*, April 3, 2014.

⁷ “North Korea Might Be Courting Russia, but China Still Looms Larger,” *Washington Post*, May 5, 2015.

⁸ Yonho Kim, “Russia, North Korea Strike Deal: Improved Railway for Mineral Resources,” *Voice of America*, November 8, 2014.

⁹ “DPRK-Russia Economic Cooperation Makes Headway,” *Foreign Trade* 3 (2015): 10–11.

¹⁰ William Courtney, David Sedney, Kenneth Yalowitz, and Stephen Young, “How Durable Is the China-Russia

battle over influence in the Central Asian region complicates the Sino-Russian relationship, as does Moscow's continuing suspicion of Beijing's influence in the Far East.

The conceptual background of contemporary Sino-Russian cooperation is driven by one key idea: a mutual rejection of unilateral American power.¹¹ Practically speaking, however, Russia has been nudged toward China by the sanctions that resulted from the Ukrainian crisis. Ultimately, China's economy—four times that of Russia's—calls attention to the fact that this might be a growing partnership, but it is not an equal one.¹² Despite a degree of asymmetry caused by Russia's relative lack of options, “three strategic shifts in cooperation” focused on “energy, finance, and infrastructure and technology” between Russia and China have become apparent.¹³

The \$400 billion energy agreement between Russian oil company Gazprom and the China National Petroleum Corporation is the most significant expression of this, with 38 billion cubic meters of gas to be pumped through the Sila Sibiri—the Power of Siberia—pipeline annually starting in 2019. Groundbreaking took place in September 2014 after torturous ten-year-long negotiations were concluded. (It is said that the conclusion came about in part because Russia's descent into recession weakened its negotiating position.) Negotiations for a second pipeline in the region are also moving slowly amid a global slump in oil prices.

If one can speak of imbalance in Sino-Russian relations, Sino-DPRK relations are another level of asymmetry. Of late, North Korea has become extremely wary of its own dependency and has optimistically sought to balance its erstwhile Cold War allies against each other as it did during the Soviet era. Beijing, for its part, has been extremely frustrated by Pyongyang's nuclear program. So while the two countries remain formal allies (China and the DPRK reinstated the 1961 Sino-North Korean Mutual Aid and Cooperation Friendship Treaty in 2001, renewing the Chinese promise to provide military assistance to North Korea until 2021¹⁴), relations have been tense for several years.

Beijing has refused to implement sanctions to the extent that they would completely strangle its ally but did take a handful of punitive actions after Pyongyang's 2013 nuclear test. The 2013 execution of Jang Song Thaek, Kim Jong Un's uncle-in-law and a vice chairman of the National Defense Commission, further strained ties, and foreign diplomats in Beijing speak of Xi Jinping's personal animosity toward Kim Jong Un. China's continued opposition to North Korea's nuclear program and recent ties with Seoul have been immensely vexing to Pyongyang, inspiring both public and private criticism and the shift toward Russia.¹⁵

“Friendship’?” *Reuters*, May 13, 2015, <http://blogs.reuters.com/great-debate/2015/05/12/how-durable-are-china-russia-relations/>.

¹¹ Alexander Gabuev, *A ‘Soft Alliance’? Russia-China Relations After the Ukraine Crisis*, European Council on Foreign Relations, February 2015, 4–5.

¹² William Courtney et al., “How Durable Is the China-Russia ‘Friendship’?”

¹³ Alexander Gabuev, *A ‘Soft Alliance’? Russia-China Relations After the Ukraine Crisis*.

¹⁴ David Volodzko, “No, China Isn't Abandoning North Korea,” *The Diplomat*, March 27, 2015.

¹⁵ Nicholas Eberstadt and Alex Coblin, “Dependencia, North Korea Style,” *Asan Institute for Policy Studies*, November 6, 2014, 2, <http://en.asaninst.org/contents/dependencia-north-korea-style/>.

