

UNITED NATIONS
DEVELOPMENT PROGRAMME

Tumen River Area Development Programme
Phase III

PROGRAMME DOCUMENT

A: Context

Northeast Asia and Tumen River Area

Northeast Asia (NEA) is the Asian continent's last major economic frontier. The region comprises two sub-regions. The northern sub-region includes the Northeastern Provinces of China, Eastern Mongolia, the Far Eastern Provinces of the Russian Federation and the Democratic People's Republic of Korea. The southern sub-region includes the Republic of Korea (ROK) and Japan.

NEA is rich in human and natural resources that remain largely undeveloped. Russia's Far East in particular has vast forests with florae and faunae that make it a prime source of biodiversity. It also contains roughly thirty-five percent of the world's estimated natural gas reserves and is the main source of fish and seafood for the Russian Federation.

In the highly developed southern sub-region of East Asia, ROK and Japan are two of Asia's most industrialized nations and a major source of financial capital and advanced technology. The political economy of this region is defined by the continued state of war between the two Koreas as well as between the DPR Korea and Japan. Although tentative steps have been taken towards reconciliation, full realization of the region's economic potential is still dependent on improvements in the political situation.

Within this regional context, the Project's core region lies within the northern sub-region, where the Tumen River serves as the tri-lateral border of China, the Democratic Peoples' Republic of Korea (DPRK), and the Russian Federation. This area is referred to as the Tumen River Economic Development Area (TREDA) and includes the Rajin-Sonbong Economic and Trade Zone in the DPRK, the Primorsky Territory in the Russian Far East and the Yanbian Korean Autonomous Prefecture in Northern China including the Hunchun Border Economic Cooperation Zone. To develop TREDA and its broader hinterland, countries participating in the Project in 1995 agreed to cooperate in two country groupings: One covers all of Northeast Asia with China, DPRK, Mongolia, ROK and Russia as members (Consultative Commission). The other comprises the three riparian countries of the Tumen River, i.e. China, DPRK and Russia (Coordinating Committee).

The past decade's enormous political, diplomatic and economic changes in NEA fuel hope for increased regional cooperation. The Russian Federation has established positive relations with its Asian neighbors. China and the Republic of Korea established diplomatic relations in 1992 and now the two have become major trading partners. Most importantly, an historic summit meeting in Pyongyang held in June 2000 between DPRK National Defense Commission Chairman Kim Jong Il and ROK President Kim Dai-Jung suggests the start of reconciliation on the Korean Peninsula.

As a result of this summit, economic cooperation is increasing. There are now numerous exchanges related to business, tourism, culture, sports and humanitarian affairs including the first reunion of families separated for fifty years. The border liaison offices at Panmunjom were reopened in August 2000 and there is now a distinct possibility that major transport links between the two countries will be established including restoration of inter-Korean railway and road systems. Such changes would make it possible to link the entire Korean peninsula to the Russian and Chinese transport networks.

Peace and stability are essential ingredients for sustainable development. They are also essential to inter-country cooperation. There has been a sea change in the NEA political environment from the commencement of the Tumen River Area Development Programme (TRADP) in 1991 and the launching of Phase III in 2001. Such changes, of course, do not guarantee the success of a new project phase. Still, if sustained, they suggest opportunities for increased regional cooperation, reduction of barriers to trade, transport, and investment, and the establishment of an enabling environment conducive to development and improved quality of life.

B. Project History and Justification

Project Preparation

In July 1991 representatives from China, DPRK, Mongolia and ROK met in Ulaanbataar, Mongolia in a UNDP sponsored conference. At this conference, it was agreed among the countries that they would participate in a framework of economic cooperation, an agreement that eventually evolved into the UNDP funded Tumen River Area Development Programme. At the time, a heightened state of war existed between DPRK and ROK and diplomatic relations between China and ROK were non-existent. Hence, the major objective of TRADP during these formative years was to provide a neutral mechanism, which would encourage a dialogue among the member countries and hopefully lead someday to economic cooperation. There was the further hope that such cooperation would eventually encourage peace, stability and sustainable development for the Northeast Asia region as a whole and the Tumen River Area in particular -- a limited but highly ambitious objective.

Phase I and Interim Period

After operating for more than a year on preparatory assistance, Phase I of the TRADP was formally launched in September 1993 with the objective of creating a joint special economic zone to be built on land leased from China, Russia and DPRK. It was envisaged that some \$30 billion in infrastructure investment would be required for this international managed cross-border zone. However, despite studies and much discussion, this proposal never moved forward. There were reservations by Russia on land lease arrangements plus growing doubts by UNDP and other member countries that such an ambitious scheme, in an area so remote and sparsely populated, would ever succeed. These doubts were confirmed by a review commissioned by UNDP, with the result that the grand scheme was abandoned and the

programme reoriented. During an Interim Period (1995-96) the programme reversed course by adopting a greater focus on local area needs, leading to a number of micro-level interventions in the riparian countries and to a lesser extent Mongolia. At the same time, it led to three agreements, which have guided regional cooperation ever since.

Specifically, in December 1995 formal agreements were signed establishing the Tumen River Area Development Coordination Committee (in the following called the Committee) with membership by the three riparian countries, and the Tumen River Area Consultative Commission (in the following called the Commission) with membership of China, DPRK, Mongolia, ROK, and Russia. The Committee's purpose was to advance development of TREDAs; the Commission's purpose was to support development in TREDAs as well as the Northeast Asia region. Inaugural meetings were held in 1996 and both Commission and Committee have been supported in their work through a Secretariat operating out of Beijing.

In addition, in December 1995 all five members of the Commission jointly signed an MOU on environmental protection and agreed to formally apply for technical assistance from the Global Environment Facility (GEF). This has since led to a GEF supported project for the preparation of a Strategic Action Program and Transboundary Diagnostic Analysis (SAP/TDA).

