



Asia-Pacific
Economic Cooperation

2007/ASCC/1.3

Session: Shaping APEC – Regional Impacts

1.3.3

Current State and Prospects of Northeast Asian Development

Purpose: Information

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**Annual Conference of APEC Centres
Melbourne, Australia
18-20 April 2007**

In this report, the term Northeast Asia is primarily used to signify the sub-region consisting of six countries and regions, i.e. China's three northeastern provinces, Japan, the ROK, the DPRK, Mongolia and Far Eastern Russia. These countries and regions are endowed differently with natural and human resources and have a big potential benefit from international division of labor. However, they have been constrained by their different political and economic regimes and have failed to implement economic development cooperation among themselves. All of these countries and regions, apart from the DPRK, have sent regular participants to attend the Northeast Asia Economic Conference, which is organized by ERINA, in order to discuss cooperation in the development of this sub-region. This conference adopts a Track Two approach, with researchers and participants from the worlds of industry and local and central government attending in a personal capacity.

Today, while globalization is progressing, resulting in the brisk movement of goods, money and people across borders, regional cooperation focused on close economic cooperation among neighboring countries and regions is also growing across the globe. In East Asia as well, the momentum for regional cooperation has enhanced in the recovery process from the 1997-8 Asian financial crisis as witnessed in bilateral free trade agreements (FTAs) and ASEAN FTAs with China, Japan and the ROK, as well as the ASEAN+3 cooperative framework and the East Asian Community concept. However, while Northeast Asia is included in East Asia, it is being left out of such moves and its economic development is also lagging behind. This is due in part to the fact that the demise of the Cold War has still not thawed out fully, while the DPRK remains isolated and there is ongoing tension with regard to security. However, it cannot be denied that different economic systems of the countries and regions concerned have also hindered effective cooperation.

Nevertheless, in the last few years, we have seen moves aimed at alleviating political and security tensions, such as the resolution of Eastern Border dispute between China and Russia, North-South talks on the Korean Peninsula, efforts to normalize diplomatic relations between Japan and Russia, and the Japan-DPRK Pyongyang Declaration. At the same time, the dynamic development of China's three northeastern provinces, which are located at the heart of this sub-region, has provided a momentum for greater economic dynamism involving the ROK, Japan and Russia as well. At the tripartite summit between Japan, China and the ROK, which was held at the expanded ASEAN summit in mid-January this year, it was agreed to conclude the Japan-China-ROK investment treaty as soon as possible, and hopes rose that cooperation between the three countries will intensify. On the other hand, the Six Party Talks, after stumbled by the DPRK's nuclear tests and missile launches, has recently agreed on the de-nuclearization of the DPRK in exchange for the aid of a million ton of petroleum but we cannot be entirely optimistic about its faithful implementation.

There has been shared by regular participants at Northeast Asian Economic Conferences for the past decade the need for a report on the common vision and tasks ahead in promoting cooperation for economic development of the region through its joint formulation and collective authorship. We expect it will help promoting economic cooperation in Northeast Asia. Joint editing will be undertaken by one representative of each of the five countries involved, with the secretarial assistance of ERINA. The report shall be disseminated widely both within and outside Northeast Asia in order to convey the information of current state and future prospect of its development.

This report is composed of two parts: visions of five countries and analyses of seven areas. Each country vision chapter describes its economy's current state and own development strategy and conveys what each country expects to achieve through cooperation in Northeast Asia. In issue analyses there are reported the current status of and future prospects of the seven key areas of cooperation - transport, environment, energy, tourism, trade and investment, Tumen River Area Development, and Development Finance, each of which has been discussed at Northeast Asia Economic Conference series for the past several years.

Policy proposals

(1) The necessity of participation by central governments

To date we have discussed the possibility of Northeast Asian economic development using a second-track formula, but, with the policies, institutions and systems of the five countries as they are, the move towards realization is bogged down, restrained by the countries' differences. It is necessary to launch into amendments and adjustments between central governments.

In particular, initiatives by the three countries of Japan, China and the ROK are inevitable. While the Japan-China-ROK summit meeting confirmed the strengthening of general cooperation between the three, we would like Northeast Asian development to be raised as one of the priority areas on its future agenda. .

Further, although policies have been created targeted mainly at this region, such as the *Policy for the Revitalization of the Northeast China* and the ROK's *Northeast Asia Business Hub Initiative*, they have not paid sufficient attention regarding incorporating cooperation or how they can be adapted to neighbor country's policies. In addition to the five nations' central governments mutual acknowledgement of the necessity for cooperation on Northeast Asian development, a cooperation framework should probably be constructed in order to create a multiplier-effect combining each country's efforts. Only Japan has not participated in the Tumen River Development Program, whose full-effectiveness has not emerged.

Moreover, it is desirable that the countries' central governments, give discretionary powers to some extent to the local governments directly involved in Northeast Asian development, and make it possible for cooperative initiatives adapted to the needs on the ground.

(2) What areas should get priority?

