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The Dilemma Lurking between the Planned Economy and the Border Market

Decoding the Sino-North Korean Borderlands, edited by Adam Cathcart, Christopher Green, and Steven Denney, provides in-depth discussion on why the China–North Korean border do matter and how the border region has been transformed into the land of promise or international interest as well as the land of peril. First, this book taps on theories on geography and borderlands and research methodology of Sino-Korean Border Studies. And then it mainly deals with topics in contemporary borderland economics such as the Rajin-Sonbong Special Economic Zone, the Tumen Triangle Subregion, industrial and trade policies, after reviewing the history of the Sino-Korean border region. Finally, it discusses the topic of human rights and identity in the region with an emphasis on North Korean defectors or border-crossers. Since any “border” has been one of the most controversial research topics in international politics and economics in the 20th and 21st centuries, “Asian borders” also became attractive targets as critical spaces for local, state, and international interactions. The Sino-North Korean borderland, which is located within the Yalu-Tumen border region, has different meanings for the states concerned, including China. For China, it is a once-proud model of social and economic development. Moreover, the space works as its political leverage over North Korea. For South Korea, China’s border region with North Korea is an area which can eventually contribute to the resolution of the Northeast Asian issues, including those surrounding the Korean peninsula.

According to the book, the Rajin-Sonbong Special Economic Zone, located in the Tumen River area, opened its doors to foreign investment in December 1991, with the help of the historical legacy of Rason—this city name was derived from deriving from the “Ra” of Rajin and “Son” of Sonbong—as a commercial hub. The Tumen Triangle Subregion, on the other hand, is described as the place where the contemporary post-Cold War aspirations for the economic development are overwhelmingly 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. As the North Korean economy is already working in line with the market economy mechanism, North Koreans' attitudes towards economy and trade are also changing. These changes, however, fundamentally imply a continuation of dilemma between the planned economy and the market. In theory, the market in North Korea has the advantage of partially improving economic efficiency and the living standard of the common people as a result of the state's tooling the market. However, the market under communism has side effects of neutralizing the communist system itself in the mid to long term and maintaining the imbalance in the industrial structure by distorting the country's economic growth strategy. The North Korean market has expanded in various forms for about 20 years since the economic crisis in the mid-1990s. Including the informal market where items such as gasoline and mobile phones are illegally traded, North Korea's marketization is expanding at a very fast pace, and the private services industry is also expanding in various sectors such as mining, fisheries, and manufacturing. It is confirmed that private companies in these sectors are operating export businesses in the name of state-owned companies or institutions. Despite the improvement of efficiency resulting from the expansion of the private sector in North Korea its conflicts with the government persist.

North Korean private companies are formally affiliated with state-owned companies but are managed on an individual or family basis. The formation and development of markets and money stocks lead to the accumulation of private property and naturally leads to the activation of various private financial transactions, creating self-employed and private companies. In the process, those private business activities are reportedly growing further through cooperation with Chinese companies in the border area, and private finance is also growing in close connection with private companies as well as individuals. The level of private finance in North Korea shows that the market economy mechanism, which is expanding in North Korea, is taking root in the consumption sector and gradually extending to the

production and finance sectors. However, the North Korean government's intention is to selectively accept marketization with the aim of normalizing the planned economy. Therefore, the North's transition to the market economy still seems a long way off. Nevertheless, what is clear is that whatever the government's intentions, North Korean economy is moving toward marketization and privatization. Marketization brings about market commercialization as an institutional change. Accordingly, in North Korea, businesses such as production, sales, and services are systematically carried out for profit, like in the market economy system. After going through voluntary and laissez-faire marketization in the 1990s, North Korea saw the emergence of relatively organized forms of economic activities in the 2000s in accordance with the market economy and capitalist principles.