Phase II

Phase II logically built on the achievements of Phase I while aiming to remedy its failures. It had taken the duration of Phase I to sign intergovernmental agreements needed to move the Tumen programme from a local development initiative to a regional framework of cooperation. Phase II aimed to operationalize these agreements through regular meetings by Committee and Commission, a Secretariat, and National Teams and Working Groups in each member country. At the same time, Phase I had shown only limited success in advancing the development of the Tumen Region. Hence, Phase II aimed to use the new regional framework of cooperation to advance development with a focus on trade, investment, and environmental management.

Much of this objective was achieved. A programme document was signed in 1997 and Phase II lasted for three years ending in December 2000. During this period:

- Regional cooperation has been institutionalized and implemented with regular meetings by Committee and Commission, the operation of a Secretariat and establishment of National Teams.
- Investment strategies and fora have been prepared and implemented, and resources mobilized for project implementation.
- An environmental agenda has been advanced, through GEF funding commitments for a strategic action plan and biodiversity projects in Russia and the DPRK.
- Trade and transit has grown with the opening of border crossings, construction of roads and railroad sections, and mitigation of non-physical impediments. Regular shipping services provide transit through DPRK and Russia and link China through TREDAs with ROK and Japan.

- Tourists from China now visit DPRK and Russia in large numbers, and tourists from ROK transit through Russia to China on regular ferry service, for trade and cultural tourism to Changbaishan (Paektusan).

Nonetheless, achievements have remained behind expectations. A full-scale independent evaluation during December 1999 -- while noting the above achievements -- concluded that initial expectations had been excessive, based on a vision not checked against reality. It also suggested that:

- Insufficient progress had been made towards country ownership and sustainability of the institutional framework of cooperation.
- The size of the Secretariat should be reduced in line with the self-financing capacity of participating countries. This could be implemented through increased country participation by National Teams and Working Groups in the implementation of workplans, and by streamlining Secretariat operations.
- There is a need to expand the regional scope of cooperation beyond the narrow focus on TREDAs.
- Resource mobilization for investment projects requires the prior preparation of pre-feasibility studies based on a realistic assessment of regional potential.
- It is essential that cooperating countries continue to include the five countries of the Commission in addition to the riparian three of the Committee.
- There is both a need and demand for further assistance from UNDP as expressed by member countries. However, this is justified only if member countries agree on increasing their own contributions and, as a result of this action, the framework for regional cooperation becomes sustainable.

Phase III

Preparatory Meetings: Since publication of the major findings of the independent evaluation, a meeting of the National Coordinators was held in October 2000 leading to an extensive discussion on lessons learned and future directions. At the meeting the National Coordinators agreed that:

- The Tumen River Area is too small to attract significant national and international interest, and the member governments should work to see the Programme in the larger context of Northeast Asia while also considering appropriate ways and means to associate Japan with the Programme.
- UNDP will remain involved in the Programme, but the nature and role of its involvement should change so that the member countries assume greater ownership of the Programme. In this respect, the roles of the Tumen Secretariat, National Teams and Working Groups need to be redefined and a clearer distinction be drawn between the Tumen programme and UNDP support.
- Existing Working Groups (WGs) should be maintained and a Communications WG be re-established. The Secretariat will prepare the terms of reference for the Communications WG in consultation with the National Teams.
- Member countries should take the lead in organizing WG Meetings, assisted by the Tumen Secretariat. The National Teams will agree which country/National Team will lead which WG.

- In order to avoid restricting the growth of the Programme, the Secretariat's administrative budget should be allowed to vary on a percentage basis rather than to be fixed in absolute terms.
- The Tumen Secretariat should continue to be staffed by national experts from member countries.

The October 2000 meeting was followed in early December by a Workshop on TRADP Project Formulation, organized by UNDP Beijing for National Coordinators. In addition to offering recommendations on institutional arrangements and the role of the Tumen Secretariat, each country team made suggestions for the goals and objectives for a new Phase III document. Moreover, the participants organized themselves into five working groups, which identified outputs and activities in the sectors of the environment, trade and investment, energy, transportation and communications and tourism. The presentations made at the meeting have guided the preparation of this project document.

New Directions: Regional development always is a long-term enterprise, and hence the need for regional cooperation will not cease with the current project phase. While Phase II was able to establish a viable framework for inter-country cooperation, this framework is not yet sustainable. Making it so is a key objective of Phase III, and it the justification for continued UNDP assistance.

In line with this argument, Phase III is designed to serve a dual objective. First, Phase III aims to strengthen institutional framework to become operationally and financially sustainable beyond the project horizon. This framework was negotiated during Phase I, agreed-to during an Interim Phase, and successfully put into operation during Phase II. It will be up to Phase III to assure the transfer of ownership and streamlining of operations that are essential ingredients of sustainability.

Second, the Project aims to contribute to the economic development of the region through concrete actions in five sectors -- trade and investment, transport and communications, environment, tourism and energy. This part of the Project is designed to complement the institution building objectives of Phase III, as institutional cooperation cannot be sustained without progress in the field.

The choice of sectors is based on member countries' identification of regional needs and opportunities, and is consistent with Project experience during Phase I and II. Specifically:

- The trade, transport and communications sector are essential to the aspirations of the region to open a new East-West corridor that reaches from Europe to the Russian Far East, DPRK and Japan. While much has been accomplished, borders remain a barrier to transport and trade, railroads do not operate, and essential road linkages remain incomplete.
- The investment sector is a necessary component of any regional development strategy, but particularly so in the Tumen Area, where regional infrastructure remains underdeveloped or underutilized, and where some member countries lack the enabling environment required to access international capital markets.

- Environmental, tourism and energy sectors have been included because of their combined potential for the development of the region. Specifically, the tourism sector often provides an early economic boost to underdeveloped regions and is a source of demand for infrastructure -- the same infrastructure also required for trade and industry. TREDAs already generates Chinese tourism to DPRK and Russian beaches, as well as ROK cultural tourism to Chang Baishan (Paektusan), though both require further support. The region's potential for international ECO tourism remains largely unrealized, both because of continuing physical and non-physical impediments and because of a lack of capacity of tour operators.
- The environmental sector is important to safeguard the region's diverse environmental resources in the face of growing development and potential for negative cross-border impacts. Implementation of the Environmental MOU agreed-to in 1995 remains largely unrealized, despite funding of several environmental projects.
- Lastly, the energy sector has been added to the list of priority sectors because of its significant potential for regional cooperation, particularly within the broader geographic scope of Phase III. While this potential was recognized in Phase I and II of the Project, several pipeline projects are now being considered consideration, and energy has become the dominant concern of some member countries.