In reality, North Korean emancipation from the Chinese economy is all but impossible in the near future. More than 90 percent of the DPRK's foreign trade is with China, excluding goods produced in Kaesong at the inter-Korean industrial park.¹⁶ An unrecorded but massive amount of subsidized and non-subsidized food and energy products are also imported from China.

The Tumen Triangle: Local Aspirations, Central Suspicions

Looking at the overarching political-economic relations, China, North Korea and Russia appear to have a high degree of alignment. However, zooming in on the Tumen Triangle subregion, local aspirations for greater connectedness, investment flows and integration are stymied by the political and strategic concerns that emanate from Beijing, Pyongyang and Moscow and are not aligned with creating the conditions necessary for economic integration. Essentially, development loses out to suspicion and high politics.¹⁷

It should be noted that these are not evenly sized regions. If Yanbian as the middle ground in this triangle is a sizable ethnic enclave in a large province, Primorsky Krai is a huge province and Rason is merely an amalgamation of two small cities and their hinterlands. Indeed, other North Korean towns outside of Rason sit along the Tumen River—they also must have on-the-ground traders and officials with cross-border aspirations. Rason was chosen because of the access offered, strategic value it holds and longtime promise that it has held for 20 years. Similarly, Primorsky Krai, a large and diverse territory, was chosen so as to include not only the sparsely populated border regions, but also the population center of Vladivostok. Both as a potential economic territory and conceptual space, the triangle of Yanbian-Rason-Vladivostok is a cogent one.

Primorsky Krai's Connections to Yanbian and Rason

From Moscow, this has taken the form of two policies: the first was the willingness to endure economic contraction due to the fallout over the Ukraine crisis in order to pursue what it considers a core strategic interest in Crimea; the second is long-running hostility toward Chinese economic influence in the Russian Far East.

The province of Primorsky Krai is the most populous in the Russian Far East region. It is worth recalling that its capital, Vladivostok, was a city closed to all foreigners throughout the Cold War, as it was home to the USSR's Pacific Fleet. The economy is fairly diverse, with significant fish

¹⁶ *North Korea's Trade Volume in 2014: \$7.6 Billion*, Institute for Far Eastern Studies, NK Brief no. 15-06-15, June 17, 2015, http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM150617_0001.

¹⁷ It should be noted that to suggest “locals want integration, distant politicians do not” is, of course, an oversimplification. Such impulses are not evenly spread, and there are local actors who do not seek integration, either for social/cultural reasons or to protect vested economic interests. Likewise, there are leaders in central positions who would place development above geostrategic concerns.

processing, defense, construction and agricultural sectors, but it has underperformed the rest of Russia in the post-Cold War era. The region is well known for corruption.

The 2012 Asia-Pacific Economic Cooperation summit was supposed to rebrand Vladivostok as open for business—Russia’s Pacific gateway. Instead, its enduring legacy was the world’s longest cable-stayed bridge, linking the city to an island with virtually no economic value.¹⁸

As for the recent recession in Russia, this has had a direct impact on both Yanbian and Rason. Hunchun (the easternmost town in Yanbian) has by far the most Russian atmosphere in Yanbian: Korean cultural and linguistic influence is far less prevalent than in most of the region. Russian signage is common, and many shops and restaurants employ Russian speakers. It is estimated by residents that before the Ukraine crisis, approximately 1,000 Russian visitors a day would cross the border during the peak season, mostly to shop for consumer goods. This year the figure was estimated by local residents to be around 200.

The Ukraine crisis has brought Pyongyang and Moscow closer together politically, but the impact on Rason of the ensuing Russian recession is keenly felt and frankly expressed. “The Russians have no money,” one DPRK official stationed in China bluntly noted.¹⁹ Moscow’s willingness to endure economic pain over Ukraine has had a direct impact on Pyongyang and Rason’s ability to attract Russian investment.

A long way from high politics, this situation is compounded by what seems to be a difference in investing cultures between China and Russia. Smaller Chinese investors seem much more willing to “have a go” or “roll the dice” and see what happens. Russians are more conservative and tend to want a clearer path to a return on investment.

