
Keynote Address

Multilateral Cooperation in Northeast Asia in the 21st Century

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1. The Current Situation in the Northeast Asian Region

Northeast Asia is the region where the interests of four of the world's major countries; the U.S., Russia, China, and Japan, have been complicated since the nineteenth century, and the relationships among these four countries have largely determined the situation in the region. The picture is basically still the same in terms of the importance of the relationship among these major countries.

From that viewpoint, there is a level of stability in Northeast Asia today which has never been witnessed. This is because the possibility of direct conflict among the four countries of Japan, the U.S., China and Russia, has receded. There are two major factors responsible for this change.

The first factor is that the Cold War relationship created in the wake of the Second World War has been disappearing quickly. In other words, the U.S., Japan, Russia and China, as well as the two nations in the Korean Peninsula, were in the days of the Cold War divided into

two blocs; one that of the U.S., Japan and the ROK and the other of the Soviet Union, China and the DPRK. As a result of the end of the Cold War, the structure with the two opposing blocs in conflict in political, economical and social ideologies has disappeared, bringing about the possibility for opening a new future for Northeast Asia. Looking back over the past fifty years, we have seen conflicts of interest between these countries through the Cold War era. However, the diplomatic reconciliation between China and the U.S., in the 1970's, and China's reform and open policy, opened an air hole in their confrontational relationship, even in the Cold War era. Furthermore, in the 1990's, the collapse of the Soviet Union led to the end of the Cold War era, and brought forth an entirely new geopolitical environment.

The second factor is that the necessity for and possibility of cooperative relationships beyond the geopolitical relationships were generated in the rapidly

progressing mutual interdependence. The share of mutual trade volume among the U.S., Japan, China and Russia in the total trade volume of these countries is increasing each year. If each country seeks stronger economic relationships in Northeast Asia, it is beyond doubt that this deepening economic interdependence will be the basis for a cooperative relationship.

Therefore, the recent changes in relationships between Japan, the U.S., China and Russia have brought stability to the Northeast Asian region. However, this does not mean that problems have disappeared from the region.

If we focus, in the first instance, on the end of the Cold War, we still witness the conflict existing in the Korean Peninsula, which is lingering from the Cold War. Although there have been high expectations for a peace process since the recent dramatic inter-Korean summit, we still need to observe the process cautiously.

Secondly, in terms of the development of economic interdependency, we have to point out that although there is much development in the economy in the ROK and coastal areas of China with multilateral cooperation, the Russian Far East, the DPRK and Midwest China, including northeastern areas, are still not yet able to enjoy the fruits of prosperity. In this underdeveloped region, the Russian Far East is abundant with rich energy resources. However, despite the many development visions, none have been fully realized. Regarding the DPRK, thanks to the engagement policy of President Kim Dae Jung, we have witnessed dialogue between the DPRK and the ROK. Furthermore, General Secretary Kim Jong II of the DPRK has visited China repeatedly recently to see firsthand the results of the reform and open policy of China. We have to keep our eyes on the policies adopted under the Kim Jong II regime. Also, in Midwest China, the promoted national project, a major development in the west of China, has occupied attention.

Not only is there a lack of transparency in the Korean Peninsula, but also slow development in some parts of Northeast Asia, as I mentioned above, which acts as a destabilizing factor in this region. It will be very important for Japan, the U.S., China and Russia to cooperate with each other by setting-up a framework, so as to dissolve the factors that prevent stability. Through these efforts, we shall be able to see prosperity brought forth in Northeast Asia.

To realize prosperity in Northeast Asia as a whole, there are a number of issues we need to resolve. I would like to take up these issues one by one and deal with them in detail.

2. The Korean Peninsula

The first issue to take up is the prospects in the Korean Peninsula.

The confrontation in the north and south of the Korean Peninsula is the legacy still lingering from the Cold War era. The issue is how this will change.

The fact that the Korean Peninsula is the region where the interests of neighboring nations have crossed has not changed. It is true that the nature of the interests of these nations in the Korean Peninsula has changed compared to before. Should a superpower wield political and military influence in an unreasonable manner, this would not serve the interests of the stability of the region. For example, China, which regularly confronts the U.S.

over the Taiwan issue, may be concerned about the increasing influence of the U.S. in the Korean Peninsula. On the other hand, the U.S. and Russia may become nervous that China may strengthen their ties with the DPRK as allies.

