

## Special Address

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### *Emerging Northeast Asia: Progress and Problems of the 1990 s*

ISHAEV, Victor I.

Member of the Presidium of State Council, Russian Federation

Chairman, Interregional Association of Economic Coordination "Far East and Zabaikalie"

Governor of Khabarovsk Territory, RF

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The 1990 s was characterized by dynamic structural changes on a global level, as a result of the collapse of the Soviet Union and socialism, which led to the birth of many new nations on the rubble of the collapse. The United States remained as the only superpower. Many people seemed to look forward to the collapse of the Soviet Union, because it would mean the end of the Cold War. However, the resolution of the global standoff and the transition from a bipolar world to a single-polar world which have not yet made the world sufficiently safe. This was clearly demonstrated when the U.S. wielded its military power, in ignorance of the rules of international society, in its advance into Yugoslavia. Yugoslavia used to be a prosperous country with much international influence, but it was reduced to ruins.

Also, in this uni-polar world, we can clearly see instances of military, political and financial pressure, where strong countries pressurize the weaker nations. International financial institutions interfere with the sovereign rights of nations. International speculators try to manipulate the flow of funds, so that on a global and regional basis, recessions have developed and society has been placed in turmoil and pushed to the brink of bankruptcy. In the 1990 s, the countries of the Asia-Pacific region were fortunately not involved in global, military and political disputes, and were able to benefit from the relative stability of this period.

The relatively peaceful international situation in the region did not guarantee, however, a quiet run for the economies of the Pacific Rim. The economic diversity of the region and its growing importance in the world forced the countries of the region to compete for leadership. In terms of economic growth rates, China surpassed the new industrialized economies of East Asia.

For the Asia-Pacific economy, the true test was globalization, and the increasing interdependence of economies. As shown in the economic development in the Asia-Pacific in the 1990 s, globalization provided

opportunities for development, and the realization depended on the adaptability of the nations. The Asian Financial Crisis of 1997-1998 created winners and losers as a result of globalization.

In the Asia-Pacific region, the major accomplishment of the 1990 s was the creation of APEC. It is still too early to compare the Asia-Pacific with unified Europe. However, I think that a major first step toward multilateral cooperation has been taken. The establishment of APEC is the regional states' answer to the challenges of globalization. This forum is where the members of APEC will gather together once a year to discuss important economic issues.

Within the APEC framework, the regional principles for trade and investment activities and economic and technical cooperation have been formulated. APEC helps to harmonize diverse economic interests. Its working groups and sessions generate new ideas, contributing to the economic development of the region. It is hoped that these activities within APEC could also contribute to economic development and subregional cooperation in Northeast Asia.

In the 1990 s, Northeast Asia experienced positive political and economic changes that were partly facilitated by global developments. The most important development was the normalization of relations among the countries of Northeast Asia. At present, the political situation is relatively stable and there are signs of positive dynamics in subregional relations, both bilateral and multilateral.

The improvement in Russian-Chinese relations has had a crucial impact on the political situation in the region. In the 1990 s, Russia and China embarked on a course that brought them further ahead in the establishment of intensive cooperation on many fronts and mutual interaction on an extensive range of issues. The signing of the Joint Declaration on Strategic Partnership by President Boris Yeltsin and Chairman Jiang Zemin in April 1996 became a milestone on this path. In November

1997, the Declaration on the Conclusion of Work for the Demarcation of the Eastern Part of the Russian-Chinese Border was signed. The July 2000 official visit of President Vladimir Putin to China was yet another major step towards the development of an equal partnership, mutual trust and coordination of vital national interests.

A number of high-ranking Chinese delegations visited Russia, including the one led by the Parliamentary Chairman, Li Peng. These bilateral meetings have led to a range of agreements, including those covering cooperation in the energy field, natural gas projects and the petroleum sector.

In the 1990 s, the somewhat volatile situation on the Korean Peninsula improved. This process was set in motion by the establishment of diplomatic relations between the Soviet Union and the ROK in 1990, and between China and the ROK in 1992. Subsequently, the development of the trade and economic relationship has helped to build a strong basis for a favorable international and political situation, and has contributed positively to the region as a whole.

In this context, mention should be made of the Korean Peninsula Energy Development Organization (KEDO), an organization created in order to resolve the energy problems of the DPRK in exchange for a commitment to stop its nuclear program. The ROK, Japan, and the United States, as well as the European Union, undertook the financing of this project. The creation of this international organization became, in effect, the first example of multilateral cooperation in Northeast Asia aimed both at the resolution of political and security problems and of purely economic issues.

During these years, the "Four Party Framework" was created to replace the armistice on the Korean Peninsula with a peace treaty. It is based on the "two-plus-two" formula (the United States, the ROK, the DPRK and China). It hasn't made noticeable progress yet, but Russia and Japan could join this process as influential stakeholders to ensure progress.