The areas of cooperation raised at this conference are all of equal importance for Northeast Asian development. However, it would be beneficial to divide up the areas for cooperation into areas where large-scale capital assistance from central government is essential, areas on which others are likely to depend on as their base for implementation, and areas waiting for the easing of current political and security constraints, and to make it clear what private enterprise can do, and what is essential for central and local governments to tackle, respectively. The seven key areas of cooperation raised in this report could probably be divided up in the following way.

The fundamental direction of the cooperation in development in each area should be agreed by central governments, but it comes to private enterprise and local governments to implement that cooperation in development. Central government deep involvement is vital in large-scale transportation and energy projects, or the development finance and exchange rates stability which support them. Although areas such as environment and such areas of a highly public nature as human resource development, medical care, science and technology, and the spread of IT, which were not discussed in this report, the participation of NGOs

representing the interests of the region as a whole and international organs is desirable. Additionally, a solution of the unresolved nuclear and abduction issues is vital for Japan to participate actively in the Tumen River development and transport projects which directly involve the DPRK.

(3) Cooperation in easing political and security constraints is essential

Between the five countries/regions there remain differences in political and security perception, and tension continues. We must not let up in continuing efforts to ease tension and putting joint benefit first through economic development.

While the necessity for the DPRK's integration with its neighboring countries is commonly shared, domestic reform policies and each country's response to them differ, and this has been the cause of stalled negotiations. Currently the solution of the DPRK nuclear and abduction problems has been raised, and its incorporation into Northeast Asian development cooperation is desired.

(4) Adherence to open regional cooperation

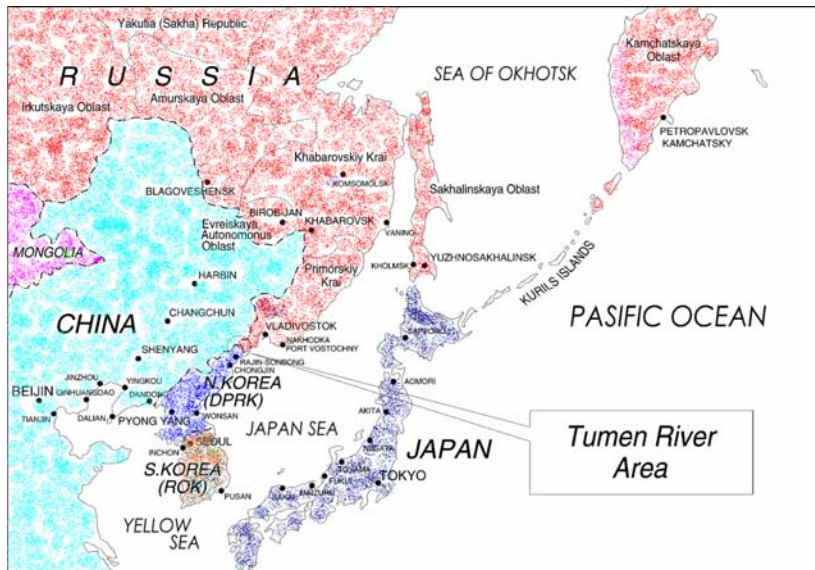
There are people in North America and Europe too who have a keen interest in the development of the Northeast Asian region and the adjacent area. We would like to call out to them. While central government participation is limited to five to six countries, we will create a region in which private enterprises can freely take part. The contribution to Northeast Asian development of North American and European businesses would be greatly welcomed. Northeast Asian regional development must be carried out in an open regionalism.

This is a combined draft of Introduction and Policy Proposal of the Joint Report on the Vision of Development and Cooperation in Northeast Asia, finalized at 2007 Northeast Asia International Conference for Economic Development in Niigata on February 5-7, 2007. The report was jointly edited by Choong Yong Ahn, Chair Professor, Chung-Ang University, Korea, Sukhbaaryn Batbold, Member of Parliament, Mongolia, Pavel Minakir, Director, Economic Research Institute FEB RAS, Russia, Shengjin Wang, Vice Principal, Jilin University, China and Ippei Yamazawa, former President, International University of Japan.

APEC Study Centre Conference 2007
“Driving Growth – APEC’s Destiny”
Melbourne, April 18-20, 2007
Session 1.3

Economic Development and Cooperation
in Northeast Asia
by
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2. Northeast Asia



3. Northeast Asian Economies

Year 2005	Population million	GDP US\$bil	GDP per Capita \$
Russia: Far East	6.55	24.08	3,676
China:Northeast	106.79	209.2	1,959
Mongolia	2.56	2.07	808
North Korea	22.71	20.8	916
RO Korea	48.29	787.5	16,291
Japan	127.76	4,565.4	35,734

4 Current Approach to Development

- NEA with its 315 million population and 5.6 trillion GDP
- Other fours lagged behind Japan and ROK
- Started in the 1990s, in the demise of cold war, on **two tracks**
- UNDP(1991): Tumen River Area Development Program
- NEA Econ Conference(1990) and NEA Econ Forum(1990): private sector & local gov'ts have had regular meetings for consultation

5. Complementary in endowment but severely constrained by political and security conflicts

FER and Mongolia are rich in energy and mineral resources, while China and N Korea have abundant labor.