In the meantime, there have been allied and friendly relationships across the military boundaries among related nations historically since the Korean War. In that sense, it is true that those related nations possess the common interest that they would like to avoid involvement in tensions associated with the escalation of hostilities between the DPRK and the ROK. Neither the U.S. nor China is willing to be involved in tensions in the Korean Peninsula. Rather, they intend to create an environment where there would be no danger in which they would be involved. In other words, in the post Cold War era, there have been two facets of the policies towards the Korean Peninsula of the four neighboring nations; making efforts to achieve the stability of the Korean Peninsula, and trying to avoid being involved in any military tension.

Here, the major related nations are greatly interested in the stability of the peninsula, together with the countries in the Korean Peninsula, and these nations possess a common interest in establishing a multilateral cooperative framework.

In relation to these issues, we have to examine the recent moves of the DPRK. In the past, the DPRK was deeply interested in negotiating with the U.S. to realize peace, rather than having dialogue with the ROK. However, since the inter-Korean summit last June, it has been the center of interest whether the DPRK has changed its basic position. Actually, this was the first such dialogue to take place since division, and that itself embodied great historical significance. At the same time, it was realized through the personal initiatives of the two leaders. President Kim Dae Jung and Kim Jong II, Chairman of the DPRK National Defense Committee, were able to establish the person-to-person relationship which gives high hopes for the future relationship in the peninsula. Besides atmospheric and symbolic significance, we need to be cautious when deciding whether the DPRK's intentions or policies after the summit last year are worthy of optimism in consideration of establishing peace in the peninsula. The "Joint Declaration", signed by the two leaders at the inter-summit, doesn't include any mention of the peace arrangement or the easing of military tension which the ROK strongly requested. Furthermore, although the "Joint Declaration" refers to the "July 4th North-South Joint Statement", it didn't mention the "Basic Agreement", which declares the establishment of peace and creation of military trust between the DPRK and the ROK. For these reasons, some in the ROK are critical of the "Joint Declaration".

On the other hand, in October last year, Jo Myong Rok, Vice Chairman of the DPRK National Defense Committee, visited the U.S. He had realized a meeting with President Clinton and Secretary of State Albright. He visited the U.S. as a special envoy of the Chairman of the DPRK National Defense Committee, Kim Jong II, which in itself reflected Kim Jong II's strong intention to improve the relationship with the U.S. In the "U.S.-DPRK Joint Communiqué", you can find what Kim Jong

II is hoping for with regard to the relationship with the U.S.

With regard to the establishment of peace framework, the " U.S. - DPRK Joint Communiqué " stated the following: " Both the U.S. and the DPRK have agreed that there are various ways, inclusive of the four-party discussions, in which to change the military ceasefire of 1953 to a permanent peace framework. " The statement saying " agreed that there are various ways " is supposed to mean that they had not reached an agreement. In other words, the U.S. may have argued that four-party discussions are the most effective framework for the establishment of peace between the ROK and the DPRK. On the other hand, it is possible that Jo Myong Rok was likely to insist on the establishment of a peace framework between the U.S. and the DPRK, because, if Jo Myong Rok accepted the peace set up and was favorable to the four-party discussions, they would not have expressed that they " agreed that there are various ways ". Rather, the four-party discussions would have resumed quickly. Observing that situation, it seems natural to think that the DPRK still seeks the establishment of peace framework with the U.S., rather than a peace set up with the ROK, even after the inter-summit.

The " U.S. - DPRK Joint Communiqué " stated that the U.S. and the DPRK agreed to realize the president of the U.S. 's visit to the DPRK. This indicates that the DPRK still views its relationship with the U.S. as the most important facet of its external policy, as opposed to improving the relationship with the ROK first. Kim Jong II welcomed Secretary Albright, who visited Pyongyang to prepare for President Clinton 's visit to the DPRK, which in the end was not realized. With this progress between the U.S. and the DPRK, the expectations of the ROK, which grew after the inter-summit, seem to have cooled down. Some people in the ROK feel that the DPRK 's attitude of " connecting with the U.S., excluding the ROK " will not change even after the inter-summit.

We don't need to be overly pessimistic, of course. It is a matter for attention that there was a meeting between the defense ministers of the DPRK and the ROK after the inter-summit, where discussions were brought about to create military trust. This meeting also took place for the first time since division. The fact that the minister of defense of the DPRK has landed on ROK soil is a very important first step in creating military trust. Even though it may be true that the DPRK is trying to make the dialogue with the U.S. its priority, we should draw reasonable attention at the same time to the progress, albeit step-by-step, in the DPRK 's attempts to create trust with the ROK. What I believe is most important, even if it is a symbolic activity, is that the DPRK is not ignoring the ROK, but rather it has shown willingness to talk.

