

Keynote Address

Towards New Growth in the Northeast Asian Economy ~ Focusing on Russo-Japanese Economic Relations ~

TAKAGAKI, Tasuku

Chairman, Japan Association for Trade with Russia and Central-Eastern Europe
Senior Advisor, the Bank of Tokyo-Mitsubishi Ltd.

For many years, I was involved in the management of a private commercial bank, focusing mainly on international financial affairs, and have had a variety of dealings with people from the countries of Northeast Asia, including Russia. I have served as Chairman of the Japan Association for Trade with Russia and Central-Eastern Europe (hereafter referred to as ROTOBO) for the last two years. Today, I will first evaluate the recent state of the Russian economy, before giving an overview of the relationship between the Russian economy and neighboring countries and regions; finally, I would like to make some observations about the economic relationship between Japan and Russia. Although my main interest is the economic development of the entire Northeast Asian region, today I intend to focus on Russia.

1. The Current State of the Russian Economy

Since 1999, the Russian economy has consistently been doing well. In August 1998, the economy was stricken by the rouble crisis and beset by chaos, with economic growth for that year recorded as -4.9%. However, it made a remarkable recovery in 1999, when the growth rate bounced back to 5.5%, and this figure was further surpassed in 2000, with a growth rate of 8.3%. The main reasons for this rapid recovery are frequently indicated as being the expansion of exports due to the sizeable fall in the value of the rouble, as well as the development of import substitute industries and the increase in foreign currency earnings due to the rise in the price of crude oil, but investment and consumption are also growing. As the background to this generally excellent economic situation, I believe that the positive effect had on Russia's economy by the political stability that has reigned since Putin took power, not to mention the advance of economic reforms, have contributed greatly.

With regard to the most recent situation, according to the economic forecasts issued by the Russian government at the end of last year, GDP for the whole of 2001 is estimated to have increased by 5.5% on the previous year, with mining and manufacturing production rising by 5.2%, agricultural production by 7% and annualized inflation falling to 18.6%, a significant improvement on initial forecasts for the year. The international balance of payments has also stabilized, with the balance of trade recording a surplus of \$43.6 billion for the period January - October 2001.

Investment from overseas is also recovering. In terms of foreign investment in Russia for 2000 by country, the USA was top, while Germany stood in third place, with the

surprising entry of Cyprus in second position. The increase in investment from Cyprus indicates that some capital that had fled Russia has now started to flow back to its homeland, and we can offer this as evidence that the confidence of Russian investors in the economy of their native country has begun to grow.

Foreign currency reserves grew from \$24.2 billion in early 2000 to \$34 billion at the end of September 2001, and one of the conditions that will make possible the repayment of foreign debt without further new borrowing has been put in place.

With regard to forecasts for the future, the Russian government foresees this substantial growth being sustained in 2002 as well, with GDP forecast to rise by 4.3% and inflation set to fall to 12%. In the budget for 2001, the price of crude oil was estimated as \$21 per barrel, so it is still necessary to follow-up future trends in the price of crude oil.

There was the so-called '2003 Economic Crisis Theory', which stated that, as repayments of Russia's foreign debt are set to reach a peak of \$19 billion in 2003, in contrast to \$14 billion in 2000, coinciding with production facilities and infrastructure becoming decrepit and unable to be used, the Russian economy will face a state of crisis during this period, but I believe that, given the current situation, this eventuality is unlikely.

2. Russia's External Economic Relations After the Demise of the Soviet Union

I would now like to look at changes in Russia's external economic relations in the period since 1992, when the Soviet Union collapsed.

According to Russian statistics, the total value of Russia's trade in 1992 was \$74.9 billion, but in 2000, this had actually increased by more than 80%, to \$136.6 billion. I would now like to look at the situation in each region.

Trade with Europe

Firstly, with regard to Russia's relationship with Europe, the value of its trade with the whole of Europe was \$50.9 billion in 1992, but this had risen by 44% to \$73.5 billion by 2000.