The single major cooperative project, the refurbishment of Pier 3 in Rajin Port and a rail line linking the pier to the Russian town of Khasan, was completed in September 2013.²⁰ This was overseen by RasonKonTrans, the joint venture between Russian Railways and the DPRK Railways Ministry that continues to operate the pier and the rail line. Plans to ship Russian coal down to South Korea have, according to reports, only resulted in two pilot runs of coal through the port down to Pohang.²¹ In a June conversation, Rason officials stated that ships berth at the Russian pier two or three times a month. Indeed, since June 2014, regular deliveries of Russian coal to southern China have taken place through Rason. By the end of 2015, these shipments could add up to 1.4 million tons per year, according to Russians with knowledge of the project. This is short of the estimated 4 million tons needed to become profitable.²² Over the summer,

¹⁸ The summit took place there, and Far Eastern Federal University is planning to move there.

¹⁹ Both North Korean and Chinese officials were interviewed on condition of anonymity.

²⁰ “Russia Opens North Korean Rail Link for ‘Iron Silk Road’” *Bloomberg*, September 22, 2013
<http://www.bloomberg.com/news/articles/2013-09-22/russia-opens-north-korean-rail-link-for-iron-silk-road>.

²¹ “‘Eurasia Initiative’ Gets Boost from Koreas-Russia Cooperation,” *Yonhap News*, December 1, 2014,
<http://english.yonhapnews.co.kr/northkorea/2014/12/01/77/0401000000AEN20141201002951315F.html>;
“Second Batch of Siberian Coal to Arrive in South Korea,” *Korea Times*, April 15, 2015,
http://www.koreatimes.co.kr/www/news/nation/2015/04/485_177123.html.

²² Noted in conversation, September 2015.

piles of coal sat on the pier, kicking up an infernal dust storm whenever the wind picked up. By the end of August, the piles had been moved.

Container traffic, not just coal, was always the Russian idea behind the port renovation. Container shipping between South Korea and Primorsky Krai's southwest would allow for two-way traffic through Rason and a much quicker return on investment. To promote such traffic, Russian Railways has tried to woo South Korean investors into purchasing a stake in the joint venture, but nothing appears to have come of that effort.²³ A South Korean delegation comprising steelmaker POSCO, Hyundai Merchant Marine Company and Korail Corporation and the South Korean government observed the pilot run in November and December 2014.

Seoul's political-economic concerns may play a role here. It is not enough for the investment to be viable from an economic standpoint, but the May 24 sanctions that have banned southern investment in the DPRK since 2010 loom over the decision. South Korean companies would need a clear and irreversible exemption from the government to make such an investment. There may be bureaucratic wrangling over the issue, or it may be the case that both the Park administration and the companies involved are simply moving very slowly. It is also not impossible that Seoul is sitting on the project, dangling it as a proverbial carrot.

Meanwhile, the same consortium of POSCO and Hyundai Merchant Marine completed the first stage of a 1.5 million square-meter distribution center in the city of Hunchun in 2013 in cooperation with the Jilin provincial government and Hunchun city government. A POSCO press release stated that they "expect great synergy once the Najin-Khasan project gets on track."²⁴

Indeed, the logistics park is very much focused on linking the Chinese Northeast to other markets through Rason. In private conversations, company managers have stated that this is a very long-term play whose fruits may not be seen for some time. That said, despite perhaps slower development than expected of Hunchun-Rason linkages, there is enough logistics demand in the region that the first phase of the park began regular operations in March 2015. Current projections for expansion anticipate new stages coming online in 2017 and 2019, though there is clearly some flexibility in these plans.