The prime factor influencing the DPRK 's approach towards dialogue with the ROK, for which the DPRK had been passive previously, is that they would like to see the possibility of economic cooperation with the ROK. As was witnessed in the joint announcement at the meeting of the defense ministers of the ROK and the DPRK, the DPRK has slowly agreed upon the measures to create military trust with the ROK, in order for smooth economic cooperation to proceed.

The U.S. has been involved and played a major role in the stabilization of the Korean Peninsula since the end of World War II. In that sense, what kind of policy the Bush Administration (which was recently inaugurated) will launch regarding the Korean Peninsula, is a decisive factor for the consideration of a future framework. Since the new administration 's Korea policies are not clear yet, it is difficult to make a forecast here. However, if we examine the opinions of the close advisers of the Bush Administration on external policy, they had been critical of the Clinton Administration 's Korean Peninsula policies, and I'm sure there will be some adjustments. However, such adjustments will not be to the basic strategy, but rather, they will be adjustments in tactics in terms of execution of strategy, or perhaps there shall be slightly different views or some changes to approaches. There is almost no doubt that the new administration is going to support the maintenance of the " Framework Agreement " established with the DPRK at the time of the Clinton Administration. In the mean time, with regard to the missile issue, which has not progressed towards solution, the new administration will adopt quite a strong posture. Furthermore, when they are to launch an engagement policy with the DPRK, they might require specific measures to be presented by the DPRK to lessen the tension in the Korean Peninsula. From the perspective of the DPRK, they may be dissatisfied with the new administration, and the progress between the U.S. and the DPRK could be slower than the pace we saw during the Clinton 's Administration. However, it is impossible for the U.S. to change its view that the improvement of the relationship between the U.S. and the DPRK should be worthwhile for the stabilization of the relationship between the ROK and the DPRK. Consequently, it will be indispensable to link the improvement in the relationship between the ROK and the DPRK and the relationship between the U.S. and the DPRK, to induce the DPRK to hold further dialogue with the ROK. There is a possibility that a peace treaty between the ROK and the DPRK will emerge as a result. Thus, there could be more substantial dialogue at the four-party discussions (which have become a mere shell) with the aim of creating a North-South peace treaty.

Let us now focus on how Japan can cooperate in the international cooperative framework centering on the Korean Peninsula within this environment. As a multilateral framework related to a military ceasefire agreement, there is a four-party discussion among the ROK, the DPRK, the U.S. and China. In the case of Japan, it was not a party at the time of the Korean War, nor did it sign the military ceasefire agreement. Russia also never signed the military ceasefire agreement, though the Soviet Union was involved in the opening of the Korean War, and asked the United Nations for ceasefire negotiations. Thus, Japan and Russia, technically, are outsiders in focusing on the content of the framework agreement, and are not in the position of being involved in the four-party discussions for a peace treaty agreement. However, it does not mean that there is no role to be played by Japan and Russia in the efforts to stabilize the Korean Peninsula.

If we are to have a peace established between the ROK and the DPRK, a multilateral framework, extending

the four-party discussions, will become important. Japan, together with Russia, will be able to make a contribution to the stability and development of the Korean Peninsula. What is more important is that there are important issues in Japan in relation to the normalization of its relationship with the DPRK. The normalization process is in difficult stage due to , as you know, the alleged abduction of Japanese citizens. However, normalization is the issue that neither Japan nor the DPRK can avoid, and that both countries can deal with directly by adjusting interests. In other words, since the normalization of relations between Japan and the DPRK is one of the main issues left from the end of the Second World War, along with the conclusion of a peace treaty between Japan and Russia, we have to take notice that this is an issue which no other nations have in establishing a relationship with the DPRK. In that sense, the normalization of the relationship with the DPRK is an issue which Japan should deal with correctly.

The DPRK expects the most of Japan in regard to normalization, because of the possible introduction of funds and technology from Japan. Frankly speaking, it is crucial for the DPRK to cooperate with Japan in order to revitalize its economy, which has problems traced to basic systems. The nation may think that it is difficult to rebuild its exhausted economy without the cooperation of Japan. There will be a limit to the economic revitalization it can achieve only with economic cooperation with the ROK. Therefore, it is indispensable to have close consultations between Japan and the ROK on this issue. In the same manner as the U.S. tries to proceed its relationship with the DPRK watching the improving trust between the ROK and the DPRK, it is necessary for Japan to employ close talks with the U.S. in the progress of the relationship between Japan and the DPRK. Regarding these circumstances, the progress in the relationship between Japan and the DPRK is not an issue just for these two countries, but a wider issue which should be proceeded especially through serious consultations with the U.S. and the ROK.