But some moves aimed at alleviating these constraints in the 2000s.

- **Resolution of Eastern border dispute between China and Russia**
- **North-South Talks on the Korean Peninsula**

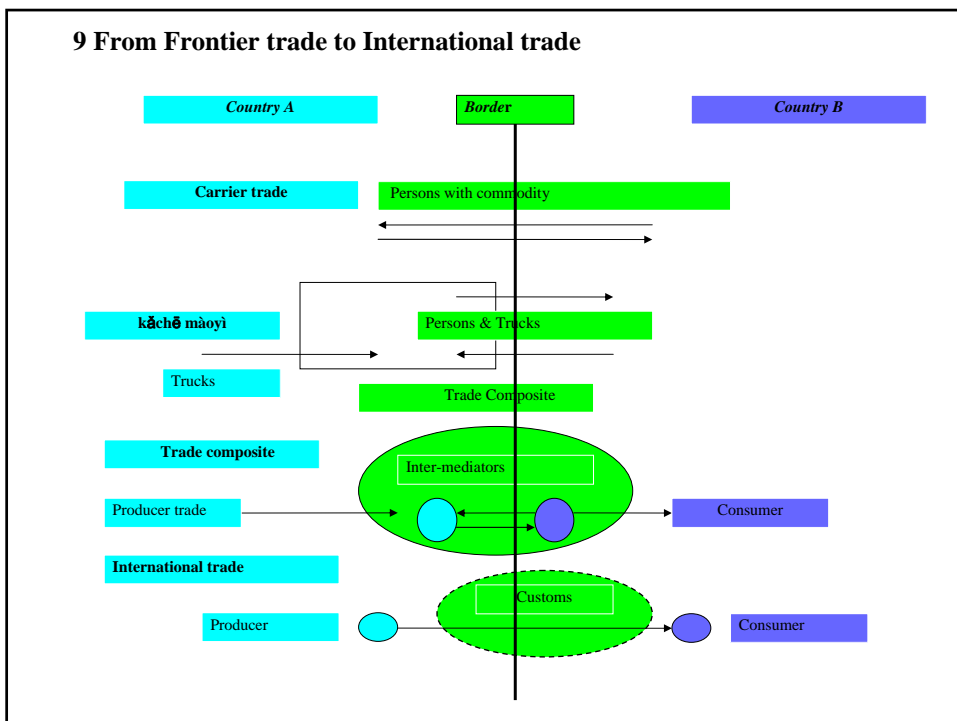
6. contd

- **Efforts to normalize diplomatic relations between Japan and Russia**
- **Japan- DPRK Pyongyang Declaration**
- **Six Party Talks on North Korea's nuclear weapons**
- **Bilateral coordination have been implemented between China-Russia, China-North Korea, ROK-North Korea to boost cross-border trade**

7. Trade Matrix (2004, \$mil)

	China NEP3	Russ FE	Mon	NKor	ROK	Japan	NEA	World	%
China NEP3		797	2	542	2879	6089	10309	24317	42
Russia FE	1607		-	21	671	1161	3460	6290	55
Mongolia	2	-		0	5	8	15	852	2.0
N. Korea	527	5	0		258	163	953	1280	74
ROK	2267	410	61	258		22063	25059	253125	9.9
Japan	5417	1145	74	89	46144		52869	565675	9.3
NEA TOT	9820	2357	137	910	49957	29484			9.5
World	23705	3386	1011	2280	22445 9	454816			
%	41	67	13	40	22	6.4			

9 From Frontier trade to International trade



8. Trade and Investment

- **Total trade dominated by Japan and ROK**
Other Three's intra-regional trade 42-74%,
while low for J(6-9), ROK(10-22), Mon(2-13)
- **Tariffs and NTBs remain high**
- **Traffic channels interrupted**
- **Cross-border transactions developed: C-R, C-NK, C-ROK, ROK-NK, via *Special Trade District, Gaesung Industrial Complex***

10. China, Korea, and Russia announced development policy for NEA

- **China: Northeast China Revitalization Program (2003-)**
- **Korea: Northeast Asian Business Hub (2002)**
- **Russia: Special Committee for Far East Development(2007)**
- **But they are not addressed properly to neighbors and lacks coordinating measures**
- **Need for multilateral consultation between central governments**

11. Toward region-wide specialization

- **Trade between China/Russia and Japan/Korea: exchange of resources goods for machinery/equipment and processing trade utilizing cheap labor in clothing, light machinery and foods**
- **Further expansion is promising**
 - **natural gas, petroleum, and lumber from Russia**
 - **rice from Sanjiang Plain of Heilongjian Prov.**

12. A concrete Step Forward

- **China organized Greater Tumen River Area Cooperation conference (2006-), extending it to Chongjin and Vladivostok**
- **J-K-C-R joint venture for launching *Northeast Ferry (Japan Sea Ferry)* linking Zarubino → Sokcho→Niigata→Zarubino once per week**
- **It connects *Tumen River Transport Corridor* with Asia Pacific**