Hunchun itself has been some form of special economic zone since 1992, but it was expanded and rebranded an "international cooperative demonstration zone" in 2012.²⁵ Hunchun's ties to Primorsky Krai are limited less by short-term geopolitical concerns than by Moscow's circumspection regarding a China-dominated Far East. This is not a new phenomenon; it has in some form or another existed ever since the Russian Empire's consolidation of power in the region in the 19th century. The difference between the political center and the on-the-ground

²³ "S. Korean Firms Invited to Invest in N.Korea-Russia Railway," *Chosun Ilbo*, December 11, 2014, http://english.chosun.com/site/data/html_dir/2014/12/11/2014121101814.html.

²⁴ "Participate in Najin-Khasan Project...First Step to 'Eurasian Silk Road,'" POSCO press release, October 15, 2013, <http://www.posco.com/homepage/docs/eng3/jsp/prcenter/news/s91c1010035p.jsp?idx=2233>. Note: Rajin is referred to as Najin in South Korea.

²⁵ "China Approves Int'l Border Cooperation Zone," *USA Today*, April 25, 2012, http://usa.chinadaily.com.cn/china/2012-04/25/content_15142366.htm.

actors in the Far East, however, can be huge. One author describes an internal conflict over China policy, largely between the Russian Ministry of Foreign Affairs, which is widely suspicious of Chinese influence, and pro-China business interests.²⁶

The depopulation of the economically backward Far East exacerbates such tensions. Prime Minister Dmitry Medvedev once described the situation as “the most alarming, most dangerous tendency we have to deal with.”²⁷ A cautious Russian observer might well point out that the northeast Chinese provinces and Russian Far Eastern territories that border each other have about 100 million and 4.3 million people, respectively—hardly balanced. Moscow fears being unable to compete with an influx of Chinese capital, labor and products, and this anxiety has contributed to the lack of integrative projects since the beginning of the TRADP and beyond.

The recent \$400 billion Sila Sibiri pipeline is an important exception to this way of thinking, but it also doesn’t involve any component that could lead to greater Chinese immigration or transnational economic integration between the regions. It was thus a relatively safe choice for Moscow, politically.

Similarly, and back in the Tumen region, plans exist for transshipment via Hunchun through the Russian port of Zarubino, located in Troitsa Bay. This would greatly facilitate the PRC’s goals of better access to sea lanes. Zarubino is only 18 kilometers from China, and development of the port is a joint project of Summa Group, Russia’s largest transport and logistics company, and Jilin Province. A total investment of \$3 billion is planned, with the first phase of the port to be opened in 2018.²⁸

Groundbreaking is another matter, but again, this could be seen as a fairly politically innocuous project. Other than a handful of Russian staff in Hunchun and Chinese staff at the port, it wouldn’t involve social or economic integration with China. (It will create a direct rival to Rajin Port, however, and one wonders if the North Koreans are planning for how to compete.)

Projects that do increase Chinese access and competitiveness, such as the announced high-speed rail project, are unlikely to see the light of day.²⁹ Currently, regulatory blockages mean there are not even officially approved direct buses from Hunchun to Vladivostok; a traveler has to purchase a ticket to Slavyanka, then hand the driver extra cash to continue to Vladivostok. One does not get any kind of ticket for this part of the journey. Hunchun and Rason have a near-daily direct bus connection, as do Yanji (Yanbian’s capital) and Rason.

There are plans for multiple casinos to vitalize the economy, with Macao gambling tycoon Lawrence Ho backing one—the Tigre de Cristal—to the tune of \$900 million. Perhaps typical

²⁶ Natasha Kuhrt, *Russia and the World: The Internal-External Nexus* (Routledge: London, 2013), 84–85.

²⁷ Ibid.

²⁸ “Russia and China to Speed Up Development of Zarubino Port,” *WantChinaTimes*, October 1, 2014, <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20141001000114&cid=1201>.