C. Justification for UNDP Assistance

Proposed Phase III of TRADP closely fits UNDP's goals and objectives and responds to the needs and demands of participating countries. Given UNDP resource constraints however, special attention must be paid to the use of UNDP funds and the resource mobilization strategy.

UNDP Goals and Objectives: The project is consistent with the UNDP Strategic Results Framework (SRF) and the 1997-2001 Regional Cooperation Framework for the Asia and Pacific Region (RCF I). While RCF II (covering the years 2002-2006) has not yet been finalized, a preliminary reading suggests a high correlation with its focal areas as well.

- **SRF:** The Project contributes to three of the seven SRF¹ focal areas. Specifically, it contributes to (i) an enabling environment for sustainable human development by encouraging national, regional and global dialogue. It contributes to (ii) poverty eradication and sustainable livelihoods by widening development choices and encouraging policy, legal and regulatory reform to support private sector development. It contributes to the protection and better use of the (iii) environment and natural resources, by improving

¹ The seven focal areas are: (1) Enabling Environment for Sustainable Human Development; (2) Poverty Eradication and Sustainable Livelihoods; (3) Gender Equality and the Advancement of Women; (4) Environment and Natural Resources; (5) Special Development Situations (complex emergencies and natural, environmental technological and other human induced disasters); (6) Support to the United Nations; (7) Management.

regional capacity to monitor and assess environmental conditions and the improvement of regional capacity to coordinate and harmonize national policies of shared natural resources and sustainable energy development.

- **RCF I:** In line with RCF I strategy, the Project represents a link between regional and global initiatives, especially in the sector of trade and investment, and improves regional cooperation through the use of national and regional institutions. Outcomes and activities correspond to the RCF three major themes, the promotion of (i) human development and equity, (ii) environment and natural resource management, and (iii) enabling economic environment and public policy.
- **RCF II:** Preliminary discussions suggest an RCF II focus on (i) systems and institutions of governance, (ii) environmental sustainability, and (iii) globalization and economic governance. TRADP would contribute significantly to all three of these areas. Specifically, its environmental and energy objectives contribute to environmental sustainability including greater adherence to international conventions on biodiversity and climate change. Its emphasis on the harmonization of policies, laws and regulations should improve the region's systems of governance. Its trade, transport and tourism objectives are linked to issues of globalization and economic governance.

Continued UNDP assistance meets both a regional need and demand. There is a need, given the current state of the regional framework and its lack of sustainability and ownership. Further, the assistance appears justified, given the geo-political situation of the region and potential to deepen and quicken the pace of development on the Korean Peninsula.

There is a demand, as expressed by participating countries. One measure of the level of demand is the willingness of participating countries to support the Project with their own resources. In 1995 the five member countries agreed to contribute each \$25,000 to the operation of the Programme. The launching of Phase III represents a renewal of this agreement. In addition, the member countries have agreed to identify qualified national professional staff to be seconded to the Tumen Secretariat. To date, these secondments have been funded by the operating budget of the Secretariat. However, during the next three years, each member country will finance such secondments, and contribute staff to national teams, working groups and lead institutions. These commitments are substantial and the Project go-ahead is predicated on their implementation. While these commitments are still not sufficient to assure the eventual financial sustainability of the cooperation framework, member countries during Phase III will revisit the issue to decide jointly on additional measures to be taken during and beyond Phase III.

UNDP Resource Strategy: The decision to continue supporting the Tumen Programme is a critical one for the UNDP. Notwithstanding the overall resource crunch, a Programme such as Tumen has to demonstrate solid results and a true commitment on the part of the countries. There is no question of the need of such a programme, and a mechanism to be in place in Northeast Asia, especially at a time of rapidly developing political and economic reconciliation. However, eight years and over 8 million dollars in support are also a major consideration for the UNDP. The case for “hanging-in” with the Tumen Programme is strong, yet major resource mobilization and the support from Japan, both as a member of the

Tumen Commissions as well as in financial terms depends on improved political and economic reform among some member countries, which remain beyond the Tumen Programme control.

The widely circulated 1998 World Bank study on development assistance concluded that without a sound policy environment, sustainable development would not be achieved regardless of the commitment of money or effort. In short, policy makes the difference. In the case of the Tumen Programme, a corollary should be added. Attracting private and public investment is unlikely in the absence of sound project proposals. But even a sound proposal will not succeed in the absence of a sound policy environment. Therefore, the main target for UNDP programme funding in Phase III will be for those activities designed to encourage and assist policy makers from the member countries to identify and remove inter-country barriers, not as an end, but rather as a means of creating a policy framework for the region which will attract investment and lead to sustainable development. Part of this funding from UNDP will be for capacity building so there will be a common knowledge base among the policy makers to improve the dialogue and facilitate the decision process.

Regardless of the UNDP funding level for the project, it will not be possible to finance all the activities envisaged in the project without a substantial and successful resource mobilization effort. Over and above this type of funding, if bankable projects are produced, additional funding will be required for pre-feasibility and feasibility studies to say nothing of the enormous funds required to carry out the projects. In due course, if resources are not mobilized decisions will need to be made to cut back the number of activities envisaged. In any event, prioritizing of activities will be required. As indicated in the attached budget for the year 2001, UNDP funding will be apportioned between support for the Secretariat and programme activities.

D. Project Beneficiaries

The immediate beneficiaries are public sector agencies that benefit from policy advice and implementation; from the preparation of sector studies, action plans, and project proposals; and from the harmonization of national laws and regulations under their purview. These institutions include those involved with trade and customs, transport and communication, environmental protection, energy and tourism. Other immediate beneficiaries are the decision-makers and staff of these agencies, who benefit through training, participation in national and international meetings, and the exchange of ideas among colleagues in the region. Such cooperation often benefits both participating institutions and their staff. It raises awareness and improves an agency's capacity to respond effectively to national goals set by each country's government for the region and beyond.