In the circumstances that the economic crisis in the DPRK could develop into political crisis, it is difficult to create a stable and peaceful structure. If the biggest reason for the Korean Peninsula's uncertainties is the grave economic situation of the DPRK, the improvement of this situation may stabilize the general situation in the Korean Peninsula. The role that Japan can play in this situation is significant, and Japan should have close consultations with the ROK and the U.S. This is one of the reasons why it is important for Japan to participate in multilateral discussions.

Russia, which has a border with the DPRK, desires to see stability in the Korean Peninsula. Even though Russia may not be directly involved in the establishment of a peace framework, the cooperation of Russia, which has diplomatic relations both with the ROK and the DPRK, will be important when the creation of trust between the ROK and the DPRK expands in the region. I believe that the biggest reason why Russia insists on having six-party discussions is because the country feels excluded in the diplomatic relations in the framework of four-party discussions. Once the four-party discussions progress towards establishing a framework for peace between the ROK and the DPRK, a larger framework of six-party

discussions will become important. In that situation, the role that Russia is required to play will be more positive.

Under these circumstances, multilateral cooperation revolving around the Korean Peninsula following a peace framework (between North and South) should move to the formation of six-party discussions, including Japan and Russia, rather than sticking to the framework of four-party discussions. In that framework, it is not necessary for the four surrounding nations to take the same role. Rather, it will be important for them to play different roles in different fields respectively to contribute to the stability and prosperity of the Korean Peninsula. Besides the issue of whether the framework will finally expand to be a systematic framework like the CSCE in Europe, it will be indispensable to realize a multilateral cooperative framework as soon as possible beyond the framework of the four nations which are directly concerned with military ceasefire, in order to solidify a stable order in this region.

3. Relations with Russia

If the framework between the four countries; Japan, the U.S., China and Russia, is crucial in order for the Korean Peninsula to be stable for the future, the four nation framework depends to a great extent on the relationship with Russia. Regarding the Russian challenge, we can point out two factors; the economic development of the Russian Far East, and, closely related to this, the relationship between Russia and Japan.

Nine years have passed since the collapse of the Soviet Union, but Russia is still in the process of democratizing and moving towards a market economy. There are many difficulties which are particular to the transition to a new system in Russia. In these circumstances, it can't be denied that the central government of Russia could not stop the decline in its interests towards the Far East. In the days of the Soviet Union, due to military and strategic interests, the Far East received various subsidies and privileges from the central government, which have virtually disappeared with the collapse of the Soviet Union, and the region is faced with difficulties in dual senses. As a result, the outflow of inhabitants has become significant and it is estimated that the population of the Far East (already relatively sparse), has decreased to 7.5 million.

Of course, the central government has not been entirely out of touch with the Far East. For example, in order to deal with the economic and social crisis, curbing population drain, and promoting external trade, the "Long-Time Economic Development Program for the Far East and Zabaikalie" was formulated by the Russian Government in 1996, and was approved in the program of President Yeltsin. However, since the program was formulated not necessarily based on the reality of available funds and other considerations, it has rarely been conducted. I would have to say that it has had little impact on the poor economic situation in the Far East.

As a result of these circumstances, the Russian Far East has not yet overcome its economic difficulties, and there is a danger that it could be left behind the dynamic economic development of the Asia-Pacific region. Therefore, the economic presence of Russia in the economic cooperation of the Asia-Pacific region has been

very limited. This situation is detrimental to the development and stability of the economy in Northeast Asia as a whole.

As a consequence, first of all, Russia is expected to take necessary measures for the development of the Far East. For instance, it is suggested to employ effective measures from the viewpoint of advancing economic unification in the Asia-Pacific region, such as promoting trade with Asia-Pacific countries, and furnishing an investment environment for increasing foreign investment in the Far East and Siberia. Of course, other nations in the Asia-Pacific region besides Russia, including Japan, need to cooperate with Russian efforts as much as possible.

In July of last year, President Putin made a speech at Blagoveshchensk in which he stated that the Russian Far East should become a " gateway to Asia " towards its integration into the Asia-Pacific region. In addition, in the " New Diplomatic Conception " that outlines the basics of diplomacy in the new administration, he acknowledged that the importance of policies towards Asia has steadily increased and emphasized the importance of Asia from the perspective of the economic development of the Far East and Siberia. However, it still seems rather unclear what kind of specific measures the Putin administration would take to make the Far East a " gateway to Asia ".