²⁹ “High-Speed Rail Line Could Link Russian Far East to China in Only an Hour,” *Siberian Times*, February 15, 2015, <http://siberiantimes.com/business/investment/news/n0119-high-speed-rail-line-could-link-russian-far-east-to-china-in-only-an-hour/>.

of investments in the region, delays and paperwork have caused problems in the leadup to the scheduled October 2015 grand opening.³⁰ Full operations for the casino are now slated to begin in “approximately three to six months.”³¹

Yanbian’s Economy and Its Rason Linkages

The Changjitu (Changchun, Jilin city, Tumen) development plan continues to transform Jilin Province through an extensive, Beijing-mandated series of infrastructural developments. The Changjitu economic zone includes the Yanbian Korean Autonomous Prefecture, and its most recently completed project is a high-speed rail link that now extends to Hunchun, the Yanbian town that borders both Primorsky Krai and Rason. Tumen, another border town in between Yanji and Hunchun, has had traffic lights for less than ten years. It now has a high-speed railway station. For part of the journey, the high speed rail tracks are within a couple hundred meters of the North Korean border.

Also this year, after 46 years of political life, President Xi Jinping made his first visit to the Yanbian Korean Autonomous Prefecture in July 2015, putting a focus on the ethnic Korean population. Due to immigration, the Korean population has dropped from 1.83 million in 2010 to just 1.6 million in 2015 as working-age residents leave to find employment elsewhere.³² The decline could be important for Yanbian; the ethnic Korean population comprises 36 percent of the overall population, just six percentage points higher than the 30 percent many have claimed is needed to maintain autonomous status. There are, however, other ethnic autonomous regions in China with far lower representation of minorities. Keeping the status quo might be in all parties’ best interests. And while Xi Jinping did not provide real incentives for Koreans to stay, his activities and rhetoric were designed to demonstrate the importance of the region to national agricultural and industrial development plans.³³

According to Chinese government statistics, the prefecture’s 2014 GDP of 90.08 billion yuan (\$14 billion) was an increase of 7 percent over the previous year. Prefectural GDP per capita reached 41,941 yuan (\$6,600), an increase of 7.9 percent over the previous year.³⁴

Yanji, the prefecture’s capital and biggest city, was (at least for a time in the 1990s) one of China’s richest cities, as South Korean investment and remittances from ethnic Koreans

³⁰ “Russia Gambles on Casino to Revive Fortunes of Far East,” *Financial Times*, September 13, 2015, <http://www.ft.com/cms/s/0/d6d64902-57e1-11e5-a28b-50226830d644.html#axzz3mMVgBghD>.

³¹ “Vladivostok Free Port status will open Tigre De Cristal doors to the world,” *World Casino News* September 22, 2015.

³² “시진핑, 북중접경 연변 조선족자치주 첫 방문(종합).” *연변뉴스*. June 7, 2015.

³³ “For First Time, Xi Jinping Travels to Region on North’s Border,” *Korea JoongAng Daily*, July 18, 2015, <http://koreajoongangdaily.joins.com/news/article/Article.aspx?aid=3006775>.

³⁴ “延边朝鲜族自治州2014年国民经济和社会发展统计公报,” September 11, 2015, <http://www.yanbian.gov.cn/tpl/xl2012031611081743.jsp?infoId=38645&cid=327>.

working abroad poured in.³⁵ Its links to South Korea still underpin the local economy, with some estimating that remittances from Chinese Koreans working there perhaps exceeding the prefecture's annual revenue.³⁶ This is impossible to know for certain, however, given the lack of statistics. Anecdotally, many ethnic Koreans there speak of a smaller percentage of people moving to South Korea as China becomes wealthier and South Korean prejudices grow.

Hunchun, Yanbian's easternmost city, has experienced some growth, despite the drop-off in Russian shoppers. In addition to the South Korean logistics center, there is an expanding seafood industry, which takes seafood from Russian and North Korean ports and processes it for sale around China before re-exporting it to other markets. Two-thirds of the 300,000 tons of seafood comes from Russia, with the remaining one-third coming from the DPRK.³⁷ Distributors and retailers in Hunchun emphasize the high quality of North Korean seafood (curiously, they praise North Korean sweet potatoes, too).