The ultimate beneficiaries of the Tumen Programme are the people living in the Northeast Asia region, especially those living in poverty. They benefit in the longer term, as a result of declining poverty and economic growth, based on policies and an enabling environment

designed to facilitate development, raise employment opportunities, enhance human capacity, protect the environment and thereby promote peace and political stability. While many of these impacts are realized only in the long-term, some are immediate and expected by the end of the Project. The feasibility of such impacts is apparent from Phase II, which generated new trade, raised employment in the industrial, transport and tourism sector, and opened borders long closed to neighboring populations. There is little reason not to expect similar results at the beneficiary level during Phase III.

E. Project Strategy

The strategy for Phase III builds on existing agreements and the framework of cooperation already in place. Yet it modifies recent practice to assure greater ownership, efficiency, and sustainability, both as it relates to institution building and sector development objectives.

Institution Building: Member countries have agreed on a strategy that will:

- Raise the ownership and sustainability of the regional framework through greater reliance on WGs and Lead Institutions as key vehicles of regional cooperation. Countries jointly decide on the distribution of work, with each country assuming the lead in at least one sector.
- Raise the efficiency of regional cooperation by lowering the fixed cost of cooperation, particularly as related to the operation of the Secretariat. This involves experimenting with new and innovative forms of Secretariat staffing including at the management level.
- Raise the relevance of regional cooperation by expanding its scope to a broader geographic area within NEA. In the past, cooperation has focused on the relatively small area of TREDAs, often overlooking nearby opportunities and events. While such a focused approach had its advantages, particularly in a strategy focused on physical infrastructure, it works less well when dealing with non-physical impediments, laws, and regulations that apply to larger areas.
- Raise financial support for the regional framework to assure greater self-sufficiency. Member countries are committed to continue past contribution levels during Phase III, but are aware of the need to mobilize greater resources in the longer term, if cooperation is to be sustained without UNDP funding. Phase III will reach agreement on financial sustainability.

The Project supports these aims through capacity building for Secretariat, WGs, and lead institutions. Key capacity building needs likely will be in the area of sector and project analysis, project promotion and resource mobilization, project monitoring and evaluation, sector programming and action planning, and workplan preparation, reporting, and monitoring. The Project will assist with some of these needs, in line with available resources, based on the following principles and approaches:

- **Appraisal of Capacity:** Capacity building and training should not be ad-hoc. While there is general agreement on the need to build capacity at WGs, Lead Institutions, and possibly,

the Secretariat, the need of these institutions may have to be appraised and specific capacity building measures agreed-on.

- Pilot activities, Studies: While member countries agree on the need to put cooperation on a more sustainable footing, the precise implementation of reforms remains to be decided, particularly as it relates to cooperation among WGs, financial self-sufficiency, and geographic scope. The Project supports the implementation process through studies, pilot activities and capacity building.
- Type of Capacity Building: All capacity building will be practice oriented. Training will integrate participant's current job assignments into study materials. Consultancies use on-the-job training as part of their assignment. Studies and reports are prepared jointly by requesting organization and consultant to raise ownership.
- Demand Principle and Own Resources: To assure the ownership and priority of Project activities, assistance should be (i) requested by several countries, (ii) it should receive support from countries' own resources, and (iii) it should be designed to enhance sustainable regional cooperation.

Sector Coordination: Phase I and II already prepared a wide range of sector studies, projects, and policy interventions dealing with investment, trade and industry, infrastructure, the environment, natural resources and tourism. Yet significant impediments to regional integration remain; regional development has been slower than hoped for; and investment goals have not been met. While some of this failure can be attributed to unrealistic expectations, at least part of the problem has been a lack of country ownership of the development agenda in terms of its priorities, workplan, and backing received from member countries. In line with this argument therefore, Phase III makes country Working Groups the principal agents of sector cooperation, assisted by Lead Institutions responsible for research and studies. Consider first the implementation strategy common to all sectors, followed by comments on strategy in each sector:

- Cooperation with Other Donors: Whenever possible, the Project will work with other donors, an approach already in place in the investment, tourism, and environmental sectors.
- Resource Mobilization: UNDP funds are not sufficient to implement more than a fraction of the Project's total sector agenda. Hence, UNDP funds should be seen as seed funds designed to mobilize additional resources, whether from member countries, private sector, or bi- and multi-lateral donors. To facilitate resource mobilization, the Project will assist with the identification of donors, the preparation of sector and action programs, and project preparation.
- Sector Programs and Action Plans: For each sector, the Project supports the preparation of sector reviews, sector programs, and action plans -- as appropriate based on prior work. Most donors prefer to fund projects that are justified in terms of their contribution to an overall strategy and hence, such plans complement the Project's resource mobilization strategy. During Phase II several action plans were prepared, yet with limited idea as to how they might be implemented. These earlier plans may require updating and prioritization. All sector plans review national sector plans, opportunities for regional cooperation and removal of impediments, and the potential and need for harmonization of policies, laws and regulations.

- **Project Identification and Evaluation:** Priority projects will be prepared to the pre-feasibility level. This deviates from earlier practice, which tended to identify projects at the concept level with little analysis. As a result, it was difficult to obtain funding, particularly from the private sector. Phase III will support training in project preparation and evaluation, but will do so in a manner that benefits all sectors rather than with a sector focus.
- **Private Sector Support:** The private sector is key to the development ambitions of the region, but its concerns and impediments sometimes have not been given the needed priority. Attention to private sector concerns will be a key element of all plans, and the Secretariat will be strengthened to provide greater private sector support.
- **Incrementalism:** Phase III will aim at staged development, whereby each additional development stage is based on the proven demand for the previous stage. While not always the most efficient, a gradual approach is considered appropriate now, given limited resources and a lack of success with more ambitious development schemes. This shift to incremental development may not be equally appropriate to all sectors. In the energy sector in particular, decisions on the location of pipelines, and whether or not to build a pipeline, do not lend themselves to gradualism.