There are abundant natural resources in the Russian Far East and Siberia. In particular, its energy resources are very important for the Northeast Asian region. There are large energy consuming markets in the region, including China, Japan and the ROK, which currently heavily depend on energy supplies from distant places. In particular, China is already the second largest energy consumer in the world next to the U.S. If energy demand increases rapidly in the future with economic development, it may tighten the energy demand and supply in the region in future. On the other hand, there is a great potential for energy resources which are virtually untouched in the Russian Far East and Eastern Siberia. If these energy resources are developed effectively, there is a large possibility that the region will play an important role in the economic development of Northeast Asia in the future. The key to development is how to develop and utilize the energy resources effectively.

The problem is that there are not enough incentives for investment in the development of these resources for the investor countries like Japan. Of course, there are economic factors behind this, such as the profitability of investment. However, there are more important factors restraining other countries from investing, such as the unclear political and economic future in Russia, and uncertain future prospects for the relationship with Japan.

Development of resources in the Far East and Siberia carries a large risk, especially because of the fragile economic base, including the infrastructure in this region. To enable resource development in such circumstances, the provision of public funds by the government will be essential. For example, almost all the large-scale Siberia development projects executed in the 1970's somehow used public funds. In order to receive financial support from foreign countries, it goes without saying that it is indispensable to establish good and stable relationships

with related countries.

When we focus on the relationship between Japan and Russia from this point of view, there are clearly major issues to be resolved. In fact, since the informal summit in Krasnoyarsk between Prime Minister Hashimoto and President Yeltsin in November 1997, there have been dynamic movements in bilateral cooperation and relations.

First of all, in the political arena, constant high levels of dialogue have continued. Following the Krasnoyarsk meeting, the second informal meeting between Prime Minister Hashimoto and President Yeltsin was held in Kawana in April 1998. In November of that year, Prime Minister Obuchi officially visited Russia and advocated " creative partnership between the countries ". In April of last year, Prime Minister Mori visited Russia to meet newly elected President Putin in St. Petersburg, and confirmed that the declaration and agreement made between the two countries will be fully observed. In September of last year, President Putin officially visited Japan and signed sixteen documents, including the statement of a peace treaty. More Japan-Russia talks were held at different places, such as at the G-8 summit in Okinawa/ Kyushu in July, and the APEC summit in Brunei in November.

In the economic arena, measures for cooperation and exchanges in various fields have also been specified, based on the " Hashimoto-Yeltsin Plan ". That plan was formed from seven major pillars; investment cooperation, promotion of the integration of the Russian economy into the international economic system, expansion of support for reform, support for the training of entrepreneurs and civil officials, strengthening dialogue on energy issues, cooperation on the peaceful use of nuclear power, and cooperation in the space field. These pillars represent the framework for economic cooperation between Japan and Russia in government and at private levels as follows:

- (1) In the field of investment cooperation, an agreement for the promotion and protection of investment was signed when Prime Minister Obuchi visited Russia in July 1998. Technical assistance for the promotion of investment in Russia has been executed.
- (2) It is well known that the Japanese Government played an important role in initiating Russia into membership of APEC, helping to promote the integration of the Russian economy into the international economic system. In addition, Japan has supported Russia's affiliation to the WTO by positively providing necessary information as well as providing technical assistance.
- (3) In the field of assisting economic reform, various instances of economic cooperation have been carried out through supporting committees, including the provision of untied loans of \$1.5 billion by the Japan Bank for International Cooperation. Also, " Japan Centers " have continuously opened, not only in Moscow, but also in the Far East, including Khabarovsk, Vladivostok, and Yuzhno-Sakhalinsk. These centers play important roles in technical support and various exchanges, for example, through holding seminars and conducting training related to reform, and opening Japanese language courses.
- (4) Programs have been formulated to accept trainees from Russia to train as business entrepreneurs and

government employees. A total of about 2,700 trainees visited Japan up to the end of last year on the program.

(5) In the field of energy, a regular meeting started in 1998 concerning cooperation in this field. Also, practical exchanges, including various discussions and cooperation, have progressed in the field of science and technology, atomic energy, the environment, aviation, marine affairs and measures against crime.

The framework of this concrete cooperation, namely the " Hashimoto-Yeltsin Plan ", expired at the end of last year. However, it is still fresh in our mind that a new program in the economic and trade field was created, further extending the " Hashimoto-Yeltsin Plan ", when President Putin visited Japan in September last year.