Trade with Germany

Of all the countries of Europe, Germany has the highest volume of trade with Russia, worth \$13.1 billion in 2000, a figure that equates to four times the volume of trade between Russia and Japan. Exports from Russia to Germany were worth \$9.2 billion, while imports were worth \$3.9 billion.

The supply of crude oil and natural gas transported

from Russia to Germany via a pipeline is stable, so Germany relies on Russia for about half of its natural gas. This is a major factor underpinning trade between the two countries. For Germany's business community, the Russian market is an historically and geographically close, attractive entity, and German companies' desire to enter the Russian market is almost insatiable. Last June in Moscow, I met with the Finnish chairman of the Moscow European Chamber of Commerce and Industry, which is an organization of European companies that have expanded into Russia, boasting a membership of 700 companies, including small and medium-sized businesses.

Trade with the USA

During the Soviet era, private trade with the USA was extremely limited. US exports and imports totaled \$3.6 billion in 1992, immediately after the demise of the Soviet Union, a figure that was about the same level as the volume of trade between Russia and Japan in the same year. However, despite the subsequent slump in the Russian economy, both import and export trade with the US increased year on year, and had doubled by 2000, accounting for \$7.3 billion. In comparison with this, trade between Japan and Russia almost completely flattened out during this period.

For the USA, the end of the Cold War was accompanied by the emergence of a huge, unexplored market called Russia. As trade and economic relations between the USA and Russia were limited during the Cold War, the USA actively developed business in Russia, without being bothered about such issues as inherited debt problems, and has become the largest investor nation in Russia. Recently, in the aftermath of the September 11th terrorist attacks on the USA, a close, cooperative relationship has developed between presidents Putin and Bush, through anti-terrorism policies; the US government is exhibiting an active stance on Russia's economic development and we hear that there are also various active movements in private US capital.

Thus, economic relationships of Russia with Europe and the US are developing positively, and are providing momentum for the economic growth of European Russia, in particular. However, there is one rather tricky area in the relationship between Russia and "the West". This is related to moves by the EU (European Union) to expand eastwards.

The EU began circulating cash in Euros at the beginning of 2002, further deepening economic integration within the community, at the same time as it is promoting an expansion in EU membership to Central and Eastern European nations and Mediterranean states. There is a strong possibility that the Czech Republic, Hungary and Poland will join the EU in 2004, while nations such as Slovakia, Slovenia, Romania, Bulgaria, Croatia and the three Baltic states are making definite moves in the direction of EU participation. How Russia and the Ukraine, which are fundamentally said to have European nationality, will deal with such moves by the EU is an extremely interesting political and economic question for the first half of the 21st century.

Furthermore, one cannot forget that, while Russia has European nationality, it is also an Asian nation, with vast

territory in Eastern Siberia and the Russian Far East. Based on this fact, as well as being due to approaches from the Japanese government, in 1998, Russia joined APEC (Asia Pacific Economic Cooperation forum). APEC consists of the 21 countries and economies located east and west of the Pacific Ocean, including the USA, Canada, Mexico, Peru, Chile, Japan, China, the ROK, Taiwan, the ASEAN nations, Australia and New Zealand. In May 2001, a meeting of the APEC Business Advisory Council (ABAC), of which I am one of the Japanese members, was held in Moscow, and a banquet to welcome the participants was hosted by Igor Ivanov, Minister of Foreign Affairs. President Putin visited Far Eastern Russia and Siberia in July 2000 and gave a speech in Blagoveshchensk, the main point of which emphasized the Asian region.

Trade with Asia

Looking now at Russia's trade and economic relations with Asia, the volume of trade rose 60% between 1992 and 2000, from \$14.2 billion to \$22.8 billion.

Trade with China

Looking at the region by country, China, with which Russia shares a long border, is Russia's largest trading partner in Asia. The volume of trade rose by more than 40% between 1992 and 2000, from \$4.4 billion to \$6.2 billion.