Sector specific strategies are as follows:

- **Trade:** Despite much prior attention (including a detailed inventory of trade and transport flows) trade remains inhibited by physical barriers, high transport cost, and lack of standardization and harmonization of regulations and practices. The focus will be on customs harmonization and cooperation, efficient custom procedures, and improved collection and use of trade statistics.
- **Investment:** Despite much past investment promotion, the level of resource mobilization has been limited. The focus will be on establishing a country capacity for investment promotion (TRIS), including a capacity to prepare, monitor and evaluate marketing strategies; and to respond to investor needs and advocate on their behalf. It also includes the harmonization of investment laws and regulations, and the capacity to develop and analyze projects.
- **Transport and Communication:** Private investors have made significant investments in the Tumen region, expecting infrastructure that has not arrived -- leading to a loss of trust that may negatively impact investment decisions for years to come. The sector focus must be on reliability in planning and implementation, improved coordination across member countries, and innovative methods of resource mobilization.
- **Energy/Natural Gas:** The sector is critical to the development of several member countries -- to the Russian Federation as a supplier of natural gas, to DPRK as a priority sector for its national development, and for China in its aim to reduce dependency on coal. The Chinese NE has large coal resources and already exports to Japan. Mongolia is the potential site of gas transmission lines from Siberia to China. Given the magnitude of possible projects and deals, it is not likely that Tumen Committee or Commission will become central to the planning and decision making process. The sector focus therefore is on supporting exploratory planning, mainly in coordination with national institutions.
- **Tourism:** The Project focus is on the agreement for a joint tourism strategy, preparation of an action plan, and capacity development of tour operators.

F: Logical Framework

Development Objective: Creation of a regional policy framework for the Northeast Asia Region, which will attract investment and foster sustainable development.

Immediate Objectives, Outputs, Indicators and Activities: There are six immediate objectives, one aiming at strengthening the overall institutional framework of regional cooperation, and another five aiming at each of the five sectors.

Immediate Objective 1: Regional Institutional Framework for Cooperation
Institutional capacity for regional cooperation strengthened to be financially and operationally sustainable.
Success Indicators
a. Annual workplan prepared by regional institutions, agreed-to, implemented and monitored. b. Financial sustainability targets reached: 20, 40, and 50 percent of the operating budget of WGs and Secretariat funded by non-UNDP sources in 1 st , 2 nd , and 3 rd project year respectively. c. By the end of the Project, Secretariat and Working Groups able to operate without technical assistance.

Outputs

1.1 Operating capacity developed throughout Regional Cooperation Framework in line with revised responsibilities of WGs, Lead Institutions and Secretariat.

Success Indicators

- Secretariat independently:
 - organizes CC Meetings and follows up on member country priorities.
 - prepares overall workplans and monitors and reviews their implementation.
 - has mobilized resources for at least two projects.
 - has established services used by foreign investors in the region.
- Working Groups prepare and implement annual workplans.

Activities

- 1.1.1 Assist in organizing relevant inter-country meetings.
- 1.1.2 Assist in facilitating and coordinating regional cooperation through National Teams, WGs, Lead Institutions, and liaison with governments.
- 1.1.3 Assist in establishing WGs and Lead Organizations.
- 1.1.4 Prepare TOR for WG and Lead Organizations in line with new responsibilities.
- 1.1.5 Annually monitor WG performance for use in capacity building program.
- 1.1.6 Review capacity of WGs and Secretariat and establish training program and methods.
- 1.1.7 Implement capacity building program.

1.2 Capacity established for policy coordination and project preparation.

Success Indicators

- At least 10 projects prepared at prefeasibility level consistent with sector objectives.

Activities

- 1.2.1 Review capacity of WGs and Secretariat for policy and project preparation, monitoring, and evaluation; identify capacity building needs and prepare recommendations consistent with institutional sustainability.
- 1.2.2 Develop consensus on capacity building program for policy and project analysis.
- 1.2.3 Develop capacity in policy and project analysis and evaluation through demonstration activities, training, and workshops.

1.3 Resource mobilization strategy prepared and capacity established at Secretariat.

Success Indicators

- Resource mobilization strategy agreed on.
- Secretariat has mobilized resources for at least 3 projects.

Activities

- 1.3.1 Based on Phase II proposals (incl NEATIC) and experience, prepare strategy paper and action plan for TRADP resource mobilization to fund infrastructure and directly productive projects in TRED and NEA.
- 1.3.2 Strengthen resource mobilization capacity at Secretariat and appropriate other institutions through training and demonstration.
- 1.3.3 Attract resources for pre-feasibility studies and investment projects.

1.4 Regional scope of Cooperation Framework expanded to Northeast Asia.

Success Indicators

- Agreement reached on policy issues in an expanded geographic area.

Activities

- 1.4.1 Prepare issue paper on opportunities to expand geographic scope of TRADP.
- 1.4.2 Obtain agreement among participant countries on regional scope and issues.
- 1.4.3 Integrate expanded regional scope into sector themes.
- 1.4.4 Develop network of relationships at expanded NEA level.

1.5 Secretariat capacity for marketing and promotion of the Tumen Region strengthened.

Success Indicators

- Web site updated at least twice annually
- Newsletter published bi-annually
- Regular donor liaison in place

Activities

- 1.5.1 Review the need and opportunity for marketing and promoting the Tumen Region, and make recommendations.
- 1.5.2 Implement the recommendations of the marketing study pertaining to the web site, newsletter, promotional material, investor services, and donor liaison.

1.6 Regional framework strengthened to be financially and operationally sustainable.

Success Indicators

- 50 percent of budgetary needs covered by member resources.

Activities

- 1.6.1 Prepare and discuss plan for the financial and operational sustainability of the TRADP regional framework, including Secretariat and Working Groups.
- 1.6.2 Reach agreement on plan for financial and operational sustainability, and prepare needs assessment for capacity building.