For several years, there were persistent rumors of plans to import power into Rason from a thermal power station in Hunchun, to be sold at Jilin Province rates. The level of detail with which this rumor was discussed on both sides of the border in 2011 and 2012—stages of development, amount of electricity, cost per kilowatt-hour—suggested a high degree of credibility. Such a project would truly solve the last major piece of Rason's infrastructural puzzle, but it was apparently put on hold after the 2013 nuclear test and ouster of Jang Song Thaek. People no longer speculate on this plan, and Chinese academics suggest it will require a major breakthrough on the nuclear issue for it to be revived. Currently, the main point of cooperation on infrastructure is the Quanhe-Wonjong border-crossing bridge. A Chinese construction firm has been contracted to build a four-lane bridge, to replace the current two-lane bridge some time in 2016.

There are currently 129 foreign firms with operations in the Rason SEZ, but still almost no major companies with a presence. (The exception to what might be called a "major" company in this case might be Jilin Tobacco.) If, over time, relations with Beijing improve, with or without a breakthrough on the nuclear issue, one can imagine infrastructural projects such as electricity supply being resurrected, making the investment environment significantly more attractive to Chinese and other investors. Indeed, having Chinese control over such a commanding height of the economy might be exactly what larger companies are waiting to see. As well as, of course, a reliable supply of electricity.

Some Chinese businesses are finding ways to utilize North Korean labor without having to deal with infrastructural problems or political risk. A "China-Tumen-North Korea Industrial Park" sits on the outskirts of the town of Tumen, employing 1,600 North Korean laborers to work

³⁵ Chen Xiangming, "Both Glue and Lubricant: Transnational Ethnic Social Capital as a Source of Asia-Pacific Sub-regionalism" in *Social Capital as a Policy Resource*, John D. Montgomery and John D. Alex Inkeles, eds. (Springer: London, 2001), 54–55.

³⁶ Han Enze, *Contestation and Adaptation: The Politics of National Identity in China* (Oxford University Press: Oxford, 2013), 75.

³⁷ "珲春市“海鲜经济”风生水起," August 24, 2015, <http://www.yanbian.gov.cn/tplt/xl2012031611081743.jsp?infoId=38359&cid=328>.

on textiles. This mirrors a trend in Dandong, whereby DPRK workers are sent to factories just across the border. In the long run, this may harm North Korea's attempts to attract Chinese investors into factories across the river: why invest there, when the workers can come to you?

These companies would have been pleased at the choice to base in Tumen over the winter months of 2014-2015. The biggest instability of the past year was not related to infrastructure but to policy: the DPRK's decision in late October 2014 to implement a 21-day quarantine for any person entering the country. The quarantine was ostensibly to limit the spread of Ebola (a disease without any cases in all of Asia) at the time and lasted until March. In reality, what it did limit was economic activity, with both immediate and long-term effects.

However, in Rason, they spoke of the Ebola quarantine being an issue that lasted "three months," compared with the four-plus months that most businesspeople had endured elsewhere in the DPRK by the time the policy was quietly lifted in early March 2015. This also fits with conversations Choson Exchange staff had with Yanji businesspeople in November 2014 that indicated crossings were still happening throughout that month. It would also imply a degree of local resistance to implementation was possible for a time, though not for long. By the end of November, the Wonjong-Quanhe border to Rason was subject to the same restrictions as other points of entry to the DPRK.

Yanji-based businesspeople who work in Rason describe a degree of "negativity" emerging even before the Ebola policy was imposed. The border and associated immigration and registration procedures were tightened over the summer of 2014, while the unofficial payments to carry out normal tasks became higher, adding to the transaction costs of doing business in Rason. Indeed, the issue of rent-seeking has yet to be tackled in Rason. As one businessperson put it, the difficulty lies in making the right amount of money; earning too little creates suspicion, while earning too much profit invites too much attention and too many "partners" trying to claim a share of it.