These concrete cooperation and exchanges have rapidly developed since the Hashimoto-Yeltin talks, particularly through Japanese initiatives. However, in spite of these efforts, cooperation and support have not created qualitative change to the bilateral relations. I would have to say that this is the fundamental problem. The key issue is a lack of a true base for a cooperative relationship based on mutual trust between the two countries. This base is nothing less than the conclusion of a peace treaty between the two countries. As you remember, the leaders of the two countries reached an agreement in the Krasnoyarsk Meeting " to make the utmost efforts for the conclusion of a peace treaty by the end of 2000 ". In other words, the various and concrete cooperation frameworks mentioned above were positioned within the political objective of establishing a peace treaty as a symbol of the achievement of true bilateral reconciliation. Following the Krasnoyarsk Agreement, various levels of negotiation, including at the summit level, were conducted. Unfortunately, there was no breakthrough by the end of 2000 as far as the big plan of creating a base between two countries is concerned. After fifty five years since the end of World War II, a peace treaty has still not been concluded between the two countries. As the decisive impediment to the establishment of reconciliation and trust, this is a crucial factor controlling the relationship between Japan and Russia. The circumstance that both countries cannot conclude a peace treaty is the factor that calls into question the future of long-term bilateral cooperation. In particular, it is a serious issue that even those directly involved in Japan, who have taken positive initiating roles promoting bilateral relations, have lost self-confidence in building true reconciliation and a reliable relationship. This is not only unfortunate for the two countries, but also a factor causing anxiety for the future prosperity and development of the Northeast Asian region.

As I mentioned earlier, in order to enable full-scale resource development in the Russia Far East and Siberia, government support is indispensable. In large scale energy development in particular, high expectations are placed on the financial cooperation of Japan. In employing a broad political framework agreed in the Krasnoyarsk Agreement, the Japanese Government has not taken the approach that the conclusion of the peace treaty is a precondition for cooperation in other areas. Rather, it had been based on the " enlightened approach "

through promoting wide-ranging cooperation between the two countries and building real trust, followed by the conclusion of a peace treaty. Based on this philosophy, various cooperative projects and instances of financial support from Japan to Russia, as I mentioned before, have already been implemented. At the same time, these projects and measures will only have real meaning once a peace treaty is concluded and the efforts of the people of two countries towards true reconciliation progress to realization. Without conclusion of a peace treaty, we cannot gain the support of the Japanese public for the provision of large scale public funds from Japan for the development of the Russian Far East and Siberia. Moreover, due to the recent economic difficulties in Japan, it has become more difficult to gain the support of the Japanese public on this matter. Besides, without realizing a stable political environment based on true reconciliation between the two countries, it is a matter of course in economic logic that the private sector will not have a strong desire to invest in resource development in the Russian Far East. It is essential for the political stability and economic development of Northeast Asia to establish a stable relationship based on true mutual understanding between Japan and Russia, by resolving the territorial issue and concluding a peace treaty. This will enable the development of the Russian Far East to be included in the framework of the stability and prosperity of Northeast Asia as a whole.

4. Relations with China During the Period of System Transformation

The China factor is very important as one of the challenges exerting its influence over the framework between the four countries of Japan, the U.S., China and Russia.

China currently is in the stage of transition in its domestic systems. China's transition in the domestic system will proceed under the following background.

Twenty years have passed since China introduced the socialist market economy in order to rebuild its stagnant economy and nation based on the concept of " a unique socialism for China ". From then until now, over twenty years, this reform and open policy has been positively promoted. Since Deng Xiaoping's " speeches that encouraged cities in Southern China to expand the reform and open policy, as well as accelerate economic growth " in 1992, in particular, its speed has accelerated. The development of the coastal area of China, including Shanghai, as well as the capital, Beijing, has been remarkable. I visited Shanghai about ten years ago and met Mr. Zhu Rongji, who was the Mayor of Shanghai at that time. There was a sweep of plain over the Huangpu River, which was eyed for development, where he pointed out the field in front of us and said that the most important project as a mayor was to realize the development of the Pudong area. Recently, I visited Shanghai again and realized the speed of the development of China under the reform and open policy when I witnessed the developed Pudong which had changed beyond recognition. The fruits of China's reform and open policy are obvious when we focus on the fact that the Chinese economy grows at an annual rate of more than 10%, and the world has great

expectations for the future development of the Chinese market.