Immediate Objective 2: Trade and Investment
Harmonization of trade and investment policies, laws, and regulations increased within TREDA and Northeast Asia.
Success Indicators
a. Investor inquiries doubled in three years. b. Investment and trade each doubled in three years.

Outputs

- 2.1 Professionally staffed Tumen River Investor Service Centers (TRIS) established and operating with regularly updated Web pages and use of INTERNET and INTRANET facilities.

Success Indicators

- Web page launched receiving at least 500 hits and 50 direct inquiries per month.
- Web page successfully updated by each TRIS Center at least twice annually.
- Promotional activities with 20-30 potential investors held by each TRIS Center at least once annually.

Activities

- 2.1.1 Establish TRIS Centers at the regional level and in member countries with the function to (i) assist investors, (ii) prepare investment strategies, (iii) promote investments by the public and private sector, and (iv) assist in creating an enabling investment environment.
- 2.1.2 Strengthen TRIS Centers through backstopping, advice and demonstration, monitoring and evaluation.
- 2.1.3 Establish monitoring and evaluation capacity at TRIS Centers, and advertise investment success stories.
- 2.2 Bankable project proposals marketed to attract investment from bi- and multi-lateral donors, private investors, and government funds.

Success Indicators

- At least 5 projects actively marketed at pre-feasibility level.
- At least 2 projects evaluated by potential investors at feasibility level.

Activities

- 2.2.1 Work with WGs, lead institutions and others, to bring sector projects to market.
- 2.2.2 Promote and market selected projects.
- 2.2.3 Regularly monitor and evaluate marketing, promotion, and implementation successes and failures, and develop lessons learned and recommendations.

2.3 Investment and trade impediments reduced through harmonization of laws, procedures and institutional arrangements.

Success Indicators

- Selected trade flows increased by 30 percent relative to Year 2000 levels.
- Agreement reached on remedies for five investment and trade impediments.

Activities

- 2.3.1 Update Phase II status reports on trade and investment impediments at the national, regional and international level, including recommendations to reduce them.
- 2.3.2 Implement WG meetings to agree on priority proposals to harmonize trade and investment policies and procedures.
- 2.3.3 Assist in reduction of trade and investment impediments.
- 2.3.4 Establish database on trade and investment at the Secretariat (with assistance of Lead Institutions), including indicative trade and investment flows, policies, and regulations.
- 2.3.5 Seek and facilitate participation of investors (particularly from the private sector) in the established mechanism of trade and investment negotiations.
- 2.3.6 Monitor and evaluate progress on policy harmonization and its impact on trade and investment, and inform member countries.

2.4 Member country capacity enhanced for the entry into international financial institutions, World Trade Organization and advancement of regional cooperation.

Success Indicators

- Workshops held and positively evaluated.

Activities

- 2.4.1 Identify priority needs and prepare proposals for capacity building including training schedule.
- 2.4.2 Provide training workshop on WTO entry, implemented by PRC and ROK within framework of south-south cooperation.
- 2.4.3 Organize consultative meeting(s) between TRADP member countries, World Bank and the Asian Development Bank on trade and investment opportunities in NEA/TREDA.

Immediate Objective 3: Transportation and Communication
Regional system of transport and telecommunications planning and implementation established for NEA/TREDA in response to economic development objectives and opportunities.
Success Indicators
<ul style="list-style-type: none"> a. Transport and telecommunication action plans agreed by member countries. b. Working Groups on transport and telecommunication meet regularly based on sustainable funding. c. Resources mobilized for elements of regional infrastructure network.

Outputs

3.1 Regional Physical Transport and Communication Plans updated and priority infrastructure projects identified to strengthen the regional transport and communication network.

Success Indicators

- Agreement on priority regional infrastructure projects

Activities

3.1.1 Review transport and telecommunication situation, and update Phase II plans, projects and priorities.

3.1.2 Agree on action plan and priority projects and issues.

3.2 Resources mobilized for agreed infrastructure projects and studies prepared.

Success Indicators

- At least three pre-feasibility studies funded and implemented.
- At least one project negotiated for feasibility analysis and possible implementation.

Activities

3.2.1 Develop and agree on realistic finance strategy for infrastructure projects (consistent with agreed investment strategy under Output 2.3).

3.2.2 Select regional infrastructure projects in line with action plan priorities (Output 2.1) and implement as pilots for finance and implementation strategy.

3.2.3 Organize and implement promotional activities to market priority projects for prefeasibility or feasibility studies, and implementation.

3.2.4 Prepare concept, prefeasibility and feasibility studies.

3.3 Bi-lateral and multi-lateral agreements for the reduction of cross-border impediments.

Success Indicators

- At least five areas of cross-border impediments documented and actions for mitigation or reduction proposed.
- Agreement reached on the mitigation of at least two significant cross-border transport, transit or communication impediments.

Activities

3.3.1 Prepare review and recommendations on transport and communication impediments related to fees, custom operations, cross-border cooperation, trade and transport laws, procedures, regulations and documentation.

3.3.2 Hold joint discussions on the reduction of impediments, prioritize areas for cooperation and agree on a plan of action and annual workplan.

3.3.3 Hold regular WG Meetings to implement bi- and multi-lateral agreements on passenger and cargo transport and transit, customs and cross-border cooperation, transit tariffs and fees, reciprocal fee waivers, and visa arrangements.

3.3.4 Develop and implement capacity building programs for relevant customs, transport and trade institutions and their staff.

3.4 Telecommunication Working Group for TREDAs operational and Communication Action Plan agreed-to.

Success Indicators

- Working Group meets regularly and has agreed on priority areas for policy harmonization.

Activities

- 3.4.1 Establish Telecommunication WGs and Lead Institutions and their methods of cooperation.
- 3.4.2 Identify priority areas for improvement of the telecommunications sector.
- 3.4.3 Hold joint discussions to harmonize national communications development strategies and to develop a regional communications framework.