With regard to the relationship with China, Prime Minister Zhu Rongji participated in the 6th Sino-Russian Prime Ministerial Meeting with Russia's Prime Minister Mikhail Kasyanov in St Petersburg, where they exchanged opinions on a wide variety of subjects, including politics, trade, economics, science and technology, and culture, and concluded seven treaties. These covered such areas as a sales contract in which China agreed to take delivery of five Russian Tupolev 204-120 airplanes, and an agreement on a feasibility study on the joint project to develop the Sino-Russian crude oil pipeline. Under the latter project, a 2,000 km crude oil pipeline would be built from Siberia to the Beijing region, with total investment forecast at \$1.7 billion. Completion is planned for 2005, after which Russia would provide 20 million tons of crude oil annually to China via the pipeline, rising to 30 million in 2010.

According to World Bank forecasts, the increase in energy demand in China is expected to equal total additional demand in OECD countries. Coal accounts for 75% of China's primary energy supply, an extremely high proportion, and if this reliance continues, it is feared that the problems of atmospheric pollution in Northeast Asia and global warming will be exacerbated.

Furthermore, more than 90% of Russia's oil and natural gas reserves are found in Siberia and the Russian Far East, but hardly any of these resources have been supplied to the countries of Northeast Asia until now, so we can say that, over the next 20 years, the Northeast Asian region has the potential to become an export market for Russian natural gas on the same scale as Western Europe at present.

Economic Relations with Mongolia

Cooperation with Mongolia in the fields of energy and electricity is also progressing. Under one project, electricity produced at Russia's Bratsk Hydroelectric Power Station would be distributed to Beijing via Ulaan Baatar, with

another involving efforts to realize the western distribution route from the Kovykta (Kovykchinskoe) gas field in Siberia.

Looking at such projects, it can be predicted that Russia's production and export of energy will become the main pillar of economic interaction in Northeast Asia in the future.

Trade with the ROK

For a long time, the ROK had no diplomatic relations with the Soviet Union and few economic relations. Diplomatic relations with the Soviet Union, as it was at the time, were established during the Perestroika era and trade began. Trade between Russia and the ROK amounted to \$1 billion in 1992, but by 2000, this had risen to \$1.3 billion, with private investment activities taking place to a certain extent, focused mainly on the Russian Far East. For example, the ROK's Hyundai Group is the main investor in Vladivostok's largest hotel.

Regional Cooperation with East Asia

Before I talk about the relationship between Japan and Russia, I would just like to take a look at the progress of cooperative economic relations within the East Asian region.

Compared with the EU in Europe and NAFTA in the Americas, regional cooperation in East Asia is lagging behind, but even so, 20 years ago, moves towards regional cooperation in Southeast Asia resulted in the formation of ASEAN. Furthermore, in the last few years, particularly since the 1997 Asian currency crisis, moves towards regional cooperation in the form of 'ASEAN plus 3' - the ASEAN nations plus Japan, China and the ROK - have been impressive. This indicates that the regional economic cooperation system in "Southeast Asia" that existed hitherto, is in the process of expanding to create a system of regional cooperation for the whole of East Asia.

For example, in May 2000, at the 'ASEAN plus 3' meeting that took place in Chiang Mai, Thailand, an agreement was concluded regarding regional financial cooperation that provides against future financial crises - the so-called 'Chiang Mai Initiative'. Moreover, in November 2000, the 'ASEAN plus 3' leaders' summit took place in Singapore, where an agreement was concluded with regard to carrying out research into the conclusion of an East Asian free trade agreement; in addition, both China and Japan initiated moves to conclude free trade agreements with ASEAN, and it has just been reported in the newspapers that one of the main topics during Prime Minister Koizumi's round of visits to ASEAN nations right at the beginning of 2002 was the conclusion of a free trade agreement between Japan and ASEAN. Recent free trade agreements cover not only trade but also an extensive range of other areas, including investment, technological cooperation, the nurturing of human resources and the protection of intellectual property rights, and it is becoming the case that, such is their content, they could be called comprehensive economic partnerships, as expressed by Prime Minister Koizumi in his speech in Singapore on January 14th. Moreover, there has been recent talk that Australia and New Zealand may also eventually join.