However, in the meantime, it is true that the introduction of the reform and open policy has brought various new problems to China as well. For example, state-owned enterprises have performed poorly, and regional differences between the developed coastal areas and inland areas have increased. State-owned enterprises had been the main players supporting the economic development of China since the foundation of the nation, but they raised questions in terms of economic efficiency, since they could not easily adapt to market competition. Since the introduction of the reform and open policy, the number of state-owned enterprises in the red has increased, becoming large financial burdens. Furthermore, the coastal areas of China, including Beijing, Shanghai and other cities, have developed significantly due to various factors; state-owned enterprises are concentrated in the inland area, including the three provinces of the Northeast (because Mao Zedong, who was cautious about the outbreak of world war, founded state-owned enterprises in the inland areas to make them difficult to attack); the coastal area was given the role to take the initiative of the reform and open policy under Deng Xiaoping's theory. On the contrary, inland areas have lagged behind and regional differences between the developed coastal areas and inland areas have expanded.

On the one hand, phenomenal economic development was realized by introducing the market economy mechanism. On the other hand, at the same time, the market economy mechanism brought about various distortions in the economic system, closely related to the economic management of all of China, as well as its social system. The situation today represents the problem that China needs to fundamentally reform its economic/social system. This reform is very important in determining the future of China.

Regarding the example I referred to earlier, China set a target for bringing state-owned large and medium-sized enterprises out of difficulties within three years from 1998. The nation began the reform of state-owned enterprises by cutting sections and enterprises in the red, and selling medium and small-sized state-owned enterprises. The executives of China now recognize that this "three year target" has at least been achieved. The government has begun to execute a policy of large-scale development of the West, since the dissolution of regional differences is believed to be an urgent matter.

These reforms, however, will not be completed over a short time, and a long time will be required before they bear fruit. A major issue for China is how the nation will convert the system in a stable manner, by rectifying the distortion produced by the impact of introducing the market economy.

For instance, the reform of state-owned enterprises brought about unemployment, which was a new and serious fear for Chinese society. Chinese people have left the "iron rice bowl" they had used for a long time (iron rice bowl, which doesn't break when it falls, symbolizes the job which secures a living even in times of slumping business) and resulting in "shagan" (layoffs). The actual number of unemployed is estimated to be between 80 and 100 million at present. Though the social security system

has been discussed, it is not yet fully established.

Furthermore, the domestic systems created by the introduction of market economy mechanisms are expressed as the "creative destruction process" (according to Director Hu Angang of the National Conditions Research Center of the Chinese Academy of Sciences). Actually, the benefits brought forth to China will be large if the system can be transformed smoothly. In that sense, the current efforts towards the reformation of domestic systems can be a "creative" process. However, since the process will be achieved by destroying existing systems, the process involves risks of compromising the stability of China if it isn't smoothly carried out.

China has been very enthusiastic about joining the WTO for the past few years, and this will be realized in the near future. When China joins the WTO, the nation will impose further reform by itself. In order for China to overcome this period stably, it is essential for neighboring countries, including Japan, to support the Chinese efforts.

Focusing on China from the viewpoint of the world, China is experiencing not only the reform of domestic systems, but also adjustments to its role as a member of the Asian and the international community.

At the time of the Asian Financial Crisis in 1997, while Asian countries faced constriction of domestic demand, China actively introduced fiscal measures and promoted domestic demand, and tried to prevent a secondary currency crisis by maintaining the yuan rate. Also, with the IMF support system as its center, the nation was given a large amount of economic support. As far as the revaluation of the yuan is concerned, people state "it was making a virtue out of necessity," because profit for China itself was at the center of the judgement. However, even if it was making a virtue out of necessity, I believe it is notable that China has made this decision as a key player in the world. Chinese leaders have stated at every turn about various economic supports from China that they should be provided "as a responsible member of the international society." In fact, it should be recognized that the amount of economic support from China was "not small for a country which holds large foreign debts", as President Dai Xianglong of the People's Bank of China stated.

At the recent "ASEAN plus Three Finance Ministers Meeting" in Chengmai, there was a change in the Chinese posture. It is noticeable that China constructively participated in the agreement and adoption of the Chengmai Initiative, which strengthens and expands the "Currency Swap Agreement," an agreement which lends money in the short-term to nations with a shortage of funds, in order to prevent recurrence of the Asian Financial Crisis.

These is evidence that endorses the fact that China has steadily changed from a country that focuses on its own profit to a key player in the international society, and it is concerned with its influence in the world as well as in Northeast Asia. Credit should be given to these very positive movements for the stability and prosperity in Northeast Asia.