Immediate Objective 4: Environment
Environmental MOU is operationalized with regard to air pollution.
Success Indicators
a. Program to measure and monitor air pollution discussed and approved b. Donor funding for implementation of air pollution monitoring is being sought. c. Policy framework for on transborder air pollution approved

Outputs

- 4.1 An agreed decision-making framework developed for transboundary air pollution control in TREDNA/NEA.

Success Indicators

- Program to monitor air pollution discussed and agreed at TRADP level
- Air pollution data and issues shared on a regular basis
- Regional database of air pollution sources and emission accessible to member countries

Activities

- 4.1.1 Review national air pollution efforts (data, monitoring methods, standards, and sources), prepare regional inventory and exchange information papers (WGs, LIs).
 - 4.1.2 Meet to discuss national air pollution policies and data and agree on common regional inventory database (WGs, LIs).
 - 4.1.3 Develop integrated regional database for NEA air pollution (WGs, LIs).
 - 4.1.4 Assess national numerical air pollution models, develop regional model of transboundary air pollution, and calibrate model to common NEA regional database (WGs, LIs).
 - 4.1.5 Use regional model of transboundary air pollution for impact and policy analysis (WGs, LIs).
 - 4.1.6 Meet to discuss regional database and model results, including priority actions (WGs, LIs).
 - 4.1.7 Prepare proposals for external funding to develop a mitigation strategy for transboundary air pollution in NEA (WGs, LIs).
 - 4.1.8 Prepare an action plan and project proposals
- 4.2 Framework for public-private partnership on clean production established.

Success Indicators

- Donors support at least two project studies with environmental focus
- Report prepared on lessons learned and recommendations for sustainable framework of public-private partnership

- Environmental WGs meet annually establishing a workplan and incremental agreements.

Activities

- 4.2.1 Implement consultative meeting involving governments, donors and business groups to assess interest in environmental projects.
- 4.2.2 Hold periodic consultations between TREDAs and GEF Working Groups/lead institutions to ensure complementarity of respective workplans and policy objectives.
- 4.2.3 Prepare project studies on the prevention, mitigation or reduction of environmentally hazardous development activities.
- 4.2.4 Facilitate implementation of projects with environmental benefit.
- 4.2.5 Study lessons learned and assure sustainability of environmental framework for public-private partnership.

Immediate Objective 5: Energy Sector
Accelerated development of natural gas transport and utilization in NEA through removal of non-physical barriers.
Success Indicators
<ul style="list-style-type: none"> a. Gas utilization impediments discussed and action plan for removal accepted b. Sector meetings on gas transport and utilization institutionalized among countries concerned

- 5.1 Energy Working Group operational and Action Plan developed for increased utilization of natural gas across region.

Success Indicators

- Working Group meets regularly and has agreed on priority areas for policy harmonization.
- Action plan prepared and agreed.

Activities

- 5.1.1 Establish Energy WGs and Lead Institutions and their methods of cooperation.
- 5.1.2 Review existing status and future opportunities for NEA natural gas transport and utilization, including non-physical barriers.
- 5.1.3 Implement consultation among concerned countries and prepare common strategy for transportation and utilization in NEA.
- 5.1.4 Based on agreed strategy, prepare action plan to reduce barriers to natural gas transport and utilization as related to national laws, regulations, and institutions.

- 5.2 Capacity of national institutions established to cooperate on energy policy in the region.

Success Indicators

- Cooperating Energy WGs meet annually to set workplan and prepare incremental agreements.
- Independent operators have started negotiations on a trans-border energy project.

Activities

- 5.2.1 Review relevant national public and private sector institutions, including their mandate and capacity to participate in international energy cooperation.
- 5.2.2 Develop proposals for cooperation, and identify capacity building needs and strategy.
- 5.2.3 Facilitate cooperation through training workshops and seminars.
- 5.2.4 Facilitate cooperation through studies on national laws, regulations, practice, and institutional arrangements in line with best international practice.
- 5.2.5 Establish lessons learned and make recommendations on regularization of cooperative framework.

Immediate Objective 6: Tourism Sector
Reduction of physical and non-physical impediments to achieve a sustainable tourism network in the TRED/NEA Region (in conjunction with the existing SPPD Tourism Project)
Success Indicators
a. One cross-border eco-tourism tour with multiple destinations implemented.

Outputs

- 6.1 Demand-driven regional action plan for tourism proposed, agreed to, and under implementation.

Success Indicators

- Regional tourism plan prepared and agreed to.
- Regional tourism projects identified and feasibility established.

Activities

- 6.1.1 Assess existing and potential tourism demand (with WTO, ESCAP and PATA partners)
 - 6.1.2 Identify physical and non-physical impediments and regional remedies (SPPD Project funded by UNDP executed by World Tourism Organization).
 - 6.1.3 Identify (eco-) tourism investment opportunities in the region and seek funding.
 - 6.1.4 Facilitate a coordinated regional approach to tourism development, through the integration of local tourism plans into a regional action plan, and coordination of national policies.
- 6.2 Local Tour Operators with capacity to operate across national borders.

Success Indicators

- Cross-border cooperation between tour, transport and hotel operators implemented
- One tour package with multiple cross-border destinations implemented

Activities

- 6.2.1 Assess needs of local tour operators in light of regional action plan
- 6.2.2 Build capacity of tour operators through training, study tours, international exchange, preparation of a multi-destination package, and assistance to pilot activities.

G: Inputs

UNDP's input for three years is \$ 1,800,000. This covers the cost of the Consultative Commission and Coordination Committee Meetings, National Coordinators Meeting, sector Working Group Meetings, capacity building/training on trade and investment, resource mobilization, activities to facilitate various sector programme initiatives and funding of core project personnel.

Due to exceptional nature of the Programme, the budget of the Tumen Programme is only to be approved on an annual basis, dependent on the progress achieved as per Programme objectives, workplans and success indicators.

Member countries continue to contribute \$25,000 per annum for the duration of this project. Governments of participating countries will be requested to provide staff time for WG operations and Lead Institutions and other concerned government agencies. This includes in particular the time of the National Team Leaders and members of the National Teams.

The assistance from the Republic of Korea of the additional \$1 million provided through the UNDP ROK Trust Fund for this project will be funding priority projects of the region in support of the Tumen River Area Development Programme.