Now I would like to focus on Northeast Asia, where all three of the "plus 3" nations are located. In general, the

region encompassing the Russian Far East, Democratic People's Republic of Korea (DPRK) and Mongolia, in addition to Japan, China and the ROK, is called Northeast Asia. In this region there are differing political, social and economic systems, as well as different stages of economic development, and resources, money, technology and workforce are unevenly distributed.

For a long time, it has been recognized that, in order to rectify differences in economic might and the uneven distribution of resources, and to promote the economic development of the Northeast Asian region as a whole, the establishment of a multilateral cooperation system in this region is necessary, and there have been several moves towards this to date among related countries. For example, there is the economic development project for the Tumen River area, where the borders of China, Russia and the DPRK meet.

Moreover, there is a project aimed at modernizing the DPRK's railways, and through this, to connect the Trans-Siberian Railway with the ROK's railways. It is thought that the visit to Russia by Kim Jong-Il in the summer of 2001 and his summit with the Russian president were aimed at obtaining political and economic support from Russia, and I believe that talks between the DPRK and China are ongoing. However, unfortunate though it may be, I believe that there can be no fruitful developments in regional cooperation that include the country unless the DPRK changes its current policy of remaining closed to the outside world.

Nevertheless, I do believe that it is necessary for the Northeast Asian region, in particular the Russian Far East and Northeastern China, to think about how it can catch up with the dynamic activity of the whole of the Asia-Pacific region.

3. Economic Relations Between Russia and Japan

I would now like to continue my speech by narrowing the focus of my previous discussion of Russia's domestic economy and external economic relations, to concentrate on economic relations between Japan and Russia. The first point that I would like to make is that, in recent years, trade between Japan and Russia has been flagging. More specifically, although total imports and exports between the two countries increased from \$3.2 billion in 1992 to \$3.9 billion in 1995, the figure decreased thereafter, dropping to \$3.3 billion in 2000. In particular, the stagnation in Japan's exports to Russia has continued, plummeting from \$1.4 billion in 1992 to \$600 million in 2000.

With regard to Japan's investment in Russia, a number of huge natural resource-related investment projects were realized with the backing of both governments during the Soviet era; however, after the collapse of the Soviet Union, apart from the Sakhalin oil and natural gas project, which has been a pending issue for 30 years, and which has been translated into reality by means of the participation of US capital, no significant progress has been seen.

It was against the background of such a situation that 250 businesspeople visited Russia between 30th May and 8th June 2001 in the form of the government-sponsored economic delegation led by Mr. Imai of the Keidanren.

This visit came about after President Putin visited

Japan in September 2000 and urged Japanese businesspeople to see the ongoing changes in Russia with their own eyes; Keidanren, the Japan Chamber of Commerce and Industry, Keidanren's Japan-Russia Business Cooperation Committee and ROTOBO formed an economic mission with the cooperation of the Japanese government. It was 25 years since a chairman of Keidanren had led an economic mission to Russia.

The mission divided into three groups to enter Russia.

The European Russia Group visited St. Petersburg and Nizhni Novgorod, the Science and Technology Group visited Novosibirsk, and the Siberia and Russian Far East Group visited Yuzhno-Sakhalinsk, Okha, Vladivostok, Khabarovsk and Irkutsk. After holding consultations with leading people in each area, as well as conducting visits to businesses, factories and research institutes, and engaging in an exchange of opinions with managers, the three groups met up in Moscow. There they conducted interviews with the head of the Russian government, members of the Duma, and representatives from the business world, including those from foreign businesses that have expanded into Russia. In addition, Mr. Imai and several leaders of the group, met with President Putin at the Kremlin and were able to exchange frank opinions on matters relating to expanding trade and investment between Japan and Russia.