At the end of the 1990 s, there were significant developments in inter-Korean relations achieved due to the efforts of President Kim Dae-Jung. It is important that his new approach was matched with a positive response from the leadership of the DPRK, leading to the historic meeting in Pyongyang in June of 2000. One of the outcomes of this meeting is a program to restore the railway that once linked North and South Korea.

The decade of the 1990 s was quite a productive period in the development of Russian-Japanese relations. The official visit of President Boris Yeltsin to Tokyo in 1993 resulted in the signing of the Tokyo Declaration, followed by intensive political contacts between leaders. The meetings in Krasnoyarsk in 1997 and Kawana in 1998 laid the foundation for the Yeltsin-Hashimoto Plan, which envisaged diverse economic cooperation between Japan and Russia. The most recent development in this field is the Putin-Mori plan, which envisions a constructive partnership between the two countries in the 21<sup>st</sup> Century. Also, the joint Russia-Japan Inter-governmental Commission on Economic and Trade Cooperation, established in 1994, prepared the ground for the search for

new forms of economic interaction between Russia and Japan.

A major contributing factor to the improvement in Russian-Japanese relations was the opening of broad contacts on a regional level between the districts and provinces of Far Eastern Russia and the Japanese prefectures. The conferences of the heads of administrations of these territories, meetings of the representatives of the legislative assemblies and public entities, youth and sports exchanges, and contacts among technical experts, have all come together to consolidate a sufficiently sound infrastructure for bilateral relations.

During this period, we have seen active and successful development in the relationships between Japan and China and between Japan and the ROK. Active links have been established between China and the ROK. For the DPRK, China has always been a major political and economic partner. The Mongolian leadership has also made great efforts to foster close relations with all countries of Northeast Asia.

The decade of the 1990 s was also a period in which the local regions of the Northeast Asian countries developed direct relations. In the early 1990 s, these consisted of essentially bilateral contacts between leaders of the local administrations. In October 1993, following an initiative from Shimane Prefecture, the first meeting of the heads of local governments of Japan, Russia, China and the ROK, took place. The following meetings were held in Hyogo Prefecture and Khabarovsk. It became clear that an organization was needed that would facilitate cooperation among these territories. In September 1996, at the meeting of the heads of local governments of Northeast Asia, held in the city of Kyungju City (North Kyungsang Province), the Association of North East Asia Regional Governments (ANEARG) was created.

The creation of this association was indeed an important event in the history of our region. For the first time, the representatives of local regions have been given the opportunity to discuss prospects for cooperation in a multilateral setting. These regional-level contacts among the countries of Northeast Asia have already become an important factor supplementing inter-governmental relations. The characteristics of the 21<sup>st</sup> century will be the advent of the role to be played by regional administrations and the fact that they are playing a direct role. This has become clear in the manner of ANEARG. The concept of regional development suggested the possibility of integration. As a result, we shall be able to stimulate economies that are lagging behind. Mongolia was accepted as a formal member of ANEARG in 1998.

In 1995, Khabarovskiy Territory expressed that it was favorably disposed toward the accession of the DPRK to the framework of regional cooperation. About a month ago, I received a letter from the DPRK, informing me that a representative of the administration of one of the provinces would take part in the ANEARG session scheduled to take place in Khabarovsk in the autumn of 2002.

Let us now consider the economic aspects. In describing the general trends in the economic development of the countries of Northeast Asia during the 1990 's, I should note that this process has been

characterized by conflicting trends and differences in the economic systems, which could be seen as only natural.

The economy of China has shown a rapid growth rate, and in only a decade, its foreign trade has expanded 3.4-fold. It is becoming the center of world trade. On the other hand, high rates of economic growth entail a complex mix of socio-economic, environmental and other problems, requiring more drastic reforms from the Chinese leadership. The future of the country, and to a certain extent the destiny of Northeast Asia, depends on how successful these reforms are.

The Russian Federation, in its transition to a market economy, has encountered serious problems in adapting to the realities of international markets and the division of labor. The 1990's was a very difficult decade for Russia in all aspects of the nation's life, especially in the economic sphere. A serious trial for the Russian economy was the 1998 financial crisis, which was closely tied to the Asian economic crisis.

At the end of 1998, the Russian economy resumed growth, driven by the export-oriented sectors, as a result of the devaluation of the ruble and the favorable situation on the world's energy markets. In the year 2000, economic growth in Russia reached 7%, and income grew by 9.4%. Industrial output in Far East Russia rose by 6.5% in volume terms. Also up were electric power generation (by 5%), petroleum output (by 75%), gas output (by 2.7%), commercial lumber production (by 30%), sawn timber (by 34%), carton and paper, cement and other products.