Not only did permissions become generally more difficult to obtain, but fundamental business inputs were scarcer in the months before the Ebola ban. There were, for example, restrictions placed on the sale of fuel to foreign-registered vehicles and less electricity was provided to foreign-invested companies.

Finally, Rason officials are looking to agglomerate foreign businesses as new business licenses have become harder to get. Creating conglomerates is often an unappealing solution, however, as it can create awkward pairings of industries, expertise and individuals.

These general frustrations from 2014 were then aggravated by the Ebola quarantine, which ground many businesses to a near halt over the winter. Some Chinese businesses that could not bridge cash-flow shortfalls and do not have too much fixed capital on the ground appear to have decided against returning to the DPRK, essentially giving up on Rason. "The whole country just forms a barrier that stops us connecting to South Korea," one Chinese-Korean businessman complained over coffee. "We should be one belt of trade and wealth."

Yet, it remains “the most capitalist place in the country,” as one Pyongyang official describing Rason recently quipped in conversation. It has, after all, been some form of special zone since 1991. Notably, some of the autonomy won with reforms in 2010 and 2011 still remains, mostly with regard to locally issued travel permits and business licenses. It even has banks that are allowed to deal with foreign currency, something that Rason officials claim annoys Pyongyang’s Foreign Trade Bank. (Rason has eight banks altogether—an incredible amount for North Korea.) These rules, combined with the port, give Rason an advantage over any other northeastern region of North Korea.

However, while the SEZ still has these important tools that can allow for independence in action, it does seem as if more decision making is again being deferred to the capital. Any major business concession “should be” confirmed with Ministry of External Economic Affairs staff in Pyongyang before it goes forward.³⁸ Other requests related to projects involving foreigners appear to be more frequently directed to Pyongyang for permission. Previously the messaging from Rason officials was decisively the opposite: “don’t involve Pyongyang, we’ll organize things on our own.”

This is likely connected to personnel reshufflings that took place after Jang Song Thaek’s ouster and to the bureaucratic reorganizations in various organs of economic governance. There is a risk of overstating the former, however. Hwang Chol Nam, the charming, English-speaking former vice mayor of Rason, is no longer involved in the SEZ, having been very much in the public eye for high-profile cruise trials and the first trade fairs. Yet further down the chain of command, most of the staff in Rason’s Economic Cooperation Bureau seems to be the same as in previous years and has made it through the Jang Song Taek affair unscathed. The bureau still cooperates with officials from Jilin province on a joint Rason management committee.

Rason, Still Part of the DPRK

More impactful might be changes in the bureaucratic structures. In 2014, both the Joint Venture and Investment Commission and the State Economic Development Council—at some point both involved in managing SEZs—were absorbed by the Ministry of Foreign Trade, which was renamed the Ministry of External Economy. Rason, notably, was also brought under the governance of the new ministry, along with most of the other SEZs created in 2013 and 2014, rather than being allowed to stand as a separate entity. This is almost certainly behind the relatively less flexible environment in Rason today.

If this more negative and inflexible environment has hurt morale on the Chinese side of the border, one gets the impression that this has taken at least as great a toll among the Rason business community and local bureaucrats. One foreign visitor to the 2015 Rason International Trade Exhibition described the event thus, “It didn’t seem as if anyone was really chasing investments. They were happy to collect the booth fee and let businesses come in and sell cheap

³⁸ The strong difference between “should” and “have to” in English doesn’t exist in Korean. In Korean, the speaker (a Rason official) said what appears to be “have to” or “must.” When pressed, in English, he said “should.”

products for a few days.” The trade fair, held annually since 2011, appears to have developed mostly into a bazaar, where locals save up to shop for products they may not normally see.

This is fine, of course, but does not reach the promise of the first trade fair, where local and Chinese companies alike were seeking much more significant manufacturing and trade deals. Even a mere shopping event now has to compete with the new Rajin market, which, already one of the biggest in the country, has been expanded. (It also has a modern-looking, multistory distribution center.)