Summarizing the impressions of the mission, we can say the following.

Firstly, as I mentioned at the beginning, the Russian economy has been running smoothly since 1999, President Putin's various reforms are in progress, and the mission felt that there is political stability.

Secondly, as Russians themselves know best of all, although it is said that reforms are progressing, they have only just reached the halfway mark; there are still many areas on the microeconomic side where improvements are necessary, including the abuse of bureaucracy, such as at customs posts, a lack of transparency in private business activities, such as corporate governance, and the deficiency of systems to respond to consumer needs. In other words, macroeconomic figures and the orientation of policies are fine, but reforms have still not trickled down to the microeconomic unit of the business or individual. Even though the head understands market economy, it has still not been completely acquired due to digestion problems.

Thirdly, there are regional differences in economic standards and gaps in the degree to which reforms have permeated society; on the whole, while "European Russia" has enjoyed the benefits of the reforms to the greatest extent, it was thought that Siberia and Far Eastern Russia are being left behind in Russia's revitalization, as is becoming evident in the decreases in their population, and the mission also heard such opinions being expressed by leaders of regional governments.

Openings for the Development of Economic Relations Between Russia and Japan

Now, if we consider opportunities for the development of future economic relations between Japan and Russia, it seems that there may be the following openings.

Firstly, there is what may be described as the traditional approach to setting up a huge joint Russian-Japanese project involving the development and utilization

of the abundant natural resources that exist in Siberia and the Russian Far East. Many studies have hitherto taken place and proposals have been made but, frankly speaking, apart from the Sakhalin oil and natural gas development project, it is difficult to identify a viable one. Even if the other proposals are realized, it will take 10 or 20 years, or maybe even longer before concrete economic benefits materialize, so it may be better to avoid for the moment pinning excessive hopes on major natural resource development projects as the engine of economic development between Japan and Russia.

This is an important point, so I will speak about it in a little more detail.

Far Eastern Russia's and Siberia's undeveloped natural resources are invaluable to Russia, the surrounding Northeast Asian region and, moreover, to humanity, and it goes without saying that there is huge interest in how and when the development of these resources will take place, and in what cooperation Japan and other countries can offer in their amicable use. This issue must be tackled seriously on both a governmental and private basis. However, naturally there are Russia's strong national interests, the need for vast amounts of fundraising, the fact that such a large project automatically entails large risks, that the development of peripheral transportation, communications and facilities infrastructure is essential to the realization of the project, and that trends and timing must be considered not only the supply side, but also on the demand side, both within Russia and overseas, therefore, for the moment - even looking 10 years ahead - we must not get carried away by the size and grandeur of the projects. Carefully considering such factors, I do not think that we can hope that the advance of major projects to develop Siberian natural resources is fitted to be the main engine of economic interaction between Russia and Japan for the immediate future.

There is, however, no conflict between the above and the fact that the natural resources of Siberia and Far Eastern Russia, such as mineral resources, timber, marine products, and tourism resources not to mention oil and natural gas from Sakhalin, currently account for a considerable part of economic interaction between Japan and Russia, in particular Russia's exports to Japan. Moreover, I believe that, with regard to projects such as the Sakhalin project, where concrete progress is already underway and economic and social benefit being generated, it is necessary to make further efforts to identify whether there is anything in the downriver projects that can be further realized. In addition, with regard to transactions in other fields, for example, timber, non-ferrous metals, fisheries and marine products, efforts should be made by both the Japanese and Russian sides to explore whether there is scope for expansion, increases in efficiency, or improvements in profitability.

Besides transactions related to Siberia and the Russian Far East's development of natural resources, can we think on a business level of another opening for economic interaction between Japanese and Russian business corporations?