The role of the market in North Korea is likely to be further strengthened because external conditions have worsened, as seen in the recent security crisis on the Korean peninsula and the restrictions on trade between North Korea and China. Due to the entry of the public sector into the market, the development of private finance, and the emergence of various business sectors, there is a possibility that conflicts between the state and the market will be intensified. The North Korean authorities are attempting to control private market activities conducted in various forms and spaces. Since the 7th Party Congress in 2016, individual companies which were illegally run under the name of state agencies have been searched and closed, and efforts have been continued to control the economic activities of illegal money changers by intensively cracking down on them. Still, the economy, particularly in the field of trade and investment, is an important means of bringing positive change in North Korea and establishing peace on the Korean peninsula. Given this, it is essential for the world to seek investment in the increasing private businesses or projects involving private capital in North Korea. In a similar vein, both South Korea and the international community should work together to come up with marginal but more effective economic cooperation. To conduct this by planned phases, the special relationship theory, which views inter-Korean relations for the past

30 years as a “tentative and special relationship toward unification,” should be changed. Inter-Korean relations should also be viewed as a normal relationship between countries as the two Koreas have signed 258 agreements for the past 50 years since the July 4 Inter-Korean Joint Statement in 1972 and sought ways to implement the agreements. It is necessary to institutionalize the agreements while efforts to secure the normative power of the agreements should continue. Although it may sound uncomfortable, the argument that North Korea is a separate country from South Korea and that North Koreans do not have South Korean nationality can pave the way for practical discussions on inter-Korean exchanges and reunification.. In this sense, this book provides inspiration and insight to scholars as well as domestic and international policymakers.

According to a recent study by the KIEP, promising industries in North Korea after unification are also likely to be born and grown in the North Korean border areas. The promising industries include export light industries centered on textiles and clothing, ICT manufacturing and service industries, and food processing and household goods industries targeting the expanded domestic market. In addition, some mechanical industries such as construction machinery and industrial machinery are also developing based on explosive construction demand, and related industries such as the construction machinery and the manufacture of cement and plastic products are also promising. In addition, the service industry, along with the light industry, can play a leading role in creating jobs in the North Korean border region. The automobile sector, which China is currently much interested in nurturing, may expand its production base for commercial vehicles and low-cost passenger cars based on increased demand and cost competitiveness due to factory automation in North Korea. The shipbuilding industry is another sector in which the North can trade skilled manpower with China based on its comparative advantage in terms of labor cost. If North Korea is to secure a mid- to long-term growth base by fostering new or high-tech industries with relatively good location conditions with the help of neighboring countries, cooperation

with South Korea would be essential in this process.

As the book states, the potential of the North Korean border area can be well-spotted in industrial terms. If the North Korean government implements an appropriate level of industrial protection policies through exchange rates or tariffs and lowers restrictions on foreign capital investment in the border area, it will help to induce foreign investment and develop industrial clusters in the borderland. Currently, North Korea's industrial facilities are very underdeveloped, and there are few competitive industries and companies. Foreign investment in North Korean enterprise zones may improve the nation's lack of industrial infrastructure in a relative short period of time and can be the starting point for its industrial development, including expansion of its consumer goods and services market. North Korea's relatively low wages could also be a strong incentive for foreign capital. Considering all these, for the industrial development of North Korea, it is important to secure a wide industrial base with international competitiveness in the border area. To this end, labor-intensive industries should be developed in the first phase, and policy efforts should also be made to increase the proportion of capital-intensive and technology-intensive industries in the second phase.

One thing to regret about this book is that it failed to address the opening of the International North-South Transport Corridor (INSTC) in Eurasia in dealing with North Korea's border economy and trade. The INSTC is a multimodal transportation network encompassing sea, road, and rail routes, which was established with the aim of promoting transport cooperation between its member states such as India, Iran, and Russia. The INSTC began operations in July 2022, following the completion of the pilot test of transporting the first Russian consignment to India via the INSTC corridors in June 2022. The Iranian state-run shipping company IRISL (Islamic Republic of Iran Shipping Line) also began its first transfer of Russian goods to India using the INSTC's Caspian Sea terminus corridor in the same month. The INSTC member states are expecting that the INSTC will reduce the transport time and costs associated with foreign trade and thus boost trade and economic cooperation between related countries.

Compared with the Suez Canal, the INSTC has advantages in terms of cost savings, considering the significant increase in maritime freight costs during the COVID-19 pandemic, and is likely to expand in connection with existing logistics corridors connecting Eurasia to the east and west. In this respect, the INSTC should be considered as an important factor that can affect the growth of North Korea's trade with other countries.

Having considered all these factors, I conclude that the unification of the two Koreas is difficult to be achieved without economic exchange and cultural solidarity, above all. Therefore, for the unification and integration of the Korean peninsula, as well as for the establishment of the economic and security community in Northeast Asia, it is needed to foster the shared perception that the development of the North Korean border based on mutual understanding between the two Koreas will eventually contribute to the resolution of the Korean peninsula and Northeast Asian issues.