Additional commitment will also be sought from international donors and the private sector. The Project's resource mobilization strategy is described as Annex 4.

H: Risks and Prior Obligations

The TRADP is a complex and ambitious venture and its full success could be jeopardised by a number of factors including the following:

- Participating countries are not only partners in regional development but also competitors for international investment funds and trade. This may lead to tensions, should some countries benefit to a much greater degree than others. To reduce this risk, the Coordination Committee and Consultative Commission must aim to be fair in their establishment of priorities and formulation of Action Plans.
- Both the harmonization of policies and coordination of infrastructure projects require the sharing of information among participating countries. It may take more time than anticipated to build the trust and mutual confidence needed for this. Furthermore, information sharing could be seriously jeopardized if some countries feel that they are not receiving an equitable and fair share of Programme benefits as already discussed.
- Environmental impacts may not be symmetrical, and their mitigation or reduction may require unequal sacrifice among member countries, making environmental agreements and even data gathering difficult.

- One or another country, in its eagerness to accelerate economic growth, may place a lower priority than others on the protection of the environment, reduction of poverty and human development -- making it difficult to reach agreement on sector programs. A remedy may be for the Coordination Committee and Consultative Commission to establish up-front clear guidelines, and to review and monitor their implementation with the authority to initiate remedial action.
- Governments may lack the political will or resources necessary to assure the financial and operational sustainability of the project. This may be the case in particular, if project success did not match expectations. One possible remedy consists of the close annual monitoring of progress made, so that deficiencies both in project success and in reaching sustainability objectives are caught early for immediate corrective action.

I: Management and Institutional Arrangements

The governance structure established for the management of the Tumen Programme is composed of two international organizations, the Tumen Secretariat, National Coordinators and Working Groups. The two international organizations were established by international agreement and their roles and responsibilities as specified in those agreements will be summarized below.

The Consultative Commission

The Consultative Commission for the Development of the Tumen River Economic Development Area and Northeast Asia is composed of the three riparian countries as well as Mongolia and the Republic of Korea. The Consultative Commission is to: 1) foster support for development of Northeast Asia and the TREDAs; 2) promote consultation with mutual understanding and benefit among peoples and countries of Northeast Asia and the TREDAs; 3) provide economic, environmental and technical cooperation in Northeast Asia and the TREDAs; 4) identify common interests and opportunities for cooperation and sustainable development; and 5) promote investment in Northeast Asia and the TREDAs.

The Coordination Committee

The Tumen River Area Development Coordination Committee is composed of representatives of the three riparian countries, viz. The People's Republic of China, the Russian Federation and the Democratic People's Republic of Korea. The Coordination Committee is to: 1) consult on social, legal, environmental and economic issues; 2) provide coordination on such issues in relation to the sovereign rights of member countries; 3) provide coordination for economic development of the TREDAs; 4) provide advice on economic development of the TREDAs; 5) provide coordination for other intergovernmental bodies established by member countries to engage in development of the TREDAs; and 6) provide advice to such intergovernmental bodies.

The Tumen Secretariat

The Tumen Secretariat is to: 1) provide advice, support and service to the Coordination Committee and Consultative Commission, and to any Working Groups or other subordinate bodies which they may establish in the formulation and implementation of the Programme's Action Plans; 2) facilitate execution of contracts between UNOPS and agencies, consultants and other institutions providing such services as may be required under the Action Plans; 3) act on behalf of the participating governments and UNDP in the mobilization of resources for the implementation of the Action Plans; 4) support the work of the Tumen River Investment Service Centres (TRIS) to be established, including the organization and conduct of investment seminars and other investment related activities; 5) disseminate information on the progress of Programme issues that need attention to all concerned parties; 6) carry out such other activities as may be requested by the Coordination Committee and Consultative Commission for the achievement of the Programme goals and 7) promote the 'ownership' and support of the Tumen Secretariat and other subordinate bodies by the participating governments.

National Coordinators

National Coordinators are the Tumen Programme focal points within each of the five countries. They provide the day to day interface between their governments and the Tumen Secretariat, lead agencies, Working Groups and UNDP.

Working Groups

Five Working Groups will be operational in each of the five countries. These Working Groups will focus on the five sectors described in Section C. They will be composed of policy makers from line ministries. In the future, they will also include representatives of lead institutions, which have a specific focus on a particular sector. These lead institutions are to be identified in each of the countries. The Working Groups will meet jointly in meetings to be organized by the Tumen Secretariat. Day to day contact among the Working Groups will be facilitated through the use of the Internet.

J: Monitoring and Evaluation

The project will be subject to a joint review by the Consultative Commission, Co-ordination Committee, UNDP and UNOPS one year after the project starting date. The Head of the Tumen Secretariat will prepare and submit to the review meeting a progress report. National Teams will be responsible for providing such inputs as may be required for this purpose to the Tumen Secretariat.

The project will be subject to evaluation eighteen months after the starting date, the terms of reference of which will be determined by the parties to the Phase III Project Document.

The Tumen Secretariat will report in writing bi-monthly on progress on funds mobilisation to the Chairman of the Consultative Commission and Co-ordination Committee (or Chairmen, as appropriate). Draft agendas, background papers and other documentation will be distributed to governments for their consideration and further action at least four weeks prior to any meeting or other Programme activity.

Draft Terms of Reference for consultancies will be distributed to governments sufficiently in advance to allow necessary contractual and logistic/arrangements to be made in a timely fashion.

Copies of consultants' reports, minutes of meetings, papers tabled and other documentation will be distributed to governments as soon as practicable after the conclusion of the activities concerned.

Member governments, in turn, have a responsibility to respond without undue delay to requests made by the Tumen Secretariat for information or assistance, and to provide any comments.

H: Legal Context

This programme document shall be the instrument referred to as such in Article I, paragraph 1 of the Standard Basic Assistance Agreement between the Governments and territories participating and the United Nations Development Programme. The host country implementing agency refers to the government cooperating agency described in the agreement.