One such opportunity is to respond to demand in Russia's industrial world for resources to replace obsolete facilities via the supply of Japanese technology, equipment

and, in certain cases, investment. This is a problem that encompasses not only Far East Russia, but also the whole of the country, encompassing a variety of fields, including iron and steel, metal processing, machinery, transportation equipment, communications, electrical appliances, timber and food processing, and a diverse range of the scales. While there are some cases that can be carried out on a company-to-company basis, there may be some cases that will require a certain degree of public or financial support.

Furthermore, Russia also has some fields in which scientific and technological standards are high, such as space development and armaments-related fields, along with some areas of IT. In a Japanese newspaper, there was a report that the Gorbachev Foundation will embark upon a project to support the acceptance by Russia's IT industry of orders from Japan (Nihon Keizai Shinbun, 5th January).

V.K. Zausaev and S.P. Bystritsky of the Far Eastern Market Research Institute, affiliated to the Russian Ministry of the Economy, Development and Trade, have published an idea to form a technopark organization in the southern part of Far Eastern Russia, and produce sufficiently competitive high-tech products, aimed mainly at the domestic market (Monthly Research Bulletin of the Japan Association for Trade with Russia and Central-Eastern Europe, October 2001 edition).

In response to the increase in Russians' standard of living and the diversification of the consumer market, Japanese companies may pursue chances to export products and, in some cases, opportunities for production in Russia; moreover, the development of a tourism industry, based on the results of human interaction between local authorities in the Russian Far East and on the Japan Sea coast, which have already been taking place for many years, is a field where proper initiatives have not yet been undertaken. Given such attractions as the appearance of the Primorskiy, Khabarovsk and Irkutsk areas, which are a mini-Europe near Japan, as well as the natural beauty epitomized by Lake Baikal, and interaction with ethnic minorities that allows Japanese people to gain a sense of their common roots, if infrastructure such as transport, security and accommodation was improved a stage or two further, I am sure that the region's particular strength as a tourism resource will come to the fore.

As Japan is currently suffering from an economic downturn, it is occasionally said that Japanese investment in Russia cannot be expected, but it is clear from the situation of the last few years regarding Japanese private investment in China and Central-Eastern European countries, such as Poland and the Czech Republic, that what is lacking are domestic investment opportunities in Japan and, if there are attractive investment opportunities in Russia, there is potential for Japanese investment to take place.

For a number of years, the Japan Association for Trade with Russia and Central-Eastern Europe has held investment seminars in collaboration with eight Central-Eastern European countries (Poland, Hungary, the Czech Republic, Romania, Bulgaria, Slovakia, Slovenia and Croatia), with last year's taking place in Nagoya and the previous year's in Osaka, in which many Japanese companies have participated.

At these seminars, the speakers from each country (especially officials from investment promotion agencies, etc. who have come to Japan especially for the event) compete with each other to tell the audience about how their country is most suitable for Japanese investment. The conditions that each country emphasizes in unison are:

- (1) Political and social stability.
- (2) The good roads, efficient communications and stable energy supply that are necessary conditions for investment to take place.
- (3) Demand for products can be expected in the country or in the surrounding region, ease of access to markets, and of course, the government of the relevant country is enthusiastic with regard to attracting investment from overseas, etc.

Russia is in a position to compete with other countries receiving investment with regard to this matter of investment environment.

Hitherto, Russia was a rather special country. However, as far as I understand, the Putin administration is aiming for Russia to become a country where normal business transactions take place and investment received, and it is understood that the necessary legal conditions for this will fall into place over time. China joined the WTO at the end of 2001. Russia is also making efforts to join the WTO, taking 2005 or thereabouts as its target year for realizing this aim. It is necessary for Russia, which has excelled at being a normal country, to make economic interaction with the outside world flourish.