However, economic growth remains unstable both in Russia as a whole and in individual regions, and the economy has a strongly pronounced cyclical nature. Growth should be maintained and stabilized by the carefully balanced efforts of all players in the economic process, with the state playing an important role. Recognizing this, President Vladimir Putin asked me to prepare "The Report on a Development Strategy for the Period Up to the Year 2010." Our group proposed a conceptual framework for the strategic development of the Russian economy for the near future. This report may serve as an important tool when President makes decisions designed to achieve the current and prospective goals on the basis of clearly set targets for Russia's development.

The DPRK experienced a severe economic crisis in the 1990's. The recent efforts of its leadership to improve inter-Korean relations give us hope that the DPRK will be able to develop closer economic relations with other countries, contributing to subregional economic cooperation in Northeast Asia.

Throughout the decade of the 1990's, the Japanese economy experienced a recession that was unprecedented in her entire postwar history. This was due to a complex combination of cyclical and structural problems. Thus, whereas in the early part of the decade, from 1991-1995, the average annual rate of economic growth had been only 1.2%, the economy registered an absolute drop in Japan's GDP by 2.5% for the first time since the 1970's. The unemployment rate in Japan has today reached a level of 4%, the highest figure in the entire postwar period. The endless attempts of the government to breathe fresh life

into the economy by increasing government expenditure by an amount totaling US\$1.2 trillion for the period from 1992 through to 1999 have yet to produce tangible results.

The economy of the ROK in the first half of the 1990's enjoyed high rates of growth. During this period, a series of important measures designed to expand the sphere of action of market forces were implemented. In particular, moves were made to liberalize external trade, foreign investments, and also monetary legislation. Yet, the ROK economy was not able to escape the negative impact of the Asian Financial Crisis. The country suffered a sharp drop in the exchange rate of the Korean currency and a crash on the stock market, fueled mainly by a mass exodus of short-term speculative capital funds from the country. Under these conditions, the government of the ROK carried through a number of aggressive reforms in the financial and industrial sectors and in the area of employment. It also resolved to implement some radical reforms to its administrative machinery at all levels. In only two years, the country came out of the crisis and repaid an IMF loan of US\$58 billion. It also beefed up its gold reserves to US\$50 billion and achieved an 8% economic growth rate in 1999-2000.

In short, despite economic difficulties, Northeast Asia retains the potential for development, which promises intensified cooperation among the countries of this area. However, the current level of economic and trade interaction in Northeast Asia far from matches this existing potential.

We, in the Far East of the Russian Federation, have concluded that the most appropriate sphere of such cooperation might be the implementation of large-scale projects for the development of the Siberian and Far Eastern energy resources. The development of these natural resources with the subsequent installation of pipelines for natural gas and crude oil transportation, as well as high-voltage power transmission lines to China, the Korean Peninsula and Japan, could lay the foundation for an energy community in Northeast Asia. It is my vision that such mutual interest, consolidated by cross-border pipelines and power transmission lines, could provide a good basis for strengthening mutual trust, not only in the economic, but also the political domains. Infrastructure projects of transportation and telecommunication network could be appropriate for these purposes. Internet trading is becoming ever more active, and it would be necessary for us to establish internet space which is common in Northeast Asia, so relevant laws should be established in order to facilitate internet trading.

In Northeast Asia, we need to have common systems and institutions. For example, regarding immigration, tariffs, customs, standards for industry and agriculture, procedures of trade would have to be simplified in order to promote economic development. At the same time, Northeast Asia will have to develop free economic zones, form a customs union, and provide protection and insurance system for foreign investment.

Each constituent country has its own advantages, enabling it to occupy a certain "niche" in the subregional community. So, even if there is an unequal distribution of production factors, the countries will still be able to enjoy

economic benefits. We believe that there shall be merits in establishing a multilateral economic group.

We believe these advantages can be summed up as follows:

1. Realization of comparative advantages, utilizing resources, capital and labor potential.
2. Expanded cooperation for closer development in social and economic areas.
3. Enlarged markets for export, and facilitate restructuring.
4. Forming common front and facilitate implementation of the national economic development program.
5. Investment promotion, including cross-border infrastructure project.
6. Investment in human capital, education, health and technological advancement.

Each country and territory would determine its own

need in terms of economic integration and constructive interaction within the framework of the regional community. The important factor is that the political and business communities of the countries concerned should demonstrate a will and determination to bring prosperity to the Northeast Asian subregion.

The last decade of the 20<sup>th</sup> Century has also shown how important the various regional forums are in searching for a mutual understanding concerning the issues of balanced economic development and environments in the region. Great importance must be attached to intellectual exchange. The economy is much more dependent on intellectual capabilities, and the greatest yields can be obtained from efforts made in this type of activity. In this context, it is difficult to overestimate the contribution of exchanges in this Economic Conference for the development of regional cooperation.

[Abridged translation by ERINA]