On the issue of a multilateral cooperative economy, whether it is in terms of economy or security, China has sometimes reacted over-sensitively to what maybe regarded as the formation of "an alliance of countries against China" and a "challenge to China" through

interference with its internal affairs. However, in the present world, where globalization and interdependence among countries has been furthered, it is true that if problems occur in one country, they cannot be contained within that country's national borders, but will spread to the rest of the world. In addition, such problems often cannot be solved without cooperation from other countries. Understanding this situation, however, China still cannot be free from its fear of the strengthening of blocs and groups against Chinese interests.

However, from a broader perspective of the political/economic environment in Northeast Asia, the stability and prosperity of Northeast Asia cannot be achieved without a framework of multinational cooperation including China. China needs to fully understand that the realization of cooperation will bring great benefits to the nation, and should completely abandon its old notions, based on the vestiges of the Cold War. It should focus in the long-term on helping to create order for the stability and prosperity of the region, rather than on short-term and narrow interests. It is essential for China to show a positive attitude towards positive cooperation in the establishment of a framework between Japan, the U.S., China and Russia. The big challenge we are faced with is how to make China understand the importance of this matter.

Jiang Zemin is anticipated to resign as Communist Party Chief after the 16th Major Party Conference, to be held in 2002. Hu Jintao is favored to be the next Party Chief. (Although Jiang Zemin will not take a leading role officially, as Deng Xiaoping did, it is anticipated that he will maintain his dignity while staying in the position of Chairman of the Central Military Commission.) Hu Jintao was born in 1942, and his generation is called the "Fourth Generation". There have been a number of different generations in post-revolutionary China; the first generation shouldered the Chinese Revolution, and was loyal to the ideologies of Mao Zedong and Zhou Enlai; the second generation, including Deng Xiaoping, moved towards the reform and open policy (though he was a partisan of Mao Zedong and Zhou Enlai); the third generation, including Jiang Zemin, advanced the reform and open policy together with the influence of former generations. The characteristic of the fourth generation is that they were not baptized in revolution. Such an alteration of generations are anticipated to proceed not only within the executives, but also in the whole of Chinese society in the next few years. Thus, the following generation may be the period when China largely changes its way of thinking.

It is difficult to envisage the status of China in the twenty first century as China is currently in the midst of system transformation. Various views can be heard at present, including such extreme scenarios as China becoming a world military giant, or perhaps being divided.

Even though it is difficult to anticipate the future of China exactly, it is not so difficult to talk about the desired situation for the future of China from a viewpoint of benefits for Northeast Asia.

The most desired situation is for China to be stable, and as I stated earlier, not only to focus on its own national interest, but also to participate in international cooperation with a wide perspective of multilateral cooperation. It is favorable not only for China, but also for neighboring countries, including Japan, as well as Northeast Asia as a whole.

In these circumstances, the construction of a framework for cooperation among the major countries in Northeast Asia will become realistic. Through this, there is no doubt that the stability and prosperity of this region will take a forward step. The problem is how we can cooperate for the realization of such cooperation by China.

The most important matter for China is to overcome this transformation period without confusion or major disorganization. Japan should make efforts to continuously "enhance trust and remove suspicion" (a phase which President Zhu Rongji frequently used when he visited Japan last October) together with China, and support economic development in compliance with the reform and open policy of China.

As a new president has been inaugurated in the U.S., it is anticipated that there are many pro-Japanese groups among President Bush's advisers who will place more emphasis on the relationship with Japan compared to the Clinton Administration. It is anticipated that the relationship between Japan and the U.S. will become closer. It is crucial for Japan to be active towards the U.S. and lead the reformation of China in the desired direction, as I mentioned above, with the cooperation and support of the U.S.

5. Conclusion

Since the collapse of the Cold War structure, the political and economical volatility of Northeast Asia has increased. The stability of Northeast Asia is an urgent precondition for the realization of prosperity in the region. The coordination of the four countries of Japan, the U.S., China and Russia in the region is the essential form of multinational cooperation for the stability and prosperity of Northeast Asia in the twenty first century.

When we succeed in establishing multilateral cooperation between the four countries, it will contribute to wrapping-up the movement for peace in the Korean Peninsula. I believe that such a cooperative framework is the biggest requirement for the realization of the stability and prosperity of Northeast Asia, which helps in turn to promote the development of the DPRK, the Russian Far East and Siberia, which have been lagging behind.

[Provisional translation by ERINA]