In order to develop economic relations between Japan and Russia, on the one hand it is extremely important to continue long-term research on large-scale resource development projects, but on the other, it is also essential to create a situation in which visible trade and the investment activities that accompany this, which may be small in scale, can take place over a wide range of areas. I believe that not only large corporations, but also small and medium-sized companies, which are tenaciously developing their activities in a low-key fashion, can dig out such business opportunities. For such ordinary economic activities to flourish between Japan and Russia, I think that it is necessary for broader interaction of information and people to take place between Japan and Russia, at the level of businesses, regional authorities and individuals.

In Hokkaido, there is already a marine product processing company that has moved its entire factory to Khabarovsk, and companies successfully exporting various products, including boxes of tissue paper and small onions used for seasoning Russian soups; there is also talk of exporting to the Russian Far East sawmill facilities that a Japanese company no longer uses. Although each transaction is small-scale, if such transactions build up, there would be a wider basis for trade.

Over the last few years, ERINA, the organizer of today's event, has undertaken ROTOBO's "Russian Regional Economic Improvement Support and Training Project", implementing a system under which trainees from the Russian Far East are invited to come to Niigata Prefecture, in the main, to undergo hands-on training at private companies in such fields as processing marine products, international intermodal transportation,

technology relating to LNG cars, forestry, and wood-processing.

Furthermore, in parallel with the point-to-point cooperation with the three provinces of Northeast China and the Inner Mongolian Autonomous Region, the seven prefectures of Tohoku Japan, including Niigata, have been making efforts to strengthen area-to-area cooperative relationships. Specifically, regions would like to be able to provide ODA and engage in concentrated investment in regions where the conditions for trade and investment have been put in place, such as the Hunchun export processing zone in the Yanbian Autonomous Korean Prefecture in Jilin Province.

With the cooperation of the Ministry of Foreign Affairs, Japan's Ministry of the Economy, Trade and Industry began the Russian Far East Micro-Business Support Project in the summer of 2001, sending business missions comprising small and medium-sized companies to the Russian Far East; ROTOBO has been assisting this movement.

Moreover, ROTOBO has also launched the Russia Study Group for Small and Medium-Sized Businesses, consisting mainly of small and medium-sized businesses and regional organizations, and is helping to broaden the horizons of business between Russia and Japan.

I would also like to touch upon the fact that the Putin administration is emphasizing the nurturing of small and medium-sized businesses. In December last year, the State Council approved the "State Policy Concept for Small Businesses in Russia", which aims to increase the share of GDP accounted for by small businesses from the present level of 10% to 30%; at that time, President Putin said, "Quite simply, the nurturing of small businesses is a major state project. The greater the increase in the number of people connected with small businesses, the healthier the Russian economy will become." At the same time, he stated that, "Unfortunately, the hopes of all we who want to make

small businesses the engine of economic reform cannot yet be realized," giving such reasons as "the complicated tax system", "financial problems at the start-up stage", "legalized bribery" and "the poor response by the government institutions in charge", and remarked that every government institution has a responsibility at each level.

Furthermore, the Deputy Prime Minister, Alexei Kudrin, proposed "lowering the tax burden on small businesses", "simplifying the tax levying system", "simplifying product testing" and "relaxing technical standards" (Japan External Culture Association Newsletter, 20th January 2001). Thus, interest in the problem of small and medium-sized businesses is increasing in Russia.

Many acknowledge that Russia has not only copious resources, but also has an abundance of high-level technology and highly knowledgeable personnel. In addition, more than anything else, the geographical proximity of the Russian Far East and Japan is a major positive factor.

Thinking along these lines, I believe that there is tremendous hidden potential for economic relations between Japan and Russia, particularly Far Eastern Russia, to develop further in the future. Japanese and Russian companies should have greater multi-faceted, concrete interest in each other, and this may become one of the major pillars of economic development in the Northeast Asian region. ROTOBO will, if there are specific requests from member companies, assist further in the activities of regions and small and medium-sized companies in the future, in a variety of forms, and through such low-profile activities, I would like to participate in creating a framework for the economic development of the whole of Northeast Asia.

[Translated by ERINA]