The increased difficulty in doing business in Rason seems to reflect a broadly more challenging environment in North Korea over the past year, Ebola aside. Diplomats living in Pyongyang claim that generally, permissions are less readily granted. American organizations (or organizations with US citizens) report finding visas harder to obtain.

Resident nongovernmental organizations have faced greater scrutiny and less cooperation, most dramatically expressed in the expulsion of key staff for *Welthungerhilfe* (German Agro Action) from the DPRK.³⁹ The business environment continues to be a challenge, with one of the more successful and visible Western-DPRK joint ventures dissolving its partnership in an electronics-making company, Hana Electronics.⁴⁰ Perhaps most important from a negative-PR perspective, Global Telecom (formerly Orascom Telecom) appears to be unable to remit profits from its joint venture with the state-owned Korea Post and Telecommunications Corporation, Koryolink, which runs the country’s main mobile network.⁴¹

Finally, businesses have been harder to run as electricity supply has been less reliable in 2015, with reports of increased idle time at factories around Pyongyang. Embassies also report having to use generators for nearly all their electricity needs in the winter and spring of 2015.

Both in terms of increased sanctions and strained relations with Beijing, the DPRK’s commitment to its nuclear and missile program has affected the whole economy. Rason has not escaped the impact of this commitment. Behind-the-scenes battles over the direction of economic policy and control over key industries and locations are no doubt also having an effect on Rason’s success, though the opacity of debates in this realm makes extended commentary difficult and competing theories nearly equally plausible.

³⁹ “North Korea Expels Chief of German Food Aid Organisation—NGO,” *Reuters*, April 2, 2015, <http://uk.reuters.com/article/2015/04/02/uk-northkorea-germany-ngo-idUKKBN0MT12120150402>.

⁴⁰ “Well-known Electronics Joint Venture Terminated in Pyongyang,” *Nknews*, September 9, 2015, <http://www.nknews.org/2015/09/well-known-electronics-joint-venture-terminated-in-pyongyang/>.

⁴¹ “Orascom’s No Closer to Getting Its Cash from North Korea,” *North Korea Tech*, August 15, 2015, <https://www.northkoreatech.org/2015/08/15/orascoms-no-closer-to-getting-its-cash-from-north-korea/>.

Conclusion

From 2010 to 2013, prospects for social and economic integration, certainly between Yanbian and Rason, as well as between Primorsky Krai and Rason, seemed strong. A Chinese consortium was building a modern road to link Rajin with the border crossing at Quanhe, while RasonKonTrans was refurbishing part of Rajin Port and the rail line to the Russian border.⁴² These were not small projects and together they have certainly increased Rason's functional capacity, even if the road experienced flood damage this year.⁴³ Rason was also hosting a brand new annual trade fair, and the team leading the SEZ seemed relatively PR-savvy and sophisticated.

Since then, developments have slowed significantly. The Ukraine crisis and subsequent collapse in commodity prices has left Russia in a deep and ongoing recession. Russia's lack of capacity and long-term suspicion of China have held back Sino-Russian cooperation in the Far East, while investors willing to take a chance in North Korea have become even scarcer. It seems clear that Russia will not be the balancer of China that Pyongyang had hoped for.

Beijing's opprobrium over Pyongyang's third nuclear test and execution of Jang Song Thaek has meant China is less interested than ever in supporting major projects in Rason or elsewhere in the DPRK, though China maintains its roughly *laissez-faire* stance toward Sino-Korean cooperation on smaller business projects.

Until priorities in Beijing, Pyongyang and Moscow change, efforts aimed at the integration of the Tumen region will continue to be stymied.

⁴² Both the road and rail line were damaged in severe flooding in August 2015. By November, it appears as if the railway has been repaired, while the road still has damaged sections.

⁴³ Estimates by people connected to Rason range widely, from "95% destroyed" to "just a bridge or two in need of